THE FEDERAL RESERVE SYSTEM AFTER FIFTY YEARS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC FINANCE

OF THE

COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 3783

A BILL TO PROVIDE FOR THE RETIREMENT OF FEDERAL RESERVE BANK STOCK, AND FOR OTHER PURPOSES

H.R. 9631

A BILL TO INCREASE TO 12 THE NUMBER OF MEMBERS OF THE FEDERAL RESERVE BOARD, AND FOR OTHER PURPOSES

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THE FEDERAL RESERVE SYSTEM AFTER FIFTY YEARS

TUESDAY, JANUARY 21, 1964

House of Representatives,
Subcommittee on Domestic Finance of the
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to notice, at 11 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Reuss, Ashley, Vanik, Minish, Weltner, Wilson, White, Kilburn, Widnall, Bolton, Brock, Taft, and Talcott.

(H.R. 3783, H.R. 9631, H.R. 9685, H.R. 9686, H.R. 9687, and H.R. 9749 are as follows:)

[H.R. 3783, 88th Cong., 1st sess.]

A BILL To provide for the retirement of Federal reserve bank stock, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the last sentence of the first paragraph of section 2 of the Federal Reserve Act (12 U.S.C. 222) is amended by striking out "subscribing and paying for stock" and inserting in lieu thereof "obtaining a certificate of membership".

(b) The last sentence of the third paragraph of such section 2 (12 U.S.C. 282) is amended by striking out "subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates." and inserting in lieu thereof "obtaining a certificate of membership pursuant to the provisions of this Act."

(c) The fourth paragraph of such section (2) (12 U.S.C. 502) is hereby repealed.

(d) The paragraphs which, prior to the repeal made by subsection (c) of this section, with the eighth, ninth, tenth, eleventh, and twelfth paragraphs of such section 2 (12 U.S.C. 283–286) are hereby repealed.

(e) The first sentence of the last paragraph of such section 2 (12 U.S.C. 281) is hereby repealed.

Sec. 2. (a) The last sentence of the first paragraph of section 4 of the Federal Reserve Act is amended by striking out "a subscription to the capital stock of" and inserting in lieu thereof "an application for a certificate of membership in".

(b) The second paragraph of such section is amended (1) by striking out "when the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted," and inserting in lieu thereof "when the organization committee shall deem that a sufficient proportion of eligible banks have applied for membership in a Federal reserve bank in process of organization,", (2) by striking out "the amount of capital stock and the number of shares into which the same is divided,", (3) by striking out "subscribed to the capital stock of" and inserting in lieu thereof "applied for membership in", (4) by striking out "and the number of shares subscribed by each", and (5) by striking out "subscribed or may thereafter subscribe to the capital stock of" and inserting in lieu thereof "applied or may thereafter apply for membership in".

(c) The subparagraph numbered "Eighth" of the fourth paragraph of such section 4 (12 U.S.C. 341) is amended by striking out "stock".

(d) The tenth paragraph of such section 4 is amended by striking out "stockholding" and inserting in lieu thereof "member".

(e) The second sentence of the twelfth paragraph of such section 4 is amended by striking out "subscriptions to the capital stock" and inserting in lieu thereof "applications for membership."

SEC. 3. Section 5 of the Federal Reserve Act (12 U.S.C. 287) is amended to read as follows:

"SEC. 5. (a) The Federal reserve banks shall have no capital stock.

"(b) A bank applying for membership in the Federal Reserve System at any time after the date of enactment of the Act entitled 'An Act to provide for the retirement of Federal reserve bank stock, and for other purposes' shall submit such application, in accordance with the regulations of the Board of Governors of the Federal Reserve System, to the Federal reserve bank of its district. Such application shall be accompanied by a membership fee of $10, which shall not be refundable unless such application is disapproved or withdrawn before approval.

"(c) Upon the approval of an application submitted pursuant to subsection (b) of this section, the Federal reserve bank shall issue to the applicant a certificate attesting the membership of the applicant in such Federal reserve bank and in the Federal Reserve System.

"(d) When a member bank voluntarily liquidates, it shall surrender its certificate of membership and cease to be a member of the Federal reserve bank of its district and of the Federal Reserve System."

SEC. 4. (a) The first paragraph (12 U.S.C. 288, first paragraph) of section 6 of the Federal Reserve Act is hereby repealed.

(b) The second sentence of the paragraph which prior to the repeal made by subsection (a) of this section, was the second paragraph (12 U.S.C. 288, second paragraph) of such section 6, is amended to read as follows: "The certificate of membership held by said national bank shall be surrendered to the Federal reserve bank of its district, and said national bank shall cease to be a member of such Federal Reserve bank and of the Federal Reserve System."

SEC. 5. (a) The first paragraph (12 U.S.C. 289) of section 7 of the Federal Reserve Act is amended by striking out "the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met,".

(b) The second sentence of the second paragraph (12 U.S.C. 290) of such section 7 is amended by striking out "dividend requirements as hereinbefore provided, and the par value of the stock,".

(c) The first paragraph (12 U.S.C. 531) of such section 7 is amended by striking out "capital stock and".

SEC. 6. (a) The first paragraph (12 U.S.C. 321, first paragraph) of section 9 of the Federal Reserve Act is amended (1) by striking out, in the first sentence of such paragraph, "the right to subscribe to the stock of" and inserting in lieu thereof "membership in", (2) by striking out the second and third sentences of such paragraph, and (3) by striking out, in the last sentence of such paragraph, "stockholder", and inserting in lieu thereof "member".

(b) The first sentence of the second paragraph (12 U.S.C. 321, second paragraph) of such section 9 is amended by striking out "Federal reserve bank stock owned by the national bank shall be cancelled and paid for as provided in section 5 of this Act," and inserting in lieu thereof "membership of such national bank shall be extinguished and the certificate of membership cancelled as provided in section 5 of this Act."

(c) The first sentence of the third paragraph (12 U.S.C. 321, third paragraph) of such section 9 is amended (1) by striking out "stockholder" and inserting in lieu thereof "member", and (2) by striking out "stock" and inserting in lieu thereof "membership".

(d) The fifth paragraph (12 U.S.C. 323) of such section 9 is hereby repealed.

(e) The first sentence of the paragraph which, prior to the repeal made by subsection (d) of this section, was the ninth paragraph (12 U.S.C. 327) of such section 9, is amended by striking out "stock" and inserting in lieu thereof "certificate of membership".

(f) The paragraph which, prior to the repeal made by subsection (d) of this section, was the tenth paragraph (12 U.S.C. 328) of such section 9, is amended (1) by striking out, in the first sentence thereof, "all of its holdings of capital stock" and inserting in lieu thereof "certificate of membership", (2) by striking out the second proviso of the first sentence thereof, (3) by striking out, in the last sentence thereof, "stock holdings" and inserting in lieu thereof "certificate of membership", and (4) by striking out, in the last sentence thereof, "a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to".

(g) The paragraph which, prior to the repeal made by subsection (d) of this section, was the sixteenth paragraph (12 U.S.C. 333) of such section 9, is amended (1) by striking out, in the first sentence thereof, ", except that any such savings bank shall subscribe for capital stock of the Federal reserve bank an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership", (2) by striking out all the remaining sentences of such paragraph except the last sentence thereof, and (3) by striking out, in the last sentence of such paragraph, ", except as otherwise hereinbefore provided with respect to capital stock".

(h) The paragraph which, prior to the repeal made by subsection (d) of this section, was the twenty-second paragraph (12 U.S.C. 337) of such section 9, is amended (1) by striking out, in the second sentence thereof, "stock", and inserting in lieu thereof "certificate of membership", and (2) by striking out, in the last sentence thereof, "stock", and inserting in lieu thereof "certificates of membership".

(i) The last paragraph (12 U.S.C. 338) of such section 9 is amended by striking out, in the last sentence thereof, "stock", and inserting in lieu thereof "certificates of membership".

SEC. 7. The first sentence of the third paragraph of section 10 of the Federal Reserve Act is amended by striking out "capital stock and surplus" and inserting in lieu thereof "net earnings for the immediately preceding half year period".

SEC. 8. The amendments made by the first seven sections of this Act shall take effect on the thirty-first day after the date of enactment of this Act.

SEC. 9. (a) Not later than 31 days after the date of enactment of this Act, each holder of stock in any Federal reserve bank shall surrender such stock to such bank, which shall, as of the thirty-first day after the date of enactment of this Act, cancel and retire the same and pay or credit to such former holder the par value thereof, plus interest at the rate of one-half of one per centum per month from the date of the last dividend, less a membership fee of $10, which shall not be refundable.

(b) Upon the cancellation and retirement of Federal Reserve bank stock as provided in subsection (a) of this section, each Federal reserve bank shall issue to each such former holder thereof a certificate attesting its membership in such Federal reserve bank and in the Federal Reserve System.

SEC. 10. The eleventh paragraph of section 9 of the Federal Reserve Act is amended to read as follows:

"Any applying bank shall be eligible for membership if it is an insured bank as defined in subsection (h) of section 3 of the Federal Deposit Insurance Act. The capital stock of a state member bank shall not be reduced except with the prior consent of the Board of Governors of the Federal Reserve System."

[H.R. 9631, 88th Cong., 2d sess.]

A BILL To increase to twelve the number of members of the Federal Reserve Board, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the first and second paragraphs (12 U.S.C. 241 and 242) of section 10 of the Federal Reserve Act are amended to read as follows:

"The Federal Reserve Board (referred to in this Act as the 'Board') shall be composed of twelve members, one of whom shall be the Secretary of the Treasury, who shall be the chairman, and eleven of whom shall be appointed by the President by and with the advice and consent of the Senate. Each appointive member shall be appointed for a term expiring on June 30 of one of the first four calendar years succeeding the year in which he is appointed, as designated by the President at the time of nomination, subject to the limitation that not more than three members of the Board may have terms scheduled to expire within the same calendar year. The President may remove any appointive member from office. In selecting the members of the Board, the President shall have due regard to a fair representation of the financial, agricultural, industrial, commercial, labor, and consumer interests, and geographical divisions of the country. The appointive members of the Board shall devote their entire time to the business of the Board.

"The appointive members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. The President shall designate one of the appointive members of the Board as Vice Chairman to serve as such for a term of four years, or until the expiration of his term of office as a member, whichever is less. The Vice Chairman of the Board, subject to its supervision, shall be its active executive officer. Each appointive member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, appointive members of the Board shall continue to serve until their successors are appointed and have qualified. An appointive member of the Board who has served more than two years shall not be eligible for reappointment for a term beginning earlier than four years after the expiration of his most recent term of office."

(b) The Board of Governors of the Federal Reserve System established under authority of the Federal Reserve Act as in effect prior to the effective date of the amendment made by subsection (a) of this section is abolished. Each member of the Board of Governors of the Federal Reserve System in office immediately prior to the taking effect of this subsection shall be paid one year's salary at his then current rate in addition to any other pay and benefits which he may by law be entitled to receive.

(c) On and after the effective date of subsection (a) of this section, any reference (other than the reference in subsection (b) of this section) to the Board of Governors of the Federal Reserve System in any law, rule, or regulation of the United States or any department or agency thereof shall be deemed a reference to the Federal Reserve Board.

SEC. 2. (a) Section 12 of the Federal Reserve Act (12 U.S.C. 261 and 262) is amended to read as follows:

"FEDERAL ADVISORY COMMITTEE

"SEC. 12. In order to provide for full representation of the public interest at the highest level in the making of monetary policy, the President shall appoint a Federal Advisory Committee (referred to hereafter in this section as the 'Committee') which shall consist of the Comptroller of the Currency, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, and not more than fifty other members who shall serve for a term of one year. Any person appointed to fill a vacancy shall serve for the unexpired portion of the term of his predecessor. The Federal Reserve Board shall pay the members of the Committee a per diem allowance of $50 for each day of their attendance at meetings of the Committee, together with their actual necessary travel expenses to attend such meetings. The meetings of the Committee shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The Committee may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business.

"The Committee shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concernings matters within the jurisdiction of said Board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or escurities by Reserve banks, open-market operations by said banks, and the general affairs of the Reserve banking system."

(b) The Federal Advisory Council created by section 12 of the Federal Reserve Act as in effect prior to the amendment made by this section is abolished.

SEC. 3. (a) All of the powers, duties, and functions of the Federal Open Market Committee are hereby transferred to the Federal Reserve Board. The Federal Open Market Committee is abolished.

(b) All personnel, property, records, and unexpended balances of appropriations of the Federal Open Market Committee are hereby transferred to the Federal Reserve Board.

(c) Section 12A of the Federal Reserve Act (12 U.S.C. 263) is amended to read as follows:

"OPEN MARKET OPERATIONS

"SEC. 12A. (a) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Board. The Board shall consider, adopt, and transmit to the several Federal Reserve banks regulations relating to the open-market transactions of such banks.

"(b) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country and in coordination with the policy and responsibility of the Federal Government as set forth in section 2 of the Employment Act of 1946."

SEC. 4. (a) The Comptroller General shall make, under such rules and regulations as he shall prescribe, an audit for each calendar year of the Federal Reserve Board and the Federal Reserve banks and their branches.

(b) In making the audit required by subsection (a), representatives of the General Accounting Office shall have access to all books, financial records, reports, files, and other papers, things, or property belonging to or in use by the entities being audited, and they shall be afforded full facilities for verifying transactions with balances or securities held by depositaries, fiscal agents, and custodians of such entities.

(c) The Comptroller General shall, at the end of six months after the end of the year, or as soon thereafter as may be practicable, make a report to the Congress on the results of the audit required by subsection (a), and he shall make any special or preliminary reports he deems desirable for the information of the Congress. A copy of each report made under this subsection shall be sent to the President of the United States, the Federal Reserve Board, and the Federal Reserve banks. In addition to other matters, the report shall include such comments and recommendations as the Comptroller General may deem advisable, including recommendations for attaining a more economical and efficient administration of the entities audited, and the report shall specifically show any program, financial transaction, or undertaking observed in the course of the audit which in the opinion of the Comptroller General has been carried on without authority of law.

(d) The Comptroller General is authorized to employ such personnel as may be necessary to carry out the audit required by subsection (a), without regard to the civil service and classification laws, including services as authorized by section 15 of the Act of August 2, 1946, as amended (5 U.S.C. 55a), at rates not to exceed $100 per diem. The expenses of the audit shall be paid out of assessments made under section 10 of the Federal Reserve Act.

SEC. 5. Subsections (a) and (b) of the first section and sections 2 and 3 shall take effect on the first day of the third calendar month which begins after the date of enactment of this Act. All other provisions of this Act shall be effective upon enactment.

[H.R. 9685, 88th Cong., 2d sess.]

A BILL To amend the Federal Reserve Act to provide that interest received by the Federal Reserve banks on obligations of the United States shall be covered into the Treasury as miscellaneous receipts, to authorize appropriations for the expenses of the Federal Reserve banks and the Board of Governors of the Federal Reserve System, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7 of the Federal Reserve Act is amended by inserting immediately after the section heading the following new paragraph:

"The full amount of all interest and discounts received by Federal Reserve banks on obligations of the United States shall be paid or credited by such banks to the Secretary of the Treasury and covered into the Treasury as miscellaneous receipts. To the extent that the income of such banks from other sources is insufficient for the payment of their expenses, there are hereby authorized to be appropriated such sums as may be necessary."

SEC. 2. (a) The third paragraph (12 U.S.C. 243) of section 10 of the Federal Reserve Act is amended to read as follows:

"There are hereby authorized to be appropriated such sums as may be necessary to pay the expenses of the Board of Governors of the Federal Reserve System and the salaries of its members and employees. Subject to the availability of appropriations, the Board may maintain, enlarge, or remodel its office building in the District of Columbia and shall have sole control of such building and space therein."

(b) The fourth paragraph (12 U.S.C. 244) of section 10 of the Federal Reserve Act is amended by striking out the third sentence.

SEC. 3. The first section and section 2 of this Act shall take effect on the first day of the first fiscal year which begins after the date of enactment of this Act. During the period between the date of enactment of this Act and the effective date of the first two sections, the several Federal Reserve banks and the Board of Governors of the Federal Reserve System shall take such steps as may be necessary to change their accounting period from the calendar year to the fiscal year and otherwise to bring their accounting practices and procedures into conformity with those employed by other agencies of the United States operated with appropriated funds.

[H.R. 9686, 88th Cong., 2d sess.]

A BILL To require the payment of interest on certain funds of the United States held on deposit in commercial banks, to provide for reimbursement of commercial banks for services performed for the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) no deposit exceeding such amount as the Secretary of the Treasury may by regulation prescribe may be maintained in any commercial bank to the credit of the Treasury Department or any bureau or officer thereof unless such bank pays a reasonable rate of interest thereon.

(b) The first sentence of the thirteenth paragraph (12 U.S.C. 371a) of the Federal Reserve Act is amended by inserting "(other than a deposit to the credit of the Treasury Department or any bureau or officer thereof)" immediately after "pay any interest on any deposit".

(c) The first sentence of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by inserting "(other than deposits to the credit of the Treasury Department or any bureau or officer thereof)" immediately after "the payment of interest on demand deposits".

SEC. 2. The Secretary of the Treasury shall pay such compensation for services performed by a commercial bank for the Treasury Department or any bureau or officer thereof as may be justified, taking into consideration both the value of such services and the value of benefits conferred on such bank by the United States, Federal Reserve banks, and any departments or agencies of the United States.

[H.R. 9687, 88th Cong., 2d sess.]

A BILL To amend the Federal Reserve Act and the Federal Deposit Insurance Act by eliminating the prohibition against the payment of interest on demand deposits

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 19 of the Federal Reserve Act is amended by striking out the following paragraph (12 U.S.C. 371a) :

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided,* That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further,* That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further,* That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county. school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds in required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed."

SEC. 2. Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828 (g)) is amended by striking out the following sentence: "The Board of Directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System."

[H.R. 9749, 88th Cong., 2d sess.]

A BILL To amend the Federal Reserve Act to provide for Federal Reserve support of Government bonds when market yields equal or exceed 4¼ percent

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 12A of the Federal Reserve Act (12 U.S.C. 263(c)) is amended to read as follows:

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be so governed as to maintain the market prices of obligations of the United States at such levels, not less than those required to produce a market yield not in excess of 4¼ percent on any such obligation, as may in the discretion of the Committee be appropriate with a view to accommodating commerce and business and with respect to their bearing upon the credit situation of the country."

The CHAIRMAN. The committee will please come to order.

The Federal Reserve System recently reached its 50th birthday, which I think is a good time for a general checkup. More than 30 years have gone by since the Federal Reserve System received any legislative attention, and a great deal has happened in that time. Ours is a very different economy with different needs, and different relationships than those that existed 30 years ago. Some of the revisions adopted 30 years ago were born in a depression atmosphere. Now we should look at the most powerful banking system on earth, our Federal Reserve, in terms of the conditions of 1964. We have learned a great deal in those 30 years about economic development, interest rates, the money supply, and full employment.

It should be very clearly understood that the primary and fundamental consideration of this committee during these hearings is to assure that our vast Federal Reserve System is serving the needs of the people and their Government to the greatest possible extent. That is the sole consideration. It should be clearly understood that these hearings will be so handled as to represent at all times the paramount interest of the people of the United States and their Government. We want to make sure that the public interest is the paramount consideration of the Federal Reserve. We want to make sure the Nation's money system is not governed by or for the private interest of any one group.

In line with this we are vigorously opposed to anything that smacks of unsound money. We want neither inflation or deflation. We seek prosperity and high employment under the terms of the Full Employment Act and we want to be sure that the Federal Reserve System, holding as it does the great monetary powers of the United States, serves that end.

It is no secret that I have long been concerned about the aloofness of the Federal Reserve from both the executive branch and the Congress. Although the Federal Reserve System is a creature of Congress, it is not subject to any of the usual Government budgetary, auditing, and appropriations procedures. Also, the Federal Reserve is not required to obtain congressional approval for its policies, even though its actions have important repercussions for every sector of our economy. This sort of unbridled freedom, whether it is used for good or evil, just isn't compatible with representative democratic government, in my opinion. The will of the people ought to be reflected in monetary policy as well as fiscal policy, foreign affairs, and all other matters affecting the public welfare.

These matters of concern on my part are well known, but it should be made absolutely clear that if any longstanding ideas that I hold should be proved erroneous, I will be the first to acknowledge it and change my viewpoint. We are after one major objective in these hearings: the truth.

It is our hope that these hearings will help us first of all to preserve the good that is in the Federal Reserve System; second. to eliminate any undesirable or outmoded features of the existing System; and, third, to improve and strengthen the System to make it more responsive to the needs of our society.

We have for consideration by this committee several legislative proposals intended to make revisions in the Federal Reserve System. One, H.R. 3783, would direct the Federal Reserve System to retire the so-called stock now held by the privately owned member banks. A second, H.R. 9631, would bring about several structural changes in the Federal Reserve System—particularly through expanding the Board of Governors to 12 members, including the Secretary of the Treasury, eliminating the Open Market Committee and requiring an annual audit by the General Accounting Office.

There are three other bills which I now have in draft form and intend to introduce today. One would eliminate the prohibition on interest payments by commercial banks on demand deposits. A second would require banks to pay the Treasury interest on the Treasury's commercial bank demand deposits and would permit banks to collect for actual services rendered the Government after consideration of the value of services received by them. A third would eliminate the interest income now received by the Federal Reserve from the Treasury on the $30 billion portfolio of Government bonds, and would require the Federal Reserve Board and Federal Reserve banks to obtain annual appropriations from the Congress like other Government agencies.

Mr. Bolton, would you like to make any statement?

Mr. Bolton. Not at this time, thank you.

The Chairman. We have as our witness this morning Mr. William McChesney Martin, who is the Chairman of the Federal Reserve Board. He has with him Mr. C. Canby Balderston, who is Vice Chairman of the Federal Reserve Board. We are glad to have you gentlemen.

We expect to have a meeting until noon, when the House meets, and then we expect to ask permission to resume our session in the afternoon, if permission can be obtained to sit while the House is in session during general debate.

Mr. Martin, we are glad to have you, sir. Would you like to present a statement, or would you like to just state your views? You may proceed in your own way, sir.

STATEMENT OF WILLIAM McCHESNEY MARTIN, CHAIRMAN, FEDERAL RESERVE BOARD; ACCOMPANIED BY C. CANBY BALDERSTON, VICE CHAIRMAN OF THE FEDERAL RESERVE BOARD

Mr. Martin. Thank you, Mr. Chairman.

First I want to concur with the statement you made, the top of page 3 of your statement, that it is your hope that these hearings will help us, first of all, to preserve the good in the Federal Reserve System; second, to eliminate any undesirable or outmoded features in the existing System; and, third, to improve and strengthen the System to make it more responsive to the needs of our society.

I heartily concur in those comments, Mr. Chairman.

We welcome the inquiries into the Federal Reserve System that are conducted each year by various committees of the Congress, believing as we do that every gain made in knowledge of the System will be beneficial to us all. Your present inquiry is especially timely, coming as it does shortly after the 50th anniversary of President Wilson's signing of the Federal Reserve Act on December 23, 1913. We are pleased on this occasion to join with you again in considering the merits of the present structural arrangement of the System, and to aid in your consideration in any way we can.

We do not claim the System is perfect or infallible. Being a human institution, it is neither. It has made mistakes, and undoubtedly it will make more of them, for the mind of man has not yet managed to devise any means of excluding error. In its half century of existence, encompassing the ordeal of two world-embracing wars and between them the anguish of boom, crash, and depression, the System has experienced failures as well as successes. But it has also learned from experience, and I believe we can find considerable satisfaction today in the extent to which the Federal Reserve System over the years has accomplished the objectives set for it by the Congress.

Clearly, the System has achieved the goal uppermost in the minds of its creators, by providing the country with an elastic currency, for which it had vainly sought during most of its earlier history. To be sure, this and other goals were attained by the System only over time, through a process of evolution, innovation and experimentation as experience demonstrated errors in the assumption prevalent 50 years ago that the supply of money and credit could be geared automatically to the needs of the country through adherence to the "real bills" doctrine. Yet the framers of the Federal Reserve Act, like those of the U.S. Constitution, wrought exceedingly well when they created a structure capable of adaptation and development as the economy itself developed—a structure that places trusteeship over the creation of money in a body that is insulated from shortsighted pressures for abuse of that money; one that combines the advantages of regional units with central supervision and coordination; and one that ingeniously engages public and private participation in a democratic effort to serve the interests of the people as a whole.

Having 12 regional banks in the System has aided the System greatly in keeping in close touch with developments and trends in credit and business throughout the country. Furthermore, the regional system has enabled us to bring into focus a wide range of views, enhancing flexibility in adapting to economic changes. Perhaps the development of open market operations as a method of supplying or absorbing bank reserves, the base on which bank credits rests in this country, is the most striking example of what has been accomplished by that process. Authorized initially for the chief purpose of enabling investments to make the individual Reserve banks financially self-supporting, open market operations evolved gradually as a major tool of monetary policy, with the operations of the 12 regional banks coordinated today through a single, broad-based committee that pools in the public behalf the economic and human resources of the entire System. At present, the System is again breaking new ground in establishing a network of currency interchange arrangements with central banks in other countries as a means of protecting the dollar on the foreign exchanges and contributing in the long run to a stronger international payments mechanism.

I believe that a good part of the Federal Reserve's strength is derived from this unique blend of public and private participation, regional initiative, and central supervision. Obviously, the System is open to improvement, and it has been improving as a result of evolution. Change is inevitable, but we should make sure it is change for the better. Change purely for the sake of making the System conform more closely to the structure of the standard Government agency would, in my judgment, slow our progress toward achievement of the goals set forth in the Federal Reserve Act and the Employment Act of 1946.

One constructive step that you could take to remove the last vestige of the now-obsolete "real bills" doctrine, to which I referred earlier, would be to pass legislation that the Board recommended last August 21. That legislation would permit the Federal Reserve banks to make discounts or advances on sound collateral without imposing a penalty merely because this collateral does not meet the archaic technical requirements of "eligible paper."

According to the "real bills" doctrine, the supply of money and credit would be automatically expanded and contracted in step with the needs of the economy if Reserve bank credit were based on short-term, self-liquidating "real bills" drawn to finance the production and distribution of the goods the economy produced. In keeping with this idea, the original Federal Reserve Act provided that member banks could obtain credit from their Reserve banks only by discounting short-term, self-liquidating, agricultural, industrial, or commercial paper arising out of actual transactions.

The realization grew that the amount of "real bills" could be blown up disproportionately during times of inflationary bidding for goods, and, conversely, that it could constrict unduly during periods of depressed business conditions. Furthermore, the American economy was developing needs for new and more flexible credit forms—needs which could not be met within the old "real bills" framework.

Commercial banking changed to meet these needs. Congress also changed the law to free Federal Reserve credit from being based on "real bills" alone. Today, when member banks borrow from a Federal Reserve bank, they have three choices as to the collateral they may offer: (1) Obligations of the United States, (2) eligible paper, or (3) other paper satisfactory to the Reserve bank.

Mr. Reuss. Do you mean these "real bills," Mr. Martin, by eligible paper?

Mr. Martin. Well, it has been broadened over the years, Mr. Reuss, as we have tried to adapt to new developments.

You remember originally that not even Government bonds were to be eligible for discount. This was broadened as we went along. And we are now talking about the possibility of using municipal securities and other sound paper as collateral for Federal Reserve advances to member banks.

If, however, they take the third choice, they must pay a penalty rate of interest, one-half of 1 percent higher than the rate that applies in the other two cases. Member banks have had no difficulty making this choice, and have shown an overwhelming preference for the simpler, less expensive method of offering U.S. obligations as security for their borrowings.

The technical requirements of present law, such as those with respect to maturity and relation to "actual" commercial transactions, exclude large volumes of perfectly sound paper as a basis for Federal Reserve credit, except at a penalty rate of interest. The reasons the Board advocates a change in these provisions are set forth in the following excerpts from our letter of August 21, 1963, to your chairman, transmitting a draft of the proposed bill, which has been introduced in the House by Mr. Kilburn, H.R. 8505, and in the Senate by Senator Robertson, S. 2076:

As long as member banks hold a large enough volume of Government securities, they need not, of course, be particularly concerned as to the eligibility for discount with the Reserve banks of customers' paper held by them. Since World War II, however, there has been a sharp net decline in the aggregate holdings of Government securities by member banks. If any substantial increase in economic activity should cause banks to reduce their holdings of Government securities in order to meet increased credit demands, many banks would be obliged to tender other kinds of collateral if they should seek to obtain Federal Reserve credit.

If such a situation should develop, the Reserve banks could accept technically "ineligible" paper as collateral for advances to their member banks only under section 10(b) of the Federal Reserve Act at a rate of interest one-half of 1 percent above the regular discount rate. However, the necessity for distinguishing between "eligible" and "ineligible" paper would give rise to cumbersome administrative procedures that are not warranted by the exigencies of current banking conditions. In order to avoid these problems, it would clearly be preferable to move in advance and to revise and update the law so as to eliminate the existing restrictions with respect to "eligible paper."

The Board of Governors and the Federal Reserve banks believe that such a revision of the law would be desirable so that the Reserve banks will always be in a position to perform promptly and efficiently one of their principal responsibilities—the extension of appropriate credit assistance to member banks to enable the latter to meet the legitimate credit needs of the economy.

I hope that this legislation will be given favorable consideration by your committee.

You have asked for comments on two other bills. One of these, H.R. 9631, would abolish the Board of Governors and the Federal Open Market Committee. It would establish a new 12-member Federal Reserve Board under the chairmanship of the Secretary of the Treasury. It would increase the Federal Advisory Council from 12 members to as many as 52 and include among them the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation. Finally, it would provide for an annual audit of the Federal Reserve System by the General Accounting Office.

While time to study this bill has been limited, since it was introduced only 6 days ago, the issues it raises have been studied intensively over the years.

As we look back today on the 50th anniversary of the signing of the Federal Reserve Act, we are approaching other anniversaries. On January 29, 12 years will have elapsed since I transmitted to your chairman replies by the Board of Governors to an extensive and searching questionnaire he addressed to us in his capacity as chairman of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, now the Joint Economic Committee.

Coincidentally, January 29 will also be the first anniversary of the opening of your committee's first hearing under your present chairman, at which I had the pleasure of introducing to you my fellow Board members and the presidents of the Federal Reserve banks. You may recall that at that time I commended to your attention the comprehensive study of the Federal Reserve that Mr. Patman directed in 1952. In commenting on the issues before you today, I shall borrow freely from the material developed by that study.

At the outset, H.R. 9631 raises the issue of whether the Secretary of the Treasury should exercise control over the Federal Reserve System. To oversimplify only slightly, the question is whether the principal officer in charge of paying the Government's bills should be entrusted also with the power to create the money to pay them. The Congress concluded in 1935 that Secretaries of the Treasury should not be faced with a conflict of interest of this magnitude, and amended the Federal Reserve Act to discontinue their service on the Board of Governors. In debate on the Banking Act of 1935, the then chairman of the Senate Banking and Currency Committee, Carter Glass, speaking from the experience he had gained from service as chairman of your committee and as Secretary of the Treasury, commented as follows:

> * * * with respect to the Secretary of the Treasury, it was urged—and I know it to be a fact, because I was once Secretary of the Treasury—that he exercised undue influence over the Board; that he treats it rather as a bureau of the Treasury instead of as a Board independent of the Government, designed to respond primarily and altogether to the requirements of business and industry and agriculture, and not to be used to finance the Federal Government, which was assumed always to be able to finance itself.

With reference to your question, Mr. Reuss, may I interject that immediately after the Federal Reserve-Treasury accord, some of the banks found they didn't have all the Government securities that they needed to discount at the window, and they were very surprised to find that they could use anything else besides Government bonds.

I had several delegations come to me at that time on that point.

Monetary policy should be directed toward gearing the supply of money and credit to the needs of the economy as a whole, not the needs of the Treasury. This principle was laid down more precisely in 1950 by the Douglas Subcommittee on Monetary, Credit, and Fiscal Policies, quoted with approval in the 1952 report of the Patman subcommittee, as follows:

> We recommend that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes of the Employment Act. Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability. The vigorous use of a restrictive monetary policy as an anti-inflation measure has been inhibited since the war by considerations relating to holding down the yields and supporting the prices of U.S. Government securities. As a longrun matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment. But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.

This is not to say that the Federal Reserve should operate in isolation from the Treasury. On the contrary, we enjoy cordial and close relations with the Secretary and we are working together in harmony to meet our separate responsibilities.

Another question thoroughly explored in 1952 was the role of the Federal Open Market Committee. The Board's replies to the Patman subcommittee questionnaire included the following statement on this subject:

> The present arrangement, however, under which open market operations are placed under the jurisdiction of a committee representing the Reserve banks as well as the Board is consistent with the basic concept of a regional Federal Reserve System. It provides a means whereby the viewpoints of the presidents of the Federal Reserve banks located in various parts of the country, with their technical experience in banking and with their broad contacts with current

credit and business developments, both indirectly and through their boards of directors, may be brought to bear upon the complex credit problems of the System. It promotes systemwide understanding of these problems and closer relations between the presidents and the Board in the determination of System policies. In practice the open market policies of the Open Market Committee and the credit policies of the Board have been coordinated and the existing arrangement has worked satisfactorily.

The 1952 Patman subcommittee report concluded that "the present arrangement serves a useful purpose and there is no reason to disturb it." I concur in that conclusion.

In my judgment, the present arrangement governing membership on the Open Market Committee has produced a body of capable, qualified men, beholden to no group or faction in private or public life, and dedicated exclusively—in accordance with the oath taken by every one of them—to the service of the whole American public. It pleases me that you will have the opportunity to become better acquainted with them as these hearings progress.

And may I interject here, Mr. Chairman, that I hope you will call some of the chairmen and perhaps other class C directors of the Federal Reserve System throughout the country. We have some very distinguished men serving as chairmen of the banks. We have Mr. Canham, who is chairman of the Boston Federal Reserve Bank, the editor of the Christian Science Monitor in Boston. We have Mr. Reed in New York, former head of General Electric. We have Mr. Atherton Bean, in Minneapolis, who is head of the International Milling Co. We have Mr. Whitman, president of the Western Pacific Railroad in San Francisco, who is chairman of the board. And I could name others. We have Mr. Rebsamen, of Little Rock, Ark., who is chairman of the St. Louis Federal Reserve Bank. All of these men have had direct experience with this, and contact with it, and are rendering very distinguished service to the System. And I think you would be doing a service to all of us if you asked some of them.

The CHAIRMAN. We will seek the best information we can get, Mr. Martin. I am sure those gentlemen can be very helpful.

I notice that for some time no class C director had been a class A or B.

Mr. MARTIN. He has moved from that to a class C director when in our judgment his experience warranted it. But it has been quite the execption, not the rule. In many instances, our class C men have been presidents of universities. We had Mr. Killian, the president of MIT serving——

The CHAIRMAN. There is no attack being made on class C directors.

Mr. MARTIN. Right. I just wanted to point out——

The CHAIRMAN. Or class A or class B.

Mr. MARTIN. I realize that. I just wanted to point out some of the men we have been fortunate enough to have active in the System.

The CHAIRMAN. We will draw on them during these hearings, I am sure.

Mr. MARTIN. A third issue raised by H.R. 9631 relates to the number of members of the Board, and the length of their terms. In my judgment, a 12-man Board would be unwieldy—and I might add parenthetically that the same would be true of a 52-member Federal advisory committee, as provided for in section 2 of the bill. If any change is to be made in the size of the Board, I would favor reducing it, possibly to five members, rather than enlarging it. In our reply to the 1952 Patman subcommittee questionnaire, the Board commented as follows concerning terms of members:

> * * * A considerably shorter term, say a term of 6 years, without any prohibition against reappointment, might be sufficiently long and might be more practicable. The elimination of the prohibition of the law against reappointment of a member at the expiration of his term would permit the maintenance of a Board membership over the years having the requisite knowledge and experience regarding the Board's problems.

H.R. 9631 also would provide that the new Federal Reserve Board members be appointed with "due regard to a fair representation of the financial, agricultural, industrial, commercial, labor and consumer interests, and geographical divisions of the country." This would continue the present provisions regarding qualifications for appointment to the Board of Governors, except that reference to labor and consumer interests would be added, and the present prohibition against appointing more than one member from a Federal Reserve district would be dropped. I would favor dropping from the Federal Reserve Act any reference to representation of particular segments of our society. Our efforts should be bent toward obtaining qualified men who will act in the interest of the Nation as a whole. Repealing the restrictions based on district lines would assist, in my judgment, in this primary goal of appointing the best men available for service on the Board.

Another provision of H.R. 9631 would require an annual audit of the Board and the Reserve banks by the General Accounting Office.

Until 1933, the GAO audited expenditures by the Board, but not the Reserve banks. The Banking Act of 1933, however, provided that the "Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid * * *." The House and Senate committee reports said the change was made in order to leave "to the Board the determination of its own internal management policies." Thus, Congress in 1933 freed from GAO audit the only part of the System that was ever subject to it.

Since 1952, the Board has been audited annually by independent certified public accounting firms, and their audit reports have been submitted to the two Banking and Currency Committees. Topflight auditors have been used; Arthur Andersen & Co., Price Waterhouse & Co., and now Haskins & Sells.

The Federal Reserve Act provides that the Board "shall, at least once a year, order an examination of each Federal Reserve bank." The Board maintains a staff of examiners who devote themselves exclusively to this work. The Board's instructions to its examiners require, briefly, that the examination shall determine: (*a*) Each bank's financial condition through appraisal of its assets and verification of its assets and liabilities; (*b*) its proper discharge of all its responsibilities; and (*c*) its compliance with all applicable provisions of law and regulations. Each year, an outside commercial auditor, currently Haskins & Sells, accompanies the Board's examiners on their examination of one of the banks, to review and observe the examination procedures. Also, each bank has a resident auditor, responsible directly to the bank's board of directors, and not dependent on any of the bank's officers for security of position. Throughout the year, he and his staff make comprehensive audits of all phases of the bank's operations, reporting directly to the board of directors of the bank. Copies of these reports are reviewed by the Board of Governors of the Federal Reserve System.

In sum, then, we have in each Reserve bank an internal audit program conducted the year around by the bank's resident auditor and his staff, who, by a deliberately established plan of organization, are directly responsible to the board of directors and independent of the bank's operating management. In addition, a staff of examiners directly employed by the Board of Governors in Washington examines each bank every year, and reports directly to the Board of Governors. We have the statement of certified public accountants of national repute that the examination procedures employed by the Board's staff fully conform with generally accepted auditing standards. This combination of internal and external scrutiny provides an audit coverage of the Reserve banks that is unexcelled in any other organization, and is as objective and independent in approach as human ingenuity can devise. It is difficult to perceive how the GAO or any other audit group could achieve a more effective result.

You also have asked for comments on H.R. 3783, which would provide for the retirement of Federal Reserve bank stock. As I testified at your hearings on this question in 1960, Federal Reserve bank stock, while not an indispensable feature of the System, has served as a means of integrating member banks and bankers into the System. It has provided a businesslike method for electing two-thirds of the directors of the Reserve banks, and I see no reason to change it. The stock is an attractive investment for member banks. Without saying that it is a principal consideration in their attitude toward membership in the System, I feel that in view of the fact that most smaller State banks are not members and a number of smaller national banks are pressing for release from membership, it would be unwise to tip the scales further in the direction of making membership unattractive. Admittedly, other methods could be found for electing directors and retirement of the stock would increase the payments from Federal Reserve earnings into the Treasury, by roughly the amount of the dividend payments, $29 million in 1963. But I would earnestly advise against making this change, not only because of its potentially disruptive effect on relations with member banks but also because inevitably some observers would view it as a step toward nationalization of the banking system while others would read into it some other significant portent of basic monetary changes. Fear of public misunderstanding should not deter us from making changes for which there is a demonstrated need or prospect of real benefit, but, in my judgment, those conditions are not met by this proposal.

The purpose of the Federal Reserve System is to contribute, to the maximum extent that monetary policy can contribute, to the achievement of sustained high employment, stable values, and a rising standard of living for all Americans. It cannot, of course, achieve those goals alone, but it can contribute, and I can assure you that it is unreservedly dedicated to that end today.

In the last analysis, whether an institution renders good or bad public service will always depend more upon the character of the human beings engaged in its operations than upon its organizational form and structure. The solution of difficult and complex problems depends upon the ability of conscientious men to reconcile differences of opinion and come to a meeting of the minds on what best serves the public's good rather than upon the forms of institutional organization.

In his first inaugural address as President, Woodrow Wilson gave us some counsel about dealing with our economic system that I believe applies as well to the Federal Reserve itself. These are his words, as they are inscribed below his plaque in the Federal Reserve Building—I am glad, incidentally, Mr. Chairman, that your committee came down and visited us last year and saw this plaque in our building.

The CHAIRMAN. We were disappointed. We saw a plaque for Senator Glass, but we did not see any plaque for Senator Owen. You know, Senator Owen was chairman of the Banking and Currency Committee of the Senate, and was coauthor of the bill. And he favored Federal deposit insurance, and a lot of things that would help just the plain people of the country. And evidently they didn't look with favor on that. You don't even have his picture in the Federal Reserve Building.

Mr. MARTIN. Senator Owen deserves recognition, Mr. Patman, but I would like to close with President Wilson's statement, as inscribed:

> We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be, in the spirit of those who question their own wisdom and seek counsel and knowledge, not shallow self-satisfaction or the excitement of excursions whither they cannot tell.

I am very glad to recognize Senator Owen's part in this.

The CHAIRMAN. I am glad that you are.

But I don't see any recognition around the Federal Reserve Board.

Mr. MARTIN. There is limited space, Mr. Chairman, for quotations. But I am sure we have Senator Owen's writings in great detail.

The CHAIRMAN. He was one of the most brilliant men I ever knew. And I think he knew more about the banking system than any other one man in Congress at the time. And I was disappointed that he was not recognized at all in the Federal Reserve System.

Mr. Martin, I appreciate your statement. I am sure the members of the committee do.

You seem to think that the Congress gave you a sort of an indenture or a trust agreement to operate the monetary policies of the Nation. Now, you recognize that the Constitution of the United States says that Congress shall coin money, which has been construed by the Supreme Court to mean print money, and regulate its value, which, of course, would include interest rates.

Now, the Constitution says that Congress shall do that.

Do you believe that Congress has a right to establish an agency of the Government, to delegate power to that agency, and leave that agency wholly independent from the Government? Do you believe that that would be constitutional?

Mr. MARTIN. I assume that the Congress knew what it was doing when it enacted the Federal Reserve Act. And I don't think there has been any question of the constitutionality of the Federal Reserve Act.

The CHAIRMAN. Well, I think there is a great difference between what Congress did and what the Federal Reserve has done. I think that is something that there is a difference of opinion about.

I don't think some of the things the Federal Reserve has done were contemplated at all. I think if the Federal Reserve had carried out what was anticipated by Congress, the commercial banks, for instance, would pay for clearing their checks—section 16 mentioned that.

Instead of that, the Federal Reserve, over the years, has commenced paying for those expenses, and now you pay out about $140 million, $150 million of money that would go into the Treasury, to clear the checks of the member banks. I don't think that was ever anticipated.

I know that a central bank was not anticipated under Mr. Wilson in 1913. And I don't think a central bank existed in this country until the act of 1935, when the Open Market Committee was legalized.

I say "legalized" deliberately, because during that time, 1913 to 1935, the 12 banks, through their governors, were operating an unofficial open market committee—I know that. But they had no legal power to do so. Because that was the decision by Congress under Woodrow Wilson.

Some people wanted a board that the bankers were represented on to fix the volume of money and the cost of the money. Wilson said he would not permit that at all, that he wanted 12 banks, they would be separate and independent, and have no central bank.

Well, 22 years after Mr. Wilson was gone, we passed the 1935 act which did just exactly that, gave us a central bank.

Now, I notice my friends on the Republican side have a different view of this, and have given out a statement to that effect, which makes it important and germane that I mention just a little bit about the history of the Federal Reserve bank.

In 1913, afer the committees had been appointed under preceding administrations to study the monetary subjects, they made reports, and Congress considered them in 1913—but those reports didn't want a central bank. They wanted a separate and independent agency, just like you claim to have now—to run the monetary affairs. And they were disappointed when the House and Senate passed bills that denied them that privilege.

Therefore, the Republicans fought against the Federal Reserve Act. There were only four Republicans in the Senate that voted for it, including one progressive—Senator Norris. So there were just three, really. And in the House it was about the same ratio—the Republicans, because we would not allow them to have a central bank that was operated really for the banks themselves, to run the people's monetary affairs—they were against it.

Now, in 1935, when the Glass-Steagall bill was here—that was, of course, that great change in the Federal Reserve advocated at that time—when that bill passed here, this committee, and when it passed the House, they didn't have any open market committee that bankers representatives could sit on. Therefore, the Republicans voted against it again here in the House—by an overwhelming vote—they didn't want any part of it.

But when it went to the Senate, it was fixed up so that the Open Market Committee was legal and banker representatives would be on the Open Market Committee, and they would have it in control in a way like you claim that you have it now, then the Republicans came in and voted for it.

And the House adopted the report almost without objection.

This shows that our Republican friends have always been against any part of the Federal Reserve System except the central banking part, where their bankers would have a great deal of voice in it.

That is our fight right here now, Mr. Martin, if I understand it right—if there is a fight.

You contend that you are kind of off from the Government, that the President cannot tell you what to do. That is your contention, is it not—he cannot tell you what to do. You are disassociated from the executive branch of the Government, and from the legislative branch.

The only way we could speak to you is by a law that is passed and approved by the President, which is a rather indirect way, and a very difficult way—in a democracy especially—where there are so many people in a democracy, any one of whom can say no and make it stick.

Now sometimes, Congress passes a law that gives some people a lot of power. And then the people who have that power take even more power. Now on March 4, 1951, when you made that so-called accord, you actually seceded from the Government—if I view your contention right, you actually seceded from the Government.

Mr. MARTIN. That is not correct, Mr. Patman.

The CHAIRMAN. In one hearing I asked Mr. Sproul, who was then the president of the New York Federal Reserve Bank—I said, "Isn't it a fact that you were waiting for a time when Mr. Truman would be kind of low in popularity, where you could sort of defy him and get by with it?"

He said, "Oh, no. We decided August 1950 to go our way, to go our own way."

In other words, you were getting away from the Government.

Now, then, that is what we are trying to find out here—we have created an agency that has the power to create money on the credit of the Nation, it is a mortgage on all our incomes, all of our property—and we want to know if that agency has gone over to itself and doesn't feel obligated to its master, the Congress of the United States. We want to look into it, and see something about it, and see what is being done.

It is my contention, Mr. Martin, that if we had had the Federal Reserve System operating in the people's interest and the Government's interest the last 40 years we would not have any $300 billion debt today, we might not even have any debt.

But instead of that, you have permitted the commercial banks to use the credit of the Nation freely, to obtain Government bonds, and they have been getting interest on the bonds, and our debt has been piling up.

We not only would not have that $300 billion debt, but our budget would be tens of billions of dollars less than it is.

So I think we would be in a lot better shape if the Federal Reserve had operated in the people's interest. And I think they could have done this without any sort of inflation or deflation.

That is how serious I think it is.

You bring up the matter of eligible paper. I just want to say that in my view, eligible paper is an important and very valuable idea.

You know, Woodrow Wilson insisted on that. He said, fix it so that when a banker has got farmers and small businessmen waiting in the outer office to see him, the banker will want to see them, because the paper that they give him will be eligible as a reserve in the Federal Reserve bank upon which the bank can issue money, and the banking system can issue about $10 to $1, and get interest on about $10 to $1. Therefore, they were anxious to see the small businessmen, and anxious to see the farmer.

But the law was changed, and they could use Government bonds to get the reserves, and the farmers and little businessmen could not get an appointment with the bankers any more, they didn't want to see them—they had to see too many of them, do business with too many of them before it would amount to anything.

So I think the eligible paper being taken off, I think was a terrible thing.

You take back in the 1930s, when the hometown merchant was being inundated by the absentee owners. If the commercial banks had come to the aid and rescue of that hometown merchant, he could have whipped the socks off of these outside people, these absentee owners.

I have never known a case when a good merchant, given adequate credit, couldn't hold his own and meet competition with the outside people, and even lick them at their own game. I can give you lots of instances of it.

But the banks were not interested in making these small local loans, evidently.

I think a lot of these ghost towns all over America today can be charged to the failure of many of the banks—not all of them—to come to the aid and rescue of their own local people, when it would have been to their interest and benefit to do it.

When an outside concern comes into town, the money, the profits, go out of town that night.

They go to New York, California, Chicago; the profits don't stay in the locality at all.

One of the main things that kept our little towns strong was the reserves in the local bank that were used for local credit by local people.

But I think the banks did a great disservice, not only to the hometown merchant and the local community, but to the entire Nation, when they abandoned their local people.

And today it looks like we are going to have about 12 big cities in the country with practically all the population—little towns dried up, the countryside bleak. And I think the banks, and the Federal Reserve System in particular, in failing to see these things, have contributed greatly to that devastating condition.

Therefore, I feel that we should look into this thing, Mr. Martin, and see if any mistakes have been made, not so much to punish people who have made them, but to make reasonably certain that they are not made in the future, and that the System is operated for the benefit of the Government and for the people.

I am taking more time than I should, and I want all the members to have an opportunity. And we will have that opportunity—even if we have to have longer meetings and more of them.

But I do want to invite your attention to the fact that when the System first started, it made money. It charged the banks for the clearance of checks, it charged them for the use of the discount window. But the discount window is practically closed today.

These monumental buildings all over the country—what is in there? What do they do for the Government?

You could do it in a room half or one-fourth of the size of this room—what is being done, what was contemplated under the original Federal Reserve Act.

But other things have been done. And these things are not in accordance, in the way I view it, with the act.

Now for instance, a large part of the earnings of the 12 Federal Reserve banks used to come from what they themselves did, right there in their offices. There was the discount window, and so forth. But now about 99 percent of the earnings of the 12 banks comes entirely from the portfolio of the Open Market Committee, and that portfolio is entirely in New York—about $33 billion, isn't it?

Mr. MARTIN. $33 billion.

The CHAIRMAN. About $33 billion.

And on that $33 billion the New York bank collects about a billion dollars interest each year, and the New York bank parcels that out among the other 11 Federal Reserve banks. It comes to about 99 percent of their earnings, and it is paid by the Government, the taxpayers. Only 1 percent comes from discounts, advances, and foreign currencies.

Now, the reason I introduced the bill to make you account for that is because you take that billion dollars and you spend as much of it as you want to, and then, of course, the balance goes into the Treasury. But I feel we ought to have some audit on that, some Government audit, just like all other Federal agencies. That is the reason I introduced that bill.

Now, I have taken more time than I would like to take at this time. But I would like to say that we will go into all these things thoroughly and impartially. And we are not trying to destroy anyone. We are not out for anything except trying to serve the public interest, I assure you of that, Mr. Martin. And anything that is good in the System—and lots of things are good in the System—we want to keep them, don't want to harm them, don't want to hurt them in any way.

But things that should be changed, we will endeavor to get them changed—at least we will try through the legislative process to get them considered at least.

Mr. MARTIN. Could I have just a minute to make a comment on this, of a broad general nature?

The CHAIRMAN. Yes, sir.

Just a minute—until I have an agreement with Mr. Widnall.

Would it be all right if we got permission to sit this afternoon during general debate?

Mr. TAFT. Mr. Chairman, I have a bill on the floor.

The CHAIRMAN. Shall we meet immediately after the Congress adjourns? Will that be all right?

Mr. BOLTON. Mr. Chairman, with all due respect, I cannot attend after 3:30. I have made plans sometime ago on that basis.

Mr. WIDNALL. Mr. Chairman, what is the situation tomorrow?

The CHAIRMAN. I don't know what it is. Would you be willing——

Mr. WIDNALL. Could Mr. Martin return tomorrow?

The CHAIRMAN. Yes. At 10 o'clock.

Mr. WIDNALL. What about the schedule for the afternoon?

The CHAIRMAN. I don't know about that.

Mr. WIDNALL. I know on the particular bill before the House this afternoon, there is a great deal of interest on our side. A number of Members have bills; and a number wish to offer amendments. This is the Library Services Act; and back within our own congressional districts there is a great deal of interest.

The CHAIRMAN. Well, I won't do anything now.

Mr. TALCOTT. Why don't we just start meeting at night and be done with it?

The CHAIRMAN. Well, I think we would have some problems there.

Mr. WILSON. Mr. Chairman, It seems when we held our meetings to set these hearings up, Mr. Vanik made a suggestion that I thought we were going to follow—that was that the prepared statements would be given to us in advance, in order that we could spend more time interrogating witnesses, and not have to take so much time listening to the prepared statements. In that way—it seemed satisfactory to everyone.

Do you recall that procedure?

The CHAIRMAN. I am glad you mentioned that. I am in full accord with that.

I doubt that the staff received these in time. Hereafter, I want to ask the staff to make doubly sure that the witnesses who have prepared statements to give them to us in plenty of time, so we can distribute them to the members, and then they can more intelligently ask questions about them. So I guess it is 12 o'clock——

Mr. MARTIN. Could I just make one comment in response——

The CHAIRMAN. Yes—if they don't object while the House is sitting.

Mr. MARTIN. This won't take but a minute. You and I don't read economic history the same way, Mr. Chairman, as you know. We have discussed this many times.

We have in our response to the Patman questionnaire I referred to—and I would like to put it in the record, if you would be agreeable to this—the answer to question 8, "Are (*a*) the Board of Governors; and (*b*) the Federal Open Market Committee parts of the executive branch of the U.S. Government? If not, what is their status? Discuss with respect to the constitutional issues involved." We have a very lengthy answer to that.

The CHAIRMAN. Just what question is that?

Mr. MARTIN. I said "a"—the question you asked us at that time was, "Are (*a*) the Board of Governors and (*b*) the Federal Open Market Committee parts of the executive branch of the U.S. Government?"

The CHAIRMAN. All right. I think that is very important. Without objection, you may insert it at this point in the record.

Mr. MARTIN. I would like to put this into the record.

The CHAIRMAN. I think it is important.

(The documents referred to follow:)

8. Are (*a*) the Board of Governors and (*b*) the Federal Open Market Committee parts of the executive branch of the U.S. Government? If not, what is their status? Discuss with respect to the constitutional issues involved as you understand them.

The courts have not had occasion to determine in which of the three branches of the U.S. Government the Board of Governors and the

Federal Open Market Committee should be classified. Irrespective of the branch of Government in which they may be deemed to fall, however, these agencies have been established by Congress to exercise important and unique functions of Government—generally described as reserve banking functions—which relate to the regulation in the public interest of the volume, availability, and cost of money; and, recognizing the need for independence of judgment in the exercise of these functions, Congress has indicated its intent that the Board and the Committee shall act according to their own best judgment and discretion, subject always to the limitations and policy directives prescribed by the law.

Credit and monetary functions, like the functions of the judiciary, depend for their effective performance upon impartial and objective judgment.

The country cannot prosper without a sound basic economy and sound credit conditions. To maintain such conditions, it is essential that money—the "medium of exchange" by which goods and services change hands—must adequately and flexibly serve its purpose in a complex economy. To this end, some Government agency must be given the responsibility, under appropriate congressional authority, for influencing the volume and availability of money in the public interest; and it is this responsibility which is vested in reserve banking authorities. Through instruments of credit policy, such as the fixing of discount rates, open market operations, and the determination of bank reserve requirements, these authorities can, within limits set by law, restrict credit during inflationary periods and conversely make it more readily available during periods of depression.

Because money so vitally affects all people in all walks of life as well as the financing of the Government, the task of credit and monetary management has unique characteristics. Policy decisions of an agency performing this task are often the subject of controversy and frequently of a restrictive nature; consequently, they are often unpopular, at least temporarily, with some groups. The general public in a democracy, however, is more apt to accept or tolerate restrictive monetary and credit policies if they are decided by public officials who, like the members of the judiciary, are removed from immediate pressures.

Historical background

There is a long-established tradition both in this country and in other democracies[3] that the proper exercise of reserve banking functions requires that it be insulated against private or public pressures whose immediate interests may not coincide with the best long-run interests of the country.

When the First Bank of the United States was chartered by Congress in February 1791,[4] it was placed under private management, except for ownership of some of its stock by the Government and for the furnishing of periodic statements to the Secretary of the Treasury. Hamilton expressed the view that "it would, indeed, be little less than a miracle should the credit of the bank be at the disposal of the Gov-

[3] For a treatment of the current relationships of central banks to foreign governments, see the answer to question G–51.
[4] 1 Stat. 191.

ernment, if, in a long series of time, there was not experienced a calamitous abuse of it." [5]

The First Bank's charter expired in 1811, and a new charter was granted by statute to the Second Bank of the United States in 1816. A certain element of Executive influence was provided for in the charter of the new bank by a provision authorizing the President to appoint 5 of the 25 directors of the bank, but otherwise the Second Bank, like its predecessor, was not subject to Executive direction. Even with respect to the limited authority of the President to appoint directors, both those who favored and those who opposed that right recognized the need for maintaining the independence of the Bank. Thus, John Randolph, who objected to the proposal, stated: [6]

> The objection was vital; that it would be an agency of irresistible power in the hands of any administration; that it would be in politics and finance what the celebrated proposition of Archimedes was in physics—a place, the fulcrum from which, at the will of the Executive, the whole Nation could be hurled to destruction, or managed in any way at his will and discretion.

One of the principal proponents of the proposal was Secretary of the Treasury Dallas; even he, however, took pains to point out that his proposal would not inject undue Executive influence into the administration of the bank.[7]

When a proposal for the establishment of a Treasury Bank was advanced in 1830, the House Ways and Means Committee felt that such a Government Bank would invest the executive branch of the Government "with a weight of moneyed influence more dangerous in character, and more powerful in its operation, than the entire mass of its present patronage." [8] The committee felt also that such a Bank "would have scarcely any faculty of resistance when appeals for indulgence should come from all quarters of the Union, sustained by the strong plea of public distress and embarrassment," and that "the temptation to supply the Federal Treasury by the easy process of bank issues, rather than resort to the unpopular process of internal taxation, would be too fascinating to be resisted." [9]

Intent of the Federal Reserve Act

The framers of the Federal Reserve Act in 1913 clearly had in mind the same principles regarding the independent exercise of credit and monetary functions as those which had motivated Congress in the early days of the Republic. This is indicated by the legislative history of the act.

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[5] Hamilton's report on a national bank, 2 Annals of Congress 2051.

[6] 29 Annals of Congress 1111 (1816).

[7] In a letter to Calhoun, then chairman of the House Committee on a National Currency, Secretary Dallas stated: "An apprehension has sometimes been expressed, lest the power of the Government, thus inserted into the administration of the affairs of the bank, should be employed eventually to alienate the funds and destroy the credit of the institution. * * * there can be no reasonable cause for the apprehension here. * * * Whatever accommodation the Treasury may have occasion to ask from the bank, can only be asked under the licence of a law; and whatever accommodation shall be obtained, must be obtained from the voluntary assent of the directors, acting under the responsibility of their trust." (Clark and Hall, Bank of the United States, p. 616.) Again, in answer to Webster's statement "that to be useful a bank must be independent of Government," Grosvenor insisted that "the power of appointing directors could not give to Government the influence which Mr. Webster apprehended. * * * He should deprecate as much as Mr. Webster a real Government Bank." (29 Annals of Congress 1213.)

[8] 6 Register of Debates in Congress, pt. II, appendix, p. 132.

[9] *Ibid.*, p. 131. Ex-President Monroe expressed views to the same effect: "A bank thus instituted, being under the control of the Executive, by the appointment of its directors, and in all its operations, might, in the hands of a bad administration, be wielded as an instrument to sap the foundation of the Government itself." (Niles' Register, XLI, 82.)

In the report of the House Banking and Currency Committee on the original act, Chairman Carter Glass stated: [10]

It cannot be too emphatically stated that the committee regards the Federal Reserve Board as a distinctly nonpartisan organization whose functions are to be wholly divorced from politics.

Commenting upon the importance of the Board's functions, Senator Owen, who was the chief sponsor of the Federal Reserve Act in the Senate, stated during the debates: [11]

I need not say, Mr. President, that no one can have any doubt that the members of the Federal Reserve Board should be men of the most distinguished attainments, men who should rank favorably in comparison with members of the Supreme Court of the United States, because in reality this Federal Reserve Board will be a supreme court of American finance, safeguarding the commercial interests of this Nation, protecting our gold reserve, protecting our banking system, protecting our commercial system, protecting the individual credit of the private citizen, and giving him a fair deal in the struggle of commercial and business life, and seeing to it that every citizen shall receive the just amount of credit to which he is entitled by character and by resources.

In the course of the debates, there was much discussion of the suggestion that the bankers of the country should have a part in selecting the members of the Board. This suggestion was definitely rejected on the theory that the members of the Board should not be chosen by those whom it would be expected to regulate and supervise.[12] There was also considerable discussion of the possible influence which the President might have upon the exercise of the Board's functions. Denying that the President would have such influence, Mr. Barkley stated on the floor of the House: [13]

There is no Board until the President appoints one, and the act of appointment and the manner of appointment are not similar nor coextensive with the acts of the Board after they are appointed. The President does not control the action of the Federal Reserve Board after they are appointed any more than he controls the action of the Interstate Commerce Commission after he appoints its members.

Speaking of the provision giving members of the Board staggered terms, Representative Temple pointed out that an incoming President—

will be 3 years in office before he will appoint four out of the seven members, and unless he should appoint a Comptroller of the Currency he will appoint during his whole term only three out of the seven members. This change in the bill practically takes the Federal Reserve System out of politics.[14]

During the debates it was emphasized that the Board should be a nonpartisan agency which would represent and be responsible to the people of the United States. Thus, Mr. Borland stated: [15]

* * * The Glass plan provides for a central Board of public officials, who have no private interests to serve, but whose sole duty is to represent the people

[10] H. Rept. 69, p. 43, 63d Cong. At another point in the report Mr. Glass observed that for "obvious reasons it is deemed best that the Board shall annually report to the House of Representatives, thereby establishing a direct relationship between the Board and the Congress." (P. 44.)
[11] Cong. Rec. vol. 50, p. 5998, Nov. 24, 1913.
[12] It was pointed out that there was no more reason for bankers to choose members of the Board than for the lawyers to choose members of the Supreme Court or railroad officials to select the Interstate Commerce Commissioners. (Congressional Record, vol. 50, p. 4843.)
[13] Congressional Record, vol. 50, p. 4789, Sept. 12, 1913.
[14] Congressional Record, vol. 51, p. 1459.
[15] Congressional Record, vol. 50, p. 4730, Sept. 11, 1913. Similarly, Mr. Phelan stated: "The supreme oversight and control of the whole system * * * is vested in a board representing the public." (Congressional Record, vol. 50, p. 4673.)

of the United States in enforcing the law and preserving equality, soundness, and solvency in commercial banking.

The provisions of the original Federal Reserve Act obviously contemplated a high degree of independence for members of the Board. Thus, in addition to the requirement that they shall be appointed only with the consent of the Senate, it gave them 10-year terms,[16] provided for the staggered expiration of terms so that there would be occasion for the appointment of a new member only once every 2 years, and made them removable by the President only "for cause." The length of the term of office was extended to 12 years by the Banking Act of 1933, and was further extended to 14 years by the Banking Act of 1935.

Constitutional considerations

As the result of early decisions of the Supreme Court of the United States upholding the power of Congress to establish the Bank of the United States as "a convenient, a useful, and essential instrument in the prosecution of its fiscal operation," [17] it is now well settled that Congress has constitutional authority to employ any means appropriate for carrying out its credit and monetary powers—its powers "to coin money" and "regulate the value thereof," "to borrow money on the credit of the United States," and "to lay and collect taxes."

In 1913, in order "to furnish an elastic currency" and for other monetary purposes, Congress enacted the Federal Reserve Act. Instead of utilizing one of the executive departments as it might have done or a single central bank as had been done in foreign countries, Congress established the Federal Reserve System, consisting of 12 regional banks operated for public purposes and subject to the overall supervision of a governing board which was described by the Attorney General shortly after the passage of the law as "an independent board or government establishment." [18]

In considering the question whether this or any other Government establishment created by Congress should be placed in the legislative, executive, or judicial branch of the Government, it should be borne in mind that the constitutional doctrine of separation of powers as between the three branches of the Federal Government is not a rigid but a flexible and qualified doctrine which is often difficult to apply to particular cases. Chief Justice Marshall in an early case observed that "the difference between the departments undoubtedly is, that the legislature makes, the executive executes, and the judiciary construes the law." [19] Frequently, however, these powers merge into one another and it is not always possible to say definitely whether a particular power is executive, legislative, or judicial. Moreover, even if the nature of a particular power can be determined, it is clear that the separation of powers doctrine does not demand the drawing of sharp lines of demarcation between the powers of the three branches of

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[16] It is of interest here that when the Comptroller General's office was set up in 1921 and consideration was being given to his term of office, one Member of Congress compared that office with membership on the Federal Reserve Board in that "both classes of officials have important duties to perform, which are strictly nonpolitical, and they should be entirely removed from politics." (Congressional Record, vol. 61, p. 1081.)

[17] *McCulloch* v. *Maryland*, 4 Wheat. 316, 422 (1819). See also *Osborn* v. *Bank of the United States*, 9 Wheat. 738 (1824).

[18] 30 Op. Atty. Gen. 308, 311 (1914).

[19] *Wayman* v. *Southard*, 23 U.S. 1, 44 (1825).

Government, but recognizes that these powers may be blended and interconnected.[20]

In some cases, Congress has created Government agencies which perform rulemaking functions as agents of the legislative authority and which also exercise functions quasi-judicial in nature. The Board of Governors of the Federal Reserve System is such an agency.

The most important functions of the Board are those affecting the money supply. Among these are the Board's authority to review and determine the discount rates established by the Reserve banks with a view to accommodating commerce and business; to change the reserve requirements of member banks in order to prevent injurious credit expansion or contraction; and to prescribe such margin requirements with respect to securities as it deems appropriate for the accommodation of commerce and industry "having due regard to the general credit situation of the country." In the same category are the responsibilities imposed upon the Federal Open Market Committee for directing the open market operations of the Federal Reserve banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. In these and other respects, the Board and the Open Market Committee prescribe rules and determine policies as agents and on behalf of the legislative branch. On the other hand, certain of the Board's functions are quasi-judicial in nature, such as those which it has in connection with administrative hearings and decisions. On the basis of the nature of its functions it may be that for certain purposes the Board can be regarded as an agency of one branch of the Government and for other purposes as an agency of another branch.

The power of Congress to establish agencies to perform quasi-judicial or quasi-legislative functions is unquestioned. It is also clear that Congress may constitutionally vest such agencies with authority to exercise independent judgment in discharging their duties.

In the case of *Humphrey's Executor* v. *United States*,[21] holding that Congress could constitutionally restrict the Presidential power of removal as to members of the Federal Trade Commission, the Supreme Court of the United States expressly declared that "the authority of Congress, in creating quasi-legislative or quasi-judicial agencies, to require them to act in discharge of their duties independently of Executive control cannot well be doubted." [22]

In this connection, the Supreme Court stated: [23]

> The Federal Trade Commission is an administrative body created by Congress to carry into effect legislative policies embodied in the statute in accordance with the legislative standard therein prescribed, and to perform other specified duties as a legislative or as a judicial aid. *Such a body cannot in any proper sense be characterized as an arm or an eye of the Executive.* Its duties are performed without Executive leave and, in the contemplation of the statute, must be free from Executive control. * * * [Italics supplied.]

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[20] As stated in the Federalist Papers, unless the three branches of the Government "be so far connected and blended as to give to ach a constitutional control over the others, the degree of separation which the maxim requires, as essential to a free Government, can never in practice be duly maintained." (Essay No. 48.)

[21] 295 U.S. 602 (1935).

[22] 295 U.S. 629.

[23] 295 U.S. 602, 628.

Regarding the intent of Congress in enacting the Trade Commission Act, the Supreme Court declared: [24]

Thus, the language of the act, the legislative reports, and the general purposes of the legislation as reflected by the debates, all combine to demonstrate the congressional intent to create a body of experts who shall gain experience by length of service—a body which shall be independent of Executive authority, *except in its selection,* and free to exercise its judgment, without the hindrance of any other official or any department of the Government * * * [Italics in original.]

The Board of Governors, of course, operates in a different field from that of the Trade Commission and with respect to different subject matters. As previously indicated, however, in performing many of its most important functions, the Board exercises rulemaking powers as the agent of the legislative authority; and in certain other respects the Board performs quasi-judicial functions. The Federal Reserve Act and its legislative history show the intent of Congress that the Board shall exercise its own judgment and discretion in performing its duties. Consequently, if occasion should ever arise for judicial determination of the status of the Board, it would appear that, if the principle of the Humphrey's case is followed, the courts would hold that the Board is authorized to carry out its important reserve banking functions in accordance with its own independent judgment, "free from Executive control."

In any event, irrespective of the branch of Government in which judicial determination might place the Board and the Open Market Committee, such determination would not affect their authority to exercise the discretion vested in them by Congress. Where officials of the Government, including those in the executive branch, are charged by law with the performance of duties involving the exercise of discretion, the courts have held that the decisions of such officials are not subject to review or revision by the President. While it is the President's duty under the Constitution to "take care that the laws be faithfully executed," nevertheless, as stated by the Supreme Court in an early case,

* * * it by no means follows [from the President's duty to "take care," etc.] that every officer in every branch of that [executive] department is under the exclusive direction of the President. * * *

*   *   *   *   *   *   *

* * * it would be an alarming doctrine that Congress cannot impose upon any executive officer any duty they may think proper, which is not repugnant to any right secured and protected by the Constitution; and in such cases the duty and responsibility grow out of and are subject to the control of the law, and not to the direction of the President.[25]

Conclusion

In the absence of an authoritative court decision on the subject, no definitive answer can be given to the question submitted as to the particular branch of Government in which the Board and the Open Market Committee may fall. Regarless of what answer may be given

[24] 295 U.S. at p. 625.

[25] *Kendall* v. *United States,* 12 Peters 610 (1838). This principle has often been recognized by the courts, the Attorneys General, and the Presidents themselves. As early as 1823, Attorney General Wirt stated: "But the requisition of the Constitution is, that he [the President] shall *take care* that the *laws* be executed. If the laws, then, require a particular officer by name to perform a duty, not only is that officer bound to perform it, but no other officer can perform it without a violation of the law; and were the President to perform it, he would not only be not taking care that the laws were faithfully executed, but he would be violating them himself." 1 Op. Atty. Gen. 624, 625 [Italics in original.]

to this question, however, it would not affect the authority and duty of the Board and the Committee to exercise their own best judgment and discretion, subject to the statutory restrictions and mandates imposed by Congress, in performing their responsibilities under the law.

This is not to say, of course, that the Board and the Open Market Committee are not parts of the Federal Government or that they are intended to function entirely apart from and without regard to other agencies of the Government. On the contrary, they seek always to consider the policies of agencies functioning in related fields, as well as the programs and policies of the President, to the end that the policies of the Federal Reserve System and other Government agencies may be integrated to the greatest extent practicable. They also endeavor to cooperate with other agencies in considering common problems and in exchanging helpful information.

What has been said above as to the independent status of the Board and the Committee should not be interpreted as implying that the Federal Reserve System is a static or immutable organization. The System should be, and it is believed that it has been, a flexible institution with capacity for growth and adaptation to new developments. It has been and should be modified by Congress from time to time to conform to changing conditions. In this respect Chief Justice Marshall's words that the Constitution was intended "to be adapted to the various crises of human affairs" might well be applied to the Federal Reserve System. In whatever ways it may be modified or adapted to changing conditions, it is essential to the effective performance of the System's unique functions that the independence of judgment reposed by Congress in the Board and the Open Market Committee be preserved (S. Doc. 123, pt. 1, 82d Cong. 2d sess., pp. 242–248).

JOINT STATEMENT OF THE FOLLOWING REPUBLICAN MEMBERS OF THE HOUSE BANKING AND CURRENCY COMMITTEE ON PROPOSALS AFFECTING THE FEDERAL RESERVE SYSTEM

Clarence E. Kilburn, New York
William B. Widnall, New Jersey
Eugene Siler, Kentucky
Florence P. Dwyer, New Jersey
James Harvey, Michigan
Oliver P. Bolton, Ohio
W. E. (Bill) Brock, Tennessee
Robert Taft, Jr., Ohio
Joseph M. McDade, Pennsylvania
Sherman P. Lloyd, Utah
Burt L. Talcott, California
Del Clawson, California

PROPOSALS AFFECTING THE FEDERAL RESERVE SYSTEM

The people of the United States might well be concerned about the value of their dollars as revealed by a series of moves by Democratic Members of the House of Representatives.

First, Representative Patman introduced a bill on January 15 (H.R. 9631) designed to destroy the independence of the Federal Reserve System by making it subordinate to the Treasury. The bill would make the Secretary of the Treasury the Chairman of the

Board of Governors and the Chairman of the committee having responsibilities related to money and credit conditions. It also provides that any member of the Board of Governors may be removed by the President at any time. Other provisions of the bill would materially change the organization of a system which has earned the respect of the world.

Now comes a House resolution by Representative Rains dictating a course of action to the Federal Reserve that it should follow after the passage of the tax bill.

This series of pronouncements makes adequately clear that certain members of the administration are embarking on a path of attempted domination of the monetary authority by the Congress and of inflation to try to cure the economic ills of the Nation both real and imaginary.

It seems imperative that President Johnson promptly disavow this course which time and again has robbed the worker of the fruits of his labor. It is necessary that the other nations of the world who hold large amounts of dollars and who could demand delivery of our gold for these claims be given assurance that a perversion of our central bank and that inflation shall not be a policy of this Nation. A complete rejection of these proposals would give this assurance.

SUGGESTED COMMENT FOR MR. PATMAN ON REPUBLICAN PRESS RELEASE

In all my years in the House I have seen no more remarkable statement than the press release issued today by a number of minority members of the Committee on Banking and Currency. That statement objected to the hearings just begun which will represent the first thoroughgoing study of the Federal Reserve System in 50 years. That statement said that the Banking Committee has no business investigating the keystone of our banking system, the Federal Reserve Board and the Federal Open Market Committee. The Constitution places in the Congress the responsibility for the creation and control of money and the rules of the House place on my committee the heavy responsibility of supervising the banking system and recommending legislation. The fact is, we would be most derelict in our duties if we failed to make this study.

The minority members who signed this statement are apparently fearful of the facts we may uncover and presume to predict the course of our investigation. This is the first time I have heard of a pig squealing before it is stuck. The minority members will have every opportunity to voice their views in the course of these hearings, and I believe that any sense of fairplay dictates that they await the results to see whether or not they still feel there are any grounds for objecting.

Mr. Martin. Let me make one final comment on the hearings in general.

You know, you and I have exactly the same objectives. We both want to reduce unemployment and raise the standard of living, and bring about equilibrium in the balance of payments.

The Chairman. You leave off one phrase.

You know, I was the author of the Full Employment Act in the House. And we put in there, "and maximum purchasing power." You never mentioned that.

Mr. MARTIN. I would be glad to mention it. I have mentioned it many times.

The CHAIRMAN. I have never noticed it. I notice you mention the others.

Mr. MARTIN. Maximum production, maximum employment, and maximum purchasing power, I have mentioned a number of times.

The CHAIRMAN. That is good. I hope you keep it up that way.

Mr. MARTIN. I just want to say that our objectives are exactly the same. The methods by which we get them seem to be entirely different. And I don't think that the Federal Reserve System has been the bane on the body politic that you think it has been. But if it has, I agree with you that we ought to do something about it. And I also think that if I am violating the law, which the Congress has given, that the quicker I am put in jail the better off we will be.

The CHAIRMAN. No, you cannot be put in jail for it. But I will tell you where you violate the law, if you want me to tell you so.

Let me just make this one comment on where you do violate the law. The law says that the Open Market Committee shall be composed of seven members of the Federal Reserve Board and five presidents of Federal Reserve banks. But you bring in not only the 7 members of the Board, and the 5 presidents of the Federal Reserve banks, but you bring in the 7 other presidents of Federal Reserve banks, and you have 50 people in that room, the Open Market Committee room, helping to fix the volume of money and the cost of money.

Mr. MARTIN. Well, we have been over this one many times before, as you know. Only the statutory members vote on issues brought before the Open Market Committee.

Mr. MULTER. Mr. Chairman, may I make one observation—even though I am not a member of the subcommittee?

In view of what has been said about the differences between the Republicans and Democrats—and we have not yet heard the Republican view of it as a party view—on the proposed legislation before us in these hearings—may I suggest there is no Republican Party way and no Democratic Party way of running a central bank. And I am sure that when we get into executive session, after we get through these hearings, we are going to approach this from the viewpoint of what is good for the country, and not try to make a political issue or a political football of the Federal Reserve System.

The CHAIRMAN. Has the gentleman seen the statement the Republican members put out?

Mr. MULTER. I did see it, sir, and that is one of the reasons I am making my comments.

The CHAIRMAN. All right. We will expect you in the morning at 10.

(Whereupon, at 12:05 p.m., the subcommittee recessed, to reconvene at 10 a.m. Wednesday, January 22, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER FIFTY YEARS

WEDNESDAY, JANUARY 22, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC FINANCE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Reuss, Ashley, Vanik, Minish, Weltner, Wilson, Kilburn, Widnall, Bolton, and Brock.

The CHAIRMAN. The committee will please come to order. Mr. Widnall?

Mr. WIDNALL. Mr. Chairman, I would like to ask permission to insert in the record, just prior to your own remarks yesterday, a statement that was issued by the Republican members of this committee, together with the names of those who signed the statement.

The CHAIRMAN. Without objection, it is so ordered.

I also ask permission to include immediately after Mr. Widnall's statement a statement of my own. Without objection, it is so ordered. That will be preceding my statement yesterday interrogating or commenting on Mr. Martin's statement.

I think I took all the time I should yesterday. So this morning I suggest that we have 10 minutes for each member of the subcommittee, so as to get a little more time. And then after we go around, we will have unlimited time for the subcommittee members, which will give an opportunity to fully explore the subject matter. At this time, I will recognize Mr. Widnall.

(The statements referred to above may be found on pp. 29–30.)

Mr. WIDNALL. Mr. Chairman—I had hoped, and I believe other members of the committee had hoped, when there was preliminary discussion about the hearings with respect to the 50 years the Federal Reserve System has existed, that we would surely hold these hearings to evaluate the 50 years of service of the System.

I am inclined to feel, from some of the statements that have been made by the chairman, that already there has been an evaluation of the System, without giving us the benefit of the various views of the witnesses who will appear before the committee. I hope that we can dispassionately consider all of the presentations that will be made, because I am sure that those on the minority side, as well as those on the majority side, would like to have the opportunity to fully evaluate what has gone on during those 50 years.

The CHAIRMAN. Mr. Widnall, would you yield to me briefly, please?

Mr. WIDNALL. I would; yes, sir.

The CHAIRMAN. Now, yesterday morning, when the committee met, there was before each member, on the desk, a statement signed by the Republican members, which you inserted in this record this morning, to go in the record of yesterday, which I think was pretty partisan and made it somewhat of a political issue, right in the beginning. And any partisanship that has been exhibited, I think, was provoked at least in part by this particular statement, which I referred to yesterday.

Mr. WIDNALL. Mr. Chairman, and the other members of the committee, I would like to say this: An allegation has been made by one of the gentlemen on this committee that our statement showed a callous disregard for the unemployed in America. I don't think there can be any more callous disregard of unemployed than to allow the forces of inflation to work and to have monetary policies that would encourage inflation, and take away any gains that labor obtains, either through legislation, negotiation, bargaining, or what-have-you.

And we are deeply concerned that the American public will not know, unless we point it up, that there are inherent dangers in some of the proposals, as to change, with respect to the Federal Reserve System.

Now, Mr. Martin, I think you made a very lucid statement yesterday, as you always do in your presentations before this committee. I would like to first ask you this: Has any President to date, to your knowledge, recommended changes in the Federal Reserve System that have not been accepted by the Congress and put into effect by changes in the law?

STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, FEDERAL RESERVE BOARD; ACCOMPANIED BY C. CANBY BALDERSTON, VICE CHAIRMAN OF THE FEDERAL RESERVE BOARD

Mr. MARTIN. I am not sure, Mr. Widnall, whether there are any recommendations that any President—I think President Roosevelt did recommend the changes that are in the Banking Act of 1933 and the Banking Act of 1935, and those were enacted by the Congress.

I don't believe there have been any other recommendations, with the possible exception of President Kennedy a year ago recommending a bill with respect to the salaries of the Chairman and the other members of the Board, and also to make the term of office of the Chairman and Vice Chairman coterminus with that of the President. That was contained in his message to the Congress. So far as I know, there have been no hearings on that bill. Those are all I can think of at the moment.

Mr. WIDNALL. So that to your knowledge actually the Presidential recommendations have been largely accepted with that one exception, as long as the Federal Reserve System has been in existence?

Mr. MARTIN. That is correct.

Mr. WIDNALL. I would just like to have this repeated again for the record. What do you see as the function of the Open Market Committee with respect to the matter?

I have in mind now its application to unemployment, to our balance-of-payments problem, and to other features that were incorporated in the Employment Act when that was enunciated by the Congress.

I am sure that the Federal Reserve System, through its Open Market Committee, has not just been interested in changing interest rates.

What do you feel is the basic problem that you have to attack through the use of the Open Market Committee?

Mr. MARTIN. I think that could be stated in a good many different ways. But in terms of my discussion with Mr. Patman yesterday, I would subscribe fully to the view that the Open Market Committee is concerned with maximum production, maximum employment, and maximum purchasing power—that those are its objectives and purposes.

Another way of saying that would be that it wants orderly economic growth, and it does not want inflation, because inflation does not lead to orderly economic growth.

Mr. WIDNALL. And in order to make your best judgment on these matters, you have a permanent staff of economists who work with you, keeping check on all of the various factors that go into our economy, is that right?

Mr. MARTIN. We do, indeed. As Mr. Patman has pointed out, at the meetings of the Open Market Committee, because of the fact that under the law there is rotation of the presidents, year by year—there is only one president, the president of the New York Bank, that stays permanently on the Committee—all of the 12 presidents of the Reserve banks, have been attending the meetings although only those permitted by statute to vote, vote. And we have had the best economists and staff assistants that we can obtain participate in those meetings.

We think this has contributed to bringing the best brains that we have in the System to bear on the problem.

Mr. WIDNALL. I think a point was raised yesterday about the meeting of the Open Market Committee, about many others who were present at the time of those meetings, and perhaps should not have been present because they did not perform any function by way of voting. What is the function of those who participate in the meetings but actually do not have any part in the decisions?

Mr. MARTIN. Well, they are there to advise or to render advice to any of the principals at any time. We have the best economists in the System there.

We ordinarily open the meeting of the Committee by having a presentation of current economic conditions by one of our top staff economists. Then we have a presentation of credit conditions. Then we follow that with the review of the balance of payments.

Then we give each president around the table an opportunity, for 5 or 10 minutes, just as you operate here in the committee, to speak to the problems of his district, and to make any comments that he would like to make with respect to current money market conditions.

And after that go around is completed, we then are at liberty to ask questions. And I might say that when these economic reviews are made, anyone there at the meeting may be recognized by the chair at any time to make any comment that he wishes to make. We are trying to bring the best brains that we have in the System to bear on this problem.

Nobody is there that has not been carefully screened and authorized by the secretariat of the Committee, working with the Chairman and the Vice Chairman of the Committee.

Mr. WIDNALL. So that the information that you obtain from those people is absolutely necessary for you to have in order to make your basic decisions.

Mr. MARTIN. In our judgment. And we believe that this means of bringing in the other seven presidents and their top assistants has contributed greatly to the changeover that occurs once a year when we have rotation by law in the voting members of the Committee.

We think that this has broadened knowledge of the activities of the System, and that this has been an effective clearinghouse within the System for our operations.

I might just say in passing—because I discussed this a number of times with Mr. Patman before—that at the time that we decided to include the other seven presidents. I did speak to the chairmen of the House and Senate Banking and Currency Committees, informally, and told them this is what I was planning to do.

The CHAIRMAN. Would you yield briefly, Mr. Widnall?

Mr. WIDNALL. Yes.

The CHAIRMAN. Wasn't that at a time when we had criticized you so much for having a five-member executive committee—three governors and two presidents—that was looking after all open market transactions, and the full Open Market Committee was only meeting about four times a year? You were having a transition about then. You were eliminating the five-man deal, and having the whole Committee meet every 3 weeks. Isn't that corect?

Mr. MARTIN. That is correct, Mr. Patman.

Let me say that I don't remember that coming as a result of criticism. That change was made during my tenure as Chairman of the Board. It required getting my feet on the ground to know what was the best way to operate in the System. And I took the initiative in making that change.

But I just wanted to point out that I did discuss it with the chairman of the Senate Banking and Currency Committee, and with the chairman of the House Banking and Currency Committee, in order to get their views, and both of them were pleased with this move.

Mr. WIDNALL. Mr. Chairman, when we visited the Federal Reserve Building, as I recall something was said about telephone communications that took place, too, at the time of the Open Market Committee meeting. Is that not so?

Mr. MARTIN. We can have a telephone meeting. We have on occasion had a setup with which you are all familiar, where we have the presidents from around the country, without being here in Washington, in an emergency come in on the loudspeaker, so that we may exchange ideas with them.

We have had no telephone hookup within the meeting, when the Committee is actually meeting in the Board room of the Federal Reserve.

Mr. WIDNALL. So that you have the means of quick communication in order to meet any sudden emergency that might confront the country?

Mr. MARTIN. We have, indeed. And we have exercised that on a number of occasions.

We did it just recently at the time of President Kennedy's assassination.

Mr. WIDNALL. My time is up, Mr. Chairman.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Mr. Chairman—Governor Martin, you say on page 3 of your report that the Federal Reserve System is open to improvement. I want to record my agreement with that statement.

However, when specific recommendations for improvement are made, you seem to be against them. I would like to explore one that you opposed, because to me it seems a constructive suggestion.

As things are, the most important monetary function of the United States of America; namely, the credit arrangements that are handled by the Open Market Committee, are handled by a committee made up of the seven public officials, the members of the Board, plus five essentially private persons who are not publicly appointed, the presidents of five of the regional Reserve banks.

I think this is an improper way to conduct public business for the reason that it is quite possible that the judgment and decision of the majority of the public officials, members of the Board of Governors, might be overruled by essentially private people—that is to say, a four-man majority of the Board of Governors might feel that credit should be tightened, let us say at a particular time, but it would be subject to being overruled if the private people on the Committee, the presidents of the banks, felt otherwise.

I was happy to see the important Commission on Money and Credit 2½ years ago recommend very forthrightly that this system be changed—on page 90 of the CMC report you recall there is the black-faced type recommendation:

> **The determination of open market policies should be vested in the Board. In establishing its open market policy the Board should be required to consult with the 12 Federal Reserve bank presidents.**

And when shortly after that, on August 14, 1961, the Joint Economic Committee had former Federal Reserve Board Chairman Mariner Eccles before it, he very strongly endorsed that position.

So I am disappointed to find you opposing what seems to me a necessary reform. And since I find your reasons as set forth in your paper here inadequate, I would like to find out what other reasons you may have that are not set forth in your paper.

I say they are inadequate to me because the only reason you set forth in your testimony is that you want liaison with the 12 banks. I am all for liaison, and it is great to have them in the room there and keep them current on what the Open Market Committee does. But I would like you to address yourself to the proposition I am making—that this is essentially a governmental function, and should not be exercised by private people—any more than, let us say, we should take tax policy away from Congress and the Secretary of the Treasury and give it to, let us say, the president of the American Bankers Association, which I don't think you or anybody else would advocate.

Mr. MARTIN. No. I think this is one of the basic and cardinal points in the development of the System right from the start.

If you look at the original hearings, we didn't have an Open Market Committee until the Banking Act of 1935. You had this struggle between banker domination or other private domination, and political domination. And I think that the present Open Market Committee has been a compromise between these two concepts, the intention being not to have either private bankers or political leadership influence the decisions of the Committee, but to get a broadly based combination of private and public judgment.

Mr. REUSS. Well, that is not really a fair description of what happens, is it? In fact, the private interests can overrule the public interests. And that is a pretty poor compromise, it seems to me.

Mr. MARTIN. Let me say, Mr. Reuss, that I don't concede that the presidents of the 12 Federal Reserve banks are private individuals.

This is what I was talking about—the ingenious development of the System. The Board appoints three of nine directors, six directors are elected by the member banks. And those directors, as you know, are class A, B, and C directors.

Mr. REUSS. That is right. Therefore, the Board's participation in the directorship is a siple one-third minority participation.

Mr. MARTIN. Not quite—because we appoint the chairman and the deputy chairman. And we have been in a position and have appointed presidents of universities and very distinguished scientists and others as class C directors.

Mr. REUSS. Yes; I think your appointments are all bishops or better.

But my question is, "Is it not a fact that the presidents of these banks, the men who sit on the Open Market Committee, are in fact the creatures of private power rather than public power"?

Mr. MARTIN. The initiative on the appointment comes from the board of directors of the individual Reserve bank. But the Congress has given the Federal Reserve Board the authority on the president and first vice president. We can disapprove them. We have complete authority on the president and the first vice president of the banks.

So, to that extent, they are public officials.

Mr. REUSS. What do you mean complete authority over them?

Mr. MARTIN. Well, I am talking about the approval or disapproval of them. When the name comes up to the Board—the seven members of the Federal Reserve Board—there is no participation by the board of the individual bank.

Mr. REUSS. Yes. But you cannot appoint a president who is not appointed by the majority of private bankers on the board of the particular Reserve bank, can you?

Mr. MARTIN. We certainly have a good bit of influence.

If the chairman and the deputy chairman are in disagreement with the other six board members, you have a situation that is not likely to be tolerated.

The point I am trying to make, Mr. Reuss, is that this is a very ingenious blending of public and private activity.

Mr. REUSS. I don't doubt its ingenuity. What I question is whether it is based on the public interest.

What is wrong, Mr. Martin, with the idea of having open market policy decided by the same seven public servants who decide rediscount policy and bank reserve policy—the other two instruments of monetary policy—namely, the seven members of the Board—and keep your liaison with the 12 banks by having them in the room, consulting them, and so on? What is wrong with that?

Mr. MARTIN. Well, the first thing that is wrong with it is that it would be a change at the present time without giving any——

Mr. REUSS. You say in your statement change is inevitable, and you are for change. So what is wrong with this?

Mr. MARTIN. What is wrong with it is that I don't see that it achieves anything, and it narrows the participation in the process of making these decisions.

Now, I think we have benefited greatly from bringing them together—and I say quite openly here, without changing the law, we have discussed everything from margin requirements on down, which are exclusively the prerogatives of the Board. We have discussed these things at the open market meetings.

We have used this as a clearinghouse for credit policy, trying to get the biggest and broadest intelligence that we can on it.

Mr. REUSS. Well, would you favor that this country's tax laws be written by a board which included, let us say, the president of the NAM?

Mr. MARTIN. I don't think there is any comparison between the tax laws and monetary policy, Mr. Reuss. That is purely a matter of judgment. But I don't see the connection, really.

Mr. REUSS. They both deeply affect the economy of the country, do they not?

Mr. MARTIN. They both affect the economy of the country, but in a different way. The flow of funds and tax policy are, of course, interrelated. But the adjustment of equilibrium between savings and investment through interest rates or through changes in reserve requirements or through margin requirements is an entirely different procedural process than taxation.

Mr. REUSS. What about you, Governor Balderston? Do you oppose the recommendation of the Commission on Money and Credit like wise, the recommendation that open market policy should be vested in the Board?

Mr. BALDERSTON. Yes, Congressman Reuss; I do.

The question you have asked is, to me, a very fundamental one.

Maynard Keynes once observed, about Hitler Germany, that Hitler had so concentrated the decisionmaking of the Germany of his day that the only mistakes he could make were major ones.

You can see that I believe in a philosophy of decentralized responsibility and authority, with just enough coordination to insure consistency of action and policy. The implication of your question is that the presidents of the 12 Reserve banks are captives of the banking industry.

Mr. REUSS. No; I would not suggest that. I am simply saying that they are not the appointed servants of the people of the United States of America, because they are not appointed by the public appointing authority, as you members of the Board are.

Mr. BALDERSTON. But I would like to point out that when they come to the Open Market Committee, the five who are serving for that particular year take an oath of office which makes them public servants for that period of time.

Mr. REUSS. They are public servants in whose selection the President of the United States and other U.S. authorities played no part, except the very remote, indirect role that Chairman Martin has described.

Mr. BALDERSTON. Which is a very direct role.

Seven members of the Board play a very significant part and very direct role in the selection of those presidents.

And as to whether they represent themselves and vote in accordance with their own consciences, or at the behest of private bankers, I would like to suggest that you ask the bankers in any one of the districts whether the president of their Federal Reserve bank obeys their suggestions and intimations as to what they would like. It would be an interesting survey.

Mr. REUSS. Fine—I will ask them that.

One more question. Wouldn't it be a good idea, if your logic is right, to do away with the Federal Reserve Board itself, and just have all our monetary problems handled by the 12 presidents of the banks?

If your oath of office theory is correct, this would seem to work there, too.

Mr. MARTIN. It could be done that way, Mr. Reuss. And it has been considered on a good many occasions.

We have used the Open Market Committee meeting every 3 weeks as a clearinghouse to discuss the implications and interrelationship of reserve requirements and discount rate changes and open market operations in as broad a way as possible.

Now, you could change the reserve requirement authority—instead of having it only in the Board, you could have it in the Open Market Committee.

I think the reason for that is obvious, and you have touched on it—that reserve requirements apply directly to banks, and that this has been put specifically in the hands of the Board, so that there could be no indication that the six members that you are talking about as being elected through the banker process could in any way even indirectly dominate that decision.

That was one of the reasons.

Now, the history of the Federal Reserve and the debates around it are extremely interesting, and they reveal a constant interplay of trying to balance private and public interests in an effective way so as to accomplish the very thing that you are talking about, a system completely insulated from banker domination.

And I think it has been fairly well done. I don't say that it could not be done in different ways. But I want to emphasize the fact that by and large the Federal Reserve Board as such has the control—we have had a decentralized central bank. It has been the wonder of a good many of our foreign friends, and to their amazement it has worked surprisingly well despite its cumbersome nature.

But we have had it by having boards of directors of these banks, many of whom think they don't have enough authority now, because actually the controlling authority is in the Board of Governors in Washington. In other words, there is sufficient coordination in the Board of Governors in Washington so that you maintain decentralization and get the benefit of it without making it ineffective through making it possible for individual banks around the country to take a stand that would be contrary to the broad interpretation of the whole Federal Reserve System as such.

Therefore, I think this coordinating process has been surprisingly well maintained and developed, and meeting every 3 weeks in Washington it has made it easier for us, now that we have the airplane, than it was 15 or 20 years ago, when it was difficult to get all these people together.

Mr. REUSS. My time is up.

The CHAIRMAN. Mr. Bolton?

Mr. BOLTON. Thank you, Mr. Chairman.

As always, Mr. Martin, it is a great pleasure to see you up here. I appreciated very much your statement.

One question did occur to me, sir. On page 10 you took the position, and I quote, that you would favor dropping from the Federal Reserve Act, "any reference to representation of particular segments of our society." And you indicated there at least to me, that you would also favor dropping the geographical representation on the Board.

Would you feel—would you not feel that this would hold the possibility of getting a concentration of members from one particular area of the country only?

Mr. MARTIN. Yes; I think it does raise that possibility, Mr. Bolton.

But in making that suggestion, having thought about it a great deal, I would assume that any President who was making appointments to the Federal Reserve Board would be very certain in his own mind if he had two from the same district, that the men were so outstanding that it would overcome that geographic disadvantage.

Mr. BOLTON. In other words, rather than removing the requirement completely, you would relax it, but you would keep the implication in the law?

Mr. MARTIN. I would think that any President facing up practically to this problem would recognize that he would like to have on the Federal Reserve Board the west coast, the center of the United States, and the East.

Now, I think it is too bad at times, because it is difficult to get men who will disassociate themselves from private enterprise and come into the Board and work conscientiously over a period of time—it is difficult to get the type of man that has training and knowledge and experience and the will and desire to do this thing. I found it like searching for a needle in the haystack at times.

Sometimes it just happens that on the Pacific coast, which is a very large area, there may be someone in Los Angeles who would be ideal, and there may be someone equally ideal in Seattle. Yet by law now there is no chance of getting those two men, even though their circumstances may be such that they would be available under these conditions, and it would not unduly imbalance the Board to do that.

I think it is very important that we try to get the highest grade, most capable men we can get. And that is what we are after.

I think it is conceivable, particularly where we are dealing with the securities market—I happen to come out of the securities market, appointed from New York. That means that no one in the New York area, regardless of how qualified he may be, is eligible for service on the Federal Reserve Board until my term is completed.

Mr. BOLTON. Thank you, sir. One other aspect of the activity of the System I would like to have you comment on.

One of the great problems of our fiscal and monetary systems today is our balance-of-payments problem, and our whole international relationships in the economic field. I wonder if you would care to comment on the position of the Federal Reserve System and the Board, particularly, and its activity in comparison, for example, to the setup which exists in other countries and other central banks.

Mr. MARTIN. I think the simplest way of stating it is that we do have a regional system with active participation by the regional banks, whereas the Bank of England has one central bank with branches.

That is true of the Bank of France, that is true of virtually all of the European central banks. They are central banks in the real sense of central. We are a central banking system.

I have frequently emphasized the fact that the most important word in our title is not Federal Reserve, but "System." And that is where we have a unique setup that I think has been peculiarly adapted to this broad country of ours.

It is important that we have coordination in the Federal Reserve Board so that this does not become disjointed and unwieldly.

But we can have effective management through the centralization of a coordinating board that takes unto itself only what is essential to see that management is effective.

Mr. BOLTON. Well, maybe I did not make myself clear.

Are the activities of the Federal Reserve System, disregarding the setup—in the field of international economics, the same—and the flow of the international monetary system—the same as the central bank functions of, say, England or France?

Mr. MARTIN. Yes; I would say essentially so.

Mr. BOLTON. They are essentially the same, with essentially the same powers?

Mr. MARTIN. Essentially the same. We have a slightly different change in the System there. You know, under the Bretton Woods Agreements Act, there was set up a National Advisory Council on International Monetary and Financial Problems. The Chairman of the Federal Reserve Board sits on that group. That group consists of the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Foreign Aid Administrator, and the Chairman of the Federal Reserve Board.

It is through that means that we do the coordinating of our activities and the activities of the International Bank and the International Monetary Fund.

In England, they have a council which is somewhat similar, and the Bank of England, of course, is essentially a part of the Treasury there, since the nationalization of the Bank of England that occurred in 1946. But I dont' think the powers and functions are any different.

Mr. BOLTON. Thank you, sir. I have no further questions at this time.

The CHAIRMAN. Mr. Vanik?

Mr. VANIK. Mr. Chairman, I want to say at the outset I think this dialog on the Federal Reserve is probably the most important thing Congress is considering right now. I am certainly glad it is going on.

Somewhere between these two expressed positions there must be need for some legislative action.

I regret that you have taken the position to deny the validity of any legislative improvement—substantially any legislative improvement to our banking system. For example, the question has been raised as to whether the Fed is responsive to the public interest, and your opposition to having the General Accounting Office, which is the arm of the Congress and the arm of the people, go over your audit seems to me a great mistake. I think that a General Accounting review of what you are doing at the Fed would have a great deal to do with assuring public confidence in the bookkeeping.

The highest quality of private bookkeeping does not satisfy the great desire that these things be publicly audited.

Now, are you so strongly opposed to the General Accounting audit as indicated by your statement?

Mr. MARTIN. Yes, I am, Mr. Vanik. I think that when Congress in the Banking Act of 1933 did away with GAO audit of the Federal Reserve Board it was to free the monetary authorities from the risk of being deprived of the use of funds, which they deemed important to carry out their function, because of actions or decisions by any other branch of the Government. Now, I simply want to reiterate my conviction.

I happen to think, having had some experience in business and government, that the auditing procedures of the Federal Reserve are excellent. I used the word "unexcelled" in my statement yesterday. Maybe that was a little bit too strong. I was implying there perhaps they are the best in the world. I don't mean that.

But they are excellent. We not only have a staff of examiners that are trained to go out into the banks—and let me point out here that the General Accounting Office would have to build up a staff of specialized examiners.

Mr. VANIK. We are willing to pay for that. Congress is willing to develop anything that is necessary to provide a proper audit by the General Accounting Office.

But the fact is that you deny the validity of a public review of what transpires in the Fed. And this runs contrary, I think, to the public thinking—that if this agency can audit everybody else, why should the Federal Reserve be an exemption?

Mr. BOLTON. Will the gentleman yield at that point?

Mr. VANIK. I don't want to yield on my time. Go ahead.

Mr. BOLTON. I would just say there are many auspices of the Congress, including the committees of the Congress, which are not under the auditing of the GAO.

Mr. VANIK. I agree that all public spending ought to be under audit of the GAO. I would support the gentleman's position on that.

Mr. WIDNALL. Would the gentleman yield further?

Mr. VANIK. Let me get one more question—if I have any more time, I will be pleased to yield.

My other point is this: I believe—I have a sincere fear of the disregard of the usury laws of the country. And I think that these laws have foundation in the basic morality of our democracy.

I would like to have some assurances that there are ways that can be found to regulate credit without increasing the interest rates that are tacked on to both the Government itself and to the consuming public. And I would like to say to the Chairman that unless I am satisfied that the Federal Reserve System as now constituted can come up with some approach to this problem which can take care of the credit needs of the country without resorting to raising the prices of credit, which I consider immoral above certain levels. If the rising cost of credit cannot be contained, I think I would be inclined to support some of these other methods to assure that the public interest in lower interest rates is going to be served.

I am concerned from this sole standpoint, the cost to the public and to the Government of the money that is needed to carry on business.

Unless I receive some assurance that there is some way that the Fed can approach this problem without raising interest rates, I am going to be inclined to support some of these methods for other solutions to this problem.

Mr. MARTIN. I will make my usual comment at this juncture, Mr. Vanik—that I have always testified and have always indicated that I favor as low interest rates as it is possible to have without having inflation.

I really think that you will have the largest capital formation that way.

Mr. VANIK. And in your opinion, the rise in the interest rate through the discount activities of the Fed were the only alternative at the times they were proposed?

Mr. MARTIN. That is correct.

Mr. VANIK. And that there are no other avenues or approaches to be explored in which credit expansion, or in which credit can be regulated without resorting to raising the cost of it in a so-called free market?

Mr. MARTIN. These are the only methods we have had, short of direct controls. If you want to go into the area of price and wage controls, allocations——

Mr. VANIK. Those are outside of the scope of the Fed.

Mr. MARTIN. That is right.

Mr. VANIK. And properly so—unless you want to have the Federal act amended to include jurisdiction over those areas, in which case you might have to have an expanded board to only the other areas of activity.

Mr. MARTIN. Yes. And I just want to reiterate what I put in my statement—taken from the Douglas subcommittee.

This is essentially our position here. I just quote this from the Douglas comments:

> But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.

Mr. VANIK. Yes, I have that statement. If I have time, I will yield to my coleague.

Mr. WIDNALL. I just wanted you to yield for a brief comment on the GAO.

I have found in the time I have been in Congress that many recommendations of the GAO to a department or to the Congress have been ignored by the Congress, and they paid no attention to those recommendations. So I don't know that the GAO report would have any more value than the type of audit taking place at the present time.

Mr. VANIK. The gentleman didn't find fault with the report.

Mr. WIDNALL. No.

Mr. VANIK. That is the point. As long as the report is valid and correct, I think the GAO has performed its function. It is up to the Congress or to the executive agencies involved to take such action as they deem necessary in view of the report.

Mr. WIDNALL. I don't think there has been any fault found in connection with the reports made by the private auditors employed.

Mr. VANIK. Excepting that I think the Congress has come to rely on the General Accounting Office. It is an arm of the Congress. It is the public auditor.

I think it is very, very well established in this role. I think that in this role its activities should be expanded, rather than shortcutted.

Mr. WIDNALL. Well, the failure of Congress to rely on their recommendations certainly doesn't show they have as much confidence in the GAO as they should have.

Mr. VANIK. I think the fact that Congress acts or doesn't act on the GAO report is a separate consideration. I don't think it detracts from the validity of the report or the authenticity of it, or the quality of the work that has been performed by this Office.

I think most Members of Congress most of the time have come to rely rather solidly on the work of the General Accounting Office.

The CHAIRMAN. Will the gentleman yield?

It is possible if corrections were made, it would be unnecessary for Congress to legislate.

Mr. VANIK. There has been a host of changes in Executive policy that have come about as a result of GAO reports.

Mr. MULTER. As a matter of fact, many of the committees of Congress do review the GAO report, and a subcommittee of this very committee, the Housing Subcommittee, is now reviewing a GAO report with reference to the activities of HHFA. Congressional committees do it many times.

Mr. VANIK. Our Housing Subcommittee is currently reviewing a GAO report. Perhaps not to the extent in the particular matter the gentleman from New Jersey might like. But it is certainly reviewing it.

Mr. BOLTON. Will the gentleman yield?

I fully and heartily understand the gentleman's position about the need for a public audit of any public body. But I think an evaluation in the terms of the audit of the Federal Reserve System we must keep in mind that in actuality the audit of the System, as I understand it, is an audit conducted by auditors who are hired by the Board, and the report of those audits are made to both Banking and Currency Committees of the House and the other body.

Is that correct?

Mr. MARTIN. That is correct.

Mr. BOLTON. So, in effect, it is a public audit, though it is not made by the public auditor.

Mr. ASHLEY. Who pays for it?

Mr. BOLTON. I believe the System pays for it.

Mr. Ashley. Then it is really not as public as it might be; is it?

Mr. Bolton. The only point I was trying to make is that it is an audit and a public audit, though not in the sense—and I understand——

Mr. Ashley. I don't mean to quarrel with the gentleman. I think it is a private audit, the results of which are made public. But I think that is a very different thing from a public audit as performed by the GAO.

Mr. Vanik. I might point out to my colleague—after all, that when the audit is ordered by the Federal Reserve System, the format, the procedure, audit procedure, is pretty much ordered and dictated and set forth by the people who are ordering the audit to be done.

And right in this method you have the key to the validity of the audit. In other words, when the instructions are made to the contract auditor, the instruction is set forth in the way the audit shall be conducted. And the very validity of the audit and its value might be very substantially affected by the instructions that are made by the contractor on how its business is supposed to be audited.

Mr. Martin. Mr. Vanik, I must correct that. The certified public accountants are given no instructions by the Board, and their letter will indicate that they have not been told in any way how they should proceed. They are given carte blanche. They have their reputation at stake—Haskins & Sells, Arthur Andersen, have their reputation at stake. They are given no instructions by the Board.

Mr. Multer. I wish somebody would clarify whether or not this is a complete audit or just a review of an audit.

Mr. Martin. Mr. Multer, as I have pointed out, we have independent auditors that are continuously auditing in each of the 12 banks that are subject only to the direction of the board of directors, not to the officers of the bank.

Mr. Multer. I am referring now to the independent audit by Haskins & Sells, or Price Waterhouse, or whoever you are using for the system. Is that a complete audit?

Mr. Martin. No. That is only of the Board.

But they go in with our examiners. We have a field force. They are very dedicated individuals, because they are on the road most of the time, and it is hard to get people to——

Mr. Multer. I wasn't questioning that. I am trying to find out what they do. And you leave the impression with me Price Waterhouse or Haskins & Sells looks over the shoulder of your auditors and examiners, rather than doing the work themselves.

Mr. Martin. That is correct. You are right.

The Chairman. Mr. Brock?

Mr. Brock. Thank you, Mr. Chairman.

Mr. Martin, I want to say I am very grateful for your testimony. I think it is clear and to the point. I appreciate it.

Yesterday, some questions were raised regarding eligible paper, both in your testimony and also by the chairman.

Would you briefly summarize to me what in your mind would be the effects, first, of an expansion of the definition of "eligible papers," as you have recommended, and then, secondly, what would be the effect on the other hand of a restriction back to the old use of the word?

Mr. Martin. Well, my point, Mr. Brock, is—and this is, I think, fundamental—that there have been a lot of changes in the 50 years of the System, and what we considered originally, that we would have an automatic expansion or contraction of credit based on short-term self-liquidating commercial paper, met its first test—first overwhelming test in the recession days, when many of the Federal Reserve banks wanted to extend credit to worthy borrowers, borrowers in whom they had confidence, but they were restricted by law to this definition of "short-term self-liquidating commercial paper."

And even Government bonds were not at that time eligible as collateral for advances.

Now, in recent days, just to illustrate this quickly, with the increase in the maximum permissible rates prescribed by regulation Q, and the rise in time and savings deposits in a good many savings banks—we have seen them make additions to their portfolio of State and municipal securities, and a good many mortgages that they didn't have before, and those mortgages may be just as good for discounting purposes as anything else.

Now, the reason we brought up last August this bill, and want to broaden the definition of eligible paper, is that we think we should be able to lend on some of this paper, without having to charge a penalty rate of a half a point percent, as we must do now. We feel now is the time, when the economy is doing reasonably well, to prepare for possible future emergencies.

I don't mean to say that there is not more unemployment than we would like to have. But the economy is doing reasonably well, and we should be preparing for a time when we might be in difficulties again.

And it seems to me that a broadening of this discount function, keeping the discretion, as to how it is exercised—because I don't think you can spell out all the types of paper—in the Federal Reserve, is most appropriate at this time, with the changes that have occurred throughout the country.

I have advanced this bill primarily as a precautionary measure—not that we need at the moment. But we have noticed a tendency for short-term paper to multiply in times of expansion and for it to disappear in times of contraction, which is just contrary to our general purpose of having an elastic currency.

Mr. BROCK. In effect, if you did restrict the use of eligible paper to a greater degree than you have it today, what you are saying, if I may put it in my words, it would be in effect, hurting the very people you are trying to help, the smalltown merchants, and so forth, who would have a restriction on the total amount of credit available.

Mr. MARTIN. That is exactly it.

Mr. BALDERSTON. Mr. Chairman, may I add a comment to that?

I have been struck by the change in financing procedures since 1914. At that time, about half of total loans were eligible for rediscounting with the Federal Reserve banks. But the commercial banks held less than a billion dollars of Governments. Now, we think that less than a quarter of total loans are eligible for rediscounting. The Governments held by commercial banks are 80 times as large as in 1914. Consequently, the convenient thing for banks to offer is of course Governments. And that has been the procedure in recent times.

But we are fearful that in time of crisis individual banks having no Governments left would need the liberalized provision.

Mr. BROCK. I yield.

Mr. VANIK. I was thinking of some areas in which credit expansion could be controlled. And one of the things that comes to my attention is the liberal credit rules applying to some of the futures that we have read about recently.

You limit margin requirements on stocks that have considerably higher status on the stock exchange, and you have no limitations on the over-the-counter issues.

It seems to me rather strange that a buyer of stock should put 70 percent of the money up for a good blue chip, and have no restriction on what he has to put up on the XYZ Electronics Expansion, an over-the-counter issue. In other words, we have the futures and over-the-counter issues that are completely unregulated.

We studied those in New York a short time ago and found that in the area of futures, a person can seem to get all kinds of credit. It is an area in which—Mr. Chairman—in which there was the greatest leverage. The investor could go in with a tiny little bit and get bank credit to support the great risk of his purchase.

And it would seem to me that these areas are every bit worthy of consideration for credit control as are the stocks on the New York exchanges.

Now, what about it? Why have we been discriminatory in these restrictions?

Mr. MARTIN. I agree with you. Commodity trading is slightly different than stock trading. But the Commodity Exchange Authority ought to be going into that, and ought to have some authority in this area, at least on a standby basis.

This recent salad oil scandal, as we call it, points that up.

I think you have made a very good point, Mr. Vanik. I agree with you.

Mr. VANIK. Well, then, this is an area in which we could consider instead of increasing the cost—instead of increasing the cost of money. This is a possible credit control that might, if carried through along with some others—might make it less necessary for the Fed to rely on increasing the discount rate.

Mr. MARTIN. I don't think it would have very much influence on that. But I think it certainly is a factor in it.

It is something that ought to be carefully studied and evaluated.

The CHAIRMAN. Would the gentleman yield?

Mr. BROCK. Yes.

The CHAIRMAN. On this question of expanding the eligible paper, isn't that due to the fact that you realize that you must have more and more money in circulation all the time? In other words, the volume of money must be increased month by month and almost day by day.

Therefore, you would have to have additional eligible paper in order to make that volume of money possible.

Is that correct?

Mr. MARTIN. We want to regulate the money supply, to be sure.

And, as you say, Mr. Patman, the volume of money, we like to see it increase, to use my simile of the stream, as the river bed can absorb it and handle it.

But this matter of eligible paper is when you are in time of need. It is not a case of——

The CHAIRMAN. With the permission of the gentleman from Tennessee, Mr. Brock, I would just like to suggest that our monetary system is based on debt, which, of course, you recognize, Mr. Martin, and no debt, no money. It makes it very profitable to people who can create money, because we have got to have more money. And it occurs to me that the Federal Reserve Board could render a great public service if they would give consideration to an alternative—rather than have just an inflexible rule they will not have any money unless somebody will go in debt.

And that is the only way we can increase our money supply—that you should come up with some alternative that would enable us to do something else besides requiring people to go into debt and pay interest.

Don't you think you could give consideration to that?

Mr. MARTIN. I think there is an inconsistency here, Mr. Patman, if I can mention it.

Yesterday you wanted us to get rid of debt entirely, and today you are telling me that without debt we cannot have any expansion of money.

The CHAIRMAN. I am not endorsing it. I am asking you to study an alternative. You did not understand me.

Mr. MARTIN. Oh, yes; I understood you perfectly. We just don't have a meeting of the minds.

The CHAIRMAN. No; you do not understand me. I am just saying that the way you have it now, if there is no debt there is no money.

I am not convinced that is how it should be. I don't think people should be required to go into debt and have to pay interest just to have enough money to do business on.

Mr. MARTIN. The development of money and credit really goes back, as I have said a number of times, to our use of gold as a medium of exchange, and then goldsmith certificates, because people were not going to need all the gold all the time, and then from goldsmith certificates you went to Government paper and to bank deposits.

That is really the history.

The CHAIRMAN. That is right, and you are keeping the reserves for the banks, just like the old goldsmiths.

Mr. MARTIN. I am indeed. And to use my favorite illustration here, it is a very real responsibility to let this credit be stretched, which is proper, but not to be stretched so far that it is like the rubberband that breaks. And that is the sword of Damocles that hangs over the head of the Federal Reserve Board all the time.

Mr. BROCK. One other quick question, Mr. Martin, if I may.

Yesterday, the point was raised that perhaps the banks should pay for the clearing of their checks. This would yield $140 to $150 million to the Treasury.

Now, in view of our expressed desire to lower interest rates, is it not true, if the banks had an increased cost of $140 to $150 million in the cost of clearing their checks, this would be reflected in higher interest charges to the people?

Mr. MARTIN. They would have to make up for it in some way. They would have to.

Now, we have performed these services because we thought it was in the public interest, generally speaking, and that we could do it effectively and be helpful to the public. It is the public that really would have to pay for it, if we don't do it.

Mr. BROCK. That is correct. And is it not true that the banks as contributing members to the Federal Reserve System do pay for the clearing of their checks, indirectly, at least?

Mr. MARTIN. They do; in the sense that if they are members of the System they have higher reserve requirements than some States would let them have if they were outside the System.

And in that sense, they are making a contribution.

Now, how you evaluate all these charges and expenses is a very difficult business in operation.

I think, by and large, we have tried to see that we don't in any way squander money in this process, but that we only do what can be done most effectively and firmly through the System as a benefit to the community as a whole, without specifically benefiting the bankers.

Mr. VANIK. Would the gentleman yield on that very point?

I wonder if the Chairman could tell us whether or not in his opinion the commercial banks have passed on to the consumer, the person who has the checking account, some of the tremendous advantages that have resulted from the development of electronic and data processing systems? I understand, for example, that RCA and other data processing equipment manufacturers are currently offering banks the privilege of doing the entire check-handling job for about a penny and a half an item.

And this doesn't seem to fit in with the charge that is made to the people who use the accounts.

I think in many banks it runs as high as 10 cents a check.

Are the banks collectively or as an industry passing on to the consumer any of the advantages of the development of processing systems which can handle these checks at a very, very low cost per item?

Mr. MARTIN. I think some of them are, Mr. Vanik. I am not too well versed in this field. But I think some of them are. And I think competition between banks is tending to move in the direction of having them pass on as much in the way of these benefits as they can.

But they are like industry, you know. They hold onto it as long as they can.

Mr. VANIK. Hold onto what?

Mr. MARTIN. Their profits.

Mr. VANIK. I am glad you put it that way. I think it pretty clearly establishes what they are doing.

Frankly, I would like to see the Fed make available to this committee some of the research results as to what they are doing in the development of computer systems. I think this would be very interesting to this committee, if we had an idea of what it really costs the average institution today to process and handle the checks that are cleared through the individual commercial banks.

Mr. MARTIN. You are pointing up a very important thing. The progress that is being made in this area is so rapid that it is difficult to keep up with it. It is moving from month to month.

We have at the Board a very able individual in the computer field who has made remarkable savings in our own activities.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Thank you, Mr. Chairman.

Mr. Martin, I have one question. Regarding representation on the Board, have labor and consumer groups ever been represented specifically on the Board?

Mr. MARTIN. No; I don't think they have been specifically as such. There have been individuals who have had some contact with both groups. But I don't think there has been a specific representative.

And the point I was trying to make in my statment, Mr. Minish, was that if I were writing it myself, I don't think we ought to have any segment as such represented. We ought to be trying to get the best men available who will be dedicated to the public interest as a whole.

Mr. MINISH. I agree with that.

Would you recommend it?

Mr. MARTIN. Yes. That is really what I was indicating here. It would be my approach to it.

Mr. MINISH. Thank you.

The CHAIRMAN. Mr. Weltner?

Mr. WELTNER. Mr. Chairman, what is the total outstanding stock of the Reserve banks?

Mr. MARTIN. Each member bank pays in—we can call 6 percent of their capital and surplus. And we have only called 3 percent of that amount.

The actual stock outstanding runs about $500 million. Now, we have built up a surplus that is twice the paid in stock.

Mr. WELTNER. And the paid in stock is one-half of the amount that is subject to call, is that correct?

Mr. MARTIN. That is correct.

Mr. WELTNER. So the surplus is almost half a billion dollars, is that correct?

Mr. MARTIN. It is a little larger than that. It is nearer $900 million. You see, it is twice the paid in——

Mr. WELTNER. In this booklet called "The Federal Reserve at Work," it states that in 1961 dividends totaled $26 million. In your statement, you stated that in 1963 dividends were $29 million.

That is about a 10 percent increase in dividends paid to member banks, is that correct?

Mr. MARTIN. That is right.

You see, the stock increases when the capital and surplus of the bank increases.

Mr. WELTNER. Is the dividend fixed at a level of 6 percent, or is it variable by action of the Board?

Mr. MARTIN. No, it is fixed at 6 percent. It has been at 6 percent ever since the System——

Mr. WELTNER. Who fixed it at 6 percent?

Mr. MARTIN. I think it is in the law.

Mr. WELTNER. It is set by the statute?

Mr. MARTIN. Yes, I think it is set by the statute.

Mr. WELTNER. I am also interested, in view of the increase in the stock held in the banks, in your statement that you feel that members, smaller members, are pressing for release from membership.

Would you give us some further information on just how this is evidenced?

Mr. MARTIN. I pointed out that in a number of States they don't have reserve requirements by State law that are as high as the reserve requirements that the Federal Reserve System has set. Therefore, the national banks, which are compelled by law to be members of the Federal Reserve System, wish that they could get the same treatment on reserves that the State banks get.

I don't think that we want to see the banking system move to the lowest common denominator. Maybe our reserve requirements are too high. We have considered lowering them from time to time. But there are some members of this committee and of the Senate committee that don't want reserve requirements lowered at all.

One of the reasons the System has been as effective as it is is because all national banks have been compelled by law to be members of the System. Eighty-five percent, roughly, of our banking assets are in the Federal Reserve System.

It is incomprehensible to me that this country could get along without a strong central banking system.

The point I wasn't trying to make too dramatically there was that with this pressure of some small national banks to get out of the System because they think they are paying too high a charge to be in it—that if we remove this stock which they do get 6 percent dividends on, the part that is paid in, we are just making membership in the System that much less attractive.

Mr. WELTNER. You consider the 6-percent return on that stock as an attractive feature of membership in the System?

Mr. MARTIN. In a limited way, yes.

I mean it is a good investment. I don't want to overplay that. But it is a good investment that they can count on.

Mr. WELTNER. Can the dividends ever be less than 6 percent?

Mr. MARTIN. I think the law would have to be changed on that.

Mr. WELTNER. It is not a maximum of 6 percent, but a required 6 percent?

Mr. MARTIN. A required 6 percent, that is correct.

Mr. WELTNER. I have no further questions.

The CHAIRMAN. Mr. Wilson?

Mr. WILSON. Mr. Martin, I am still a little concerned about the opposition you hold for the proposal to have the General Accounting Office do the auditing. It doesn't seem to me you have come up with a real good reason yet for not being willing to accept this type of an audit.

I wonder if there is something further you could add to help us here, other than the fact that you are satisfied with the way things are being done now, and it seems for your purposes they are satisfactory.

Mr. MARTIN. I don't think I can come up with anything additional, Mr. Wilson. And I can understand your questioning this—because, offhand, it looks like the GAO perhaps—and I certainly don't intend in any way to reflect on the GAO as a competent——

Mr. WILSON. It is not a lack of confidence you have in them, or their ability to perform a capable job?

Mr. MARTIN. No, not at all.

I simply say—we were talking about European central banks the other day—if you go to the two leading central banks, the Bank of France and the Bank of England, they have no government accounting over them—despite the fact that both of them have been nationalized.

The CHAIRMAN. Will the gentleman yield?

Mr. WILSON. Yes.

The CHAIRMAN. Isn't it a fact that they are Government institutions?

Mr. MARTIN. Both of them have been nationalized. But they have been left complete discretion with respect to their expenditures.

The CHAIRMAN. But they are Government, Mr. Martin. France is Government, England is Government, West Germany is Government.

Mr. MARTIN. We are a Government, too, Mr. Patman.

The CHAIRMAN. That is what we think you are—what we insist you must be.

Mr. MARTIN. And what we are talking about here has always been, as I have repeatedly said, independence within the Government, not independence of the Government. And it has been a very valuable adjunct of our operations for many years, so much so that in the Banking Act of 1935 they made a basic change.

The CHAIRMAN. Isn't it a fact that every major country in the world has a central bank that is Government-owned and controlled?

Mr. MARTIN. No, that is not a fact.

The CHAIRMAN. All right; name those that are not.

It is true in England, isn't it?

Mr. MARTIN. We can give you a list of them. I cannot name them.

The CHAIRMAN. It is true as to England, it is true as to France, it is true as to West Germany, it is true as to Italy.

Mr. MARTIN. That is no reason for us to go to that.

The CHAIRMAN. Why should we be an exception?

Mr. MARTIN. Because I think we have a stronger economic system and a stronger country.

The CHAIRMAN. Well, one time you say it is the Government and another time you say it is outside of Government.

Now you are insisting it is outside the Government.

Mr. MARTIN. No, I am not insisting it is outside of Government. I am insisting there are real advantages in the system that we are operating under.

Mr. WILSON. Well, in the absence of any real strong objection, or firm reason for not agreeing to have the GAO do the auditing, could we assume, then, this won't be a big bone of contention—that you won't be too disappointed if it is decided to have this type of audit?

Mr. MARTIN. I will be very disappointed. I am just trying to make the point to you, Mr. Wilson, that I really think this is a change that will accomplish nothing and will not improve our auditing function, and could be abused at some point by Government to put pressure on the central bank.

Mr. WILSON. Now, you are getting the problem down to your real reason.

You think that there will be political pressure used if GAO is given the accounting function, and you don't have confidence that they would do a job, as you see it.

Mr. MARTIN. As I pointed out in my statement the Banking Act of 1933 provided that the—

Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid * * *.

The House and Senate committee reports said the change was made in order to leave—

to the Board the determination of its own internal management policies.

Thus, Congress in 1933 freed from GAO audit the only part of the System that was ever subject to it.

Now, I have the greatest respect for the General Accounting Office. The current head of it is a very good personal friend of mine. I know that in their work they would have to develop an entirely new staff, to replace to a large extent, the field force that we send out.

This matter of auditing and checking up and verifying is not the simple process that some people think it is.

One of our presidents described it aptly—if you want to find your rabbit, you have to know what a rabbit looks like when you go after it, and you have to know what the characteristics of a rabbit are.

Now, I am not for a moment trying to say that the Federal Reserve banks are not amenable, that you cannot find out what the things are.

But I do say it is a specialized operation. Our staff are by no means perfect, but I think they have done a very good job. And from my experience with business organizations—and I have had a little experience with it—I am very proud generally of the current auditing procedure.

Now, if in your judgment you come to the point where you think this ought to be changed, I think you are making a mistake.

But it is only for me to tell you——

Mr. Wilson. Many of us would like to feel we are not bound by what happened in 1933. And I think there are probably differences of opinion as to whether the gentleman recognized as a great banking expert in those days was the greatest banking expert.

Mr. Martin. There is indeed. And there will be in every period. I could not agree with you more.

Mr. Bolton. Will the gentleman yield for one brief question?

Mr. Wilson. Yes.

Mr. Bolton. Would the Board feel, Mr. Chairman, if the GAO did audit, that it would have to continue its own auditing procedures as it now does, despite the audit of the GAO?

Mr. Martin. Well, I would think we would try to mesh some of our activities in with theirs. But we would certainly want to have some people looking at what they were doing, also.

Mr. Bolton. In other words, in the contemplation of what we have, it would not be a transfer, for example, of the auditing field staff that you have over to the GAO and a continuation under GAO of what is now going on under the Board?

Mr. Martin. No, it would not. We have a responsibility here that we discharge to the best of our ability. We would want to continue a great part of that.

The Chairman. Mr. Martin, you have meetings every 3 weeks of the Open Market Committee.

Mr. Martin. I do—we do.

The Chairman. You have complete minutes of these meetings?

Mr. Martin. We have generally kept a running record. You have seen the records for 1 year, Mr. Patman. You are familiar with our feeling that, by and large, these are documents that have some privilege and that ought not to be——

The CHAIRMAN. I know. But you say within the Government—you say not outside of the Government but within the Government—you would expect other governmental agencies to have access to it.

Mr. MARTIN. To these minutes? I don't see any reason why they should.

We are glad to let anybody come and read them, if they have a direct interest.

The CHAIRMAN. Have you the 1963 minutes, Mr. Martin?

Mr. MARTIN. We are in the process of finishing them.

The CHAIRMAN. What about 1962? You have them, don't you?

Mr. MARTIN. Yes, we have them.

The CHAIRMAN. I think the committee would like to see those.

Mr. MARTIN. Well, I will take it up with the Open Market Committee.

The CHAIRMAN. We are asking you. You are Chairman of the Board, Mr. Martin.

Mr. MARTIN. I have no authority as Chairman of the Board. This Federal Reserve System, Mr. Patman, as you know, was set up where the Chairman of the Board has no more vote than any other member of the Board.

The CHAIRMAN. Well, you have discussed it recently, I imagine.

May I request, just to make it formal—I request you to furnish this committee with the Open Market Committee minutes for the years 1963, 1962, 1961, and 1960. Will you furnish them or deny them?

Mr. MARTIN. I would not be in a position this morning to say yes or no on it. I simply say we will be glad to consider your request.

The CHAIRMAN. Can I state for the Committee that is a request of the committee? Any objection?

The Chair hears none. It is unanimously agreed to that we request it.

Mr. WIDNALL. Mr. Chairman, I am not agreeing to it.

The CHAIRMAN. We will have a vote on it, then.

Mr. WIDNALL. I would like to see the answer of——

Mr. MULTER. Mr. Chairman, may I ask—is there anything confidential in these minutes that cannot be made public?

The CHAIRMAN. Wait a minute, Mr. Multer.

Mr. BOLTON. Mr. Chairman—may I inquire for what purpose we are asking for the minutes?

The CHAIRMAN. Because we want to see what the Open Market Committee has been doing. That is where everything happens—in the Open Market Committee.

The rest of it doesn't amount to anything. Nobody has any power except the Open Market Committee in the Federal Reserve System.

Mr. BOLTON. Pursuing my point of inquiry, Mr. Chairman, if I may, what the Open Market Committee has done or on what basis?

The CHAIRMAN. We want to see how they operate. We want to evaluate their actions. And this is the only way we can evaluate their actions. I don't think anyone can object to that, but if you do, then, of course, I don't propose to do it. Now if there is anything in them that should not be made public, we don't propose to make them public, unless it is in the public interest.

Mr. WIDNALL. Mr. Chairman——

Mr. MARTIN. I cannot speak for the Committee. I merely want to point out to you that we have our foreign currency transactions in these records. And whether this should be—whether foreign governments would want the comments that are made in those minutes disclosed——

The CHAIRMAN. We will consider anything you say about it, Mr. Martin.

But I think the Congress has and should have power over monetary matters, and you say this power has been farmed out—you didn't use the phrase "farmed out"—but you say Congress gave you an "indenture trust" to carry it on. So you certainly should not object to making reports to the people who gave you that permission, and who are charged under the Constitution——

Mr. MARTIN. We give you reports, Mr. Patman. All of the decisions and actions are reported to you. You have pointed out on occasion that we should give you fuller reports. And we are trying to give you fuller reports all the time. But this matter of minutes is an entirely different thing from reports.

We can, of course, as I have pointed out on a number of occasions, get the Committee to just not say things, just not talk, or we can give up keeping this sort of verbatim record.

The CHAIRMAN. Oh, you wouldn't do that. The law requires it.

Mr. MARTIN. No, the law does not require it.

The CHAIRMAN. It requires to put it in your report.

Mr. MARTIN. We put in a record, but there is no law requiring us to have a verbatim transcript of everything that is said.

The CHAIRMAN. Well, I know there is no law requiring verbatim reports. But I believe the spirit of the law requires you to keep an account of your proceedings and a record of them, and to report to Congress.

Mr. MARTIN. We do that.

The CHAIRMAN. Yes, sir. But the report you make is rather skimpy.

Mr. MARTIN. We are trying to make it larger——

The CHAIRMAN. In 1936, I think it was pretty good, or 1935—a pretty good report. But it got smaller and smaller and smaller.

Mr. MARTIN. Well, that is a matter of judgment. I think it was better in 1938 and 1939 than it was in 1935 and 1936.

The CHAIRMAN. Well, let's leave it to a vote, then.

Mr. WIDNALL. Mr. Chairman?

The CHAIRMAN. Mr. Widnall.

Mr. WIDNALL. I would just like to make one point.

Mr. Martin has not refused to furnish these reports. I think he has clearly stated he is only one of a number that would have to vote on whether or not they would furnish these to the committee.

The CHAIRMAN. This is just a request.

Mr. WIDNALL. The second point that has been made, too, is something that I think is highly sensitive and highly critical, affecting our relations with other nations. We did not ask the State Department to report to the Congress every word that is discussed with respect to foreign nations, and our attitude toward foreign nations, and make it a matter of public record.

I think current transactions in the balance-of-payments situation is such that it is sensitive, and it is something that we have to give due consideration to before we try to spread everything on the public record.

Mr. REUSS. Mr. Chairman?

The CHAIRMAN. Mr. Reuss.

Mr. REUSS. I think the way to handle that, if I may suggest it, is as follows: If in presenting to this committee the Open Market Committee's minutes for the years requested, the Federal Reserve System feels that there is any material, any sentence, any figure or anything else, which should be kept secret because of its international character, I think that the request as made by the Chair indicates that the Federal Reserve would be in a position to make such a request. And speaking for myself, I would certainly, if that request was made, and the material bore out the Fed's contention, I would be inclined to honor it.

The CHAIRMAN. Yes, I would, too.

Mr. BOLTON. Mr. Chairman, may I direct myself to further discussion of the motion?

The CHAIRMAN. Certainly.

Mr. BOLTON. I am in complete harmony with the chairman in wanting to see any information which is pertinent to the investigation and discussion of the bills before us.

But I think this matter does deserve some consideration. For example, you mentioned the year 1963. This is sufficiently close to us that I wonder whether some of the discussions which took place in the Open Market Committee could have information therein, which, if that information became general knowledge, would have an effect upon the economic planning and thinking of other people. And I would respectfully suggest to the chairman that in the motion we agree that the minutes as submitted by the System would be held strictly confidential by members of the committee.

The CHAIRMAN. Unless the committee wanted to make certain parts of it public.

Mr. BOLTON. I think that should be done after further consultation with the Fed, and if they have any reason why they should not be made public——

Mr. MULTER. May I make a suggestion, Mr. Chairman?

Mr. REUSS. Don't you think the presumption should be the other way around, why doesn't the Fed give us this material with no strings attached, except for such part of the material, large, small, negligible, that they feel should be kept secret?

Mr. BOLTON. Well, there are two easy answers on the part of the Fed to that. One is to take the answer that the State Department and others use, which is to stamp "Secret" on the outside of everything, and turn it over. The other is the answer that I have no idea how voluminous these minutes are. I have never been privileged, as the chairman has, to see them. And for someone in the Fed to go through and delete and consider each statement that they feel should be held confidential, I think is a whale of a job.

I would certainly hate myself to be in the position of the member of the Board who was doing this on behalf of the Board.

Mr. MULTER. Would the gentleman yield?

Mr. REUSS. Mr. Chairman, I would like to move that the Federal Reserve System be requested to furnish to this subcommittee the minutes of the Open Market Committee for the years 1960, 1961, 1962, and 1963, and that the Federal Reserve System is requested to, further, notify the subcommittee, in making available these materials, whether it recommends that any portion of them be kept secret.

The CHAIRMAN. That is the question. Are we ready for the question?

Mr. MULTER. Mr. Chairman, may I make a suggestion?

The CHAIRMAN. Now, you are not a member of the subcommittee.

Mr. MULTER. May I be heard on the motion?

The CHAIRMAN. No, not now, because you are not a member of the subcommittee.

Mr. MULTER. It will be too late to hear me after the motion.

I am a member of the full committee. I have a right to sit at the foot of the subcommittee and be heard, although I have no vote.

The CHAIRMAN. Go ahead and be heard.

Mr. MULTER. I am trying to make a suggestion that might clarify the matter and get you what you want, and at the same time not put the Federal Reserve Board or its Chairman in a false position.

He has not refused to give us anything. He has indicated he is merely Chairman of the Board with one vote. He has asked for the opportunity to discuss the matter with the other members of the Committee.

I suggest you take no action on this matter until Mr. Martin has had an opportunity to discuss the matter with the other members of the Board and the members of the Committee, and that you appoint a subcommittee of three to consult with Mr. Martin and the members of the Board and Committee, and I think you can work this out without the necessity of a motion, which puts them in the position of being recalcitrant. They are not.

The CHAIRMAN. This is a very mild motion, just a request. Mr. Martin can take the request any way he wants to, and make a report.

Mr. VANIK. Mr. Chairman, I would rather have the conversations that preceded the minutes, myself. But I don't suppose there is any way of getting those. I move the previous question.

The CHAIRMAN. As many as favor the motion say "aye."

(Chorus of "Aye.")

The CHAIRMAN. Opposed, "no."

(Chorus of "No.")

The CHAIRMAN. The ayes clearly have it.

Mr. WIDNALL. I am voting "present."

The CHAIRMAN. Let's see. How many voted "aye?" Hold up your hands.

Six.

And how many voted "no?"

One.

And one "present."

The motion is carried.

Mr. WILSON. We have already passed the motion. But we are talking about complete minutes now, are we not?

The CHAIRMAN. Yes, sir; complete minutes.

Mr. Martin knows what we are talking about. We went over this one time.

Mr. MARTIN. You have had the minutes for the year 1960, Mr. Patman, which was brought up at the Joint Economic Committee. And I gave you a letter—a letter approved by the full Open Market

Committee at that time, which is now in the hands of the Joint Economic Committee.

What they are going to do with it is your problem, not mine.

The CHAIRMAN. Well, we had an unfortunate experience with that, Mr. Martin. You see, it was at the end of the session, when it was brought up. And some of our friends who opposed it made a point of no quorum. And it is hard to get a quorum at the end of a session.

And Senator Bush was one of the principals who was against publishing anything about it. And he is very active and aggressive. He attended every meeting there at the least. He was going out, too, incidentally. But he kept us from publishing those minutes. And so they never did serve any public purpose.

So I think it is proper that we continue here.

Mr. BOLTON. Mr. Chairman, I trust by your reference to "he was going out, too" you are not predicting anything for any members of the committee present.

The CHAIRMAN. No; I meant the session was ending, and also Senator Bush—Senator Bush—I don't want to say anything against him. He is a very fine man, a wonderful Senator. He just believed differently, he didn't want anything published about the Federal Reserve.

Mr. BOLTON. May I merely make a comment regarding my vote? I in no way was trying to protect the Fed from any disclosures, except the information which I think can be difficult, if it is published.

The CHAIRMAN. Well, we are not going to be hard to deal with, I know, with the Fed. We will discuss these things, and I feel sure we will come to the right conclusion.

Now, Mr. Martin, I wanted to ask you about these directors.

Now, you mentioned about us having the directors here as witnesses. Personally, I don't see any reason to have them, because I don't think the directors know much about the Federal Reserve System. I think they know a lot about the bookkeeping operations of their respective banks, and they have a lot to do with that. But I don't think they know anything about operating the System.

Mr. WIDNALL. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. WIDNALL. I think it would be a wonderful opportunity to find out whether or not they do know something about the System.

The CHAIRMAN. Now, the class A directors, of course, they are elected by the banks—the big banks, are they not—class A?

Mr. MARTIN. Class A are divided into three groups—large banks, medium banks, and small banks.

The CHAIRMAN. That is right. And they vote, not according to their stock.

The amount of stock has nothing to do with their votes, does it?

Mr. MARTIN. Yes, indeed. The amount of stock is used in a pooled way to determine who will vote on A and B directors.

The CHAIRMAN. As a pool, not as an individual bank?

Mr. MARTIN. Oh, yes. They vote as individuals on it.

The CHAIRMAN. But that stock is not voted, Mr. Martin.

Mr. MARTIN. No; not the stock. But the stock gives them——

The CHAIRMAN. Membership.

Mr. MARTIN. Gives them the right to vote.

The CHAIRMAN. But anyway, those six directors are elected by the private banks. They nominate them, they submit them to the banks, and the banks all vote.

And six out of the nine are elected by the private banks.

There is no dispute about that, is there?

Mr. MARTIN. That is correct.

The CHAIRMAN. Now, the A directors, they can even be officers of banks, and officials of banks, as well as stockholders?

Mr. MARTIN. That is right.

The CHAIRMAN. The B directors, they cannot be officers of the bank, but they can be stockholders?

Mr. MARTIN. They can, but only a limited number of them have been.

The CHAIRMAN. Mr. Martin, may I remind you one time you made that statement, and I asked you to poll them, to find out how many of them owned stock, and a majority of them owned stock.

Now, I can get you the record and show you that, if you have forgotten about it.

Mr. MARTIN. I can show you the record on that, Mr. Patman.

The CHAIRMAN. The majority owned stock, did they not?

Mr. MARTIN. That I don't know. I would have to check.

The CHAIRMAN. You remembered at the time, because you told me so. And we had a record of it.

Anyway, they can own stock?

Mr. MARTIN. They can own stock.

The CHAIRMAN. And, naturally, they are very close to the banks, or they would not be selected by the banks. They are very close friends of the particular bank, or they would not vote for them.

Anyway, there are 6 of those directors, at each of the 12 banks, that are selected by the private banks.

Mr. MARTIN. That is right.

The CHAIRMAN. Now, the Board selects these class C.

Mr. MARTIN. Right.

The CHAIRMAN. I mean directors.

Mr. MARTIN. Right.

The CHAIRMAN. Well, six are the majority. The directors select the President of the bank, don't they?

Mr. MARTIN. They do, subject to our concurrence.

The CHAIRMAN. That is right.

Of course, you have to make sure he is a good man, that he hasn't been in the penitentiary or something.

Mr. MARTIN. Oh, no. We have the control.

The CHAIRMAN. I know—you have the veto. But you have to approve somebody that they recommend, if he is a good man, don't you?

Mr. MARTIN. No; we don't have to.

The CHAIRMAN. You have to have a president.

Mr. MARTIN. We have to have a president; yes.

The CHAIRMAN. Well, as long as they submit names, and they submit one that is all right, you approve him, don't you?

Mr. MARTIN. We could suggest people, also, if we wanted to.

The CHAIRMAN. Well, now, you have never turned down but one, have you?

Mr. MARTIN. Oh, we have——

The CHAIRMAN. Well, just answer that question, please.

You have only turned down one, have you not?

Mr. MARTIN. No.

The CHAIRMAN. In the 50 years of the Federal Reserve's existence?

Mr. MARTIN. No; Mr. Patman. I would have to go through the records.

The CHAIRMAN. You can think of one, though, can you not?

Mr. MARTIN. I can think of more than one.

The CHAIRMAN. You can think of more than one?

Mr. MARTIN. I can indeed.

The CHAIRMAN. Well, I never heard of but one. Maybe you are right.

Anyway, whoever they recommended as a good man, he has got to be accepted. You have to have a President.

Mr. MARTIN. If the two of us—if the board of the bank and the Federal Reserve Board agree that he is a suitable man to run the bank——

The CHAIRMAN. That is right—a suitable man to run the bank. That is good.

Mr. MARTIN. Right.

The CHAIRMAN. Well, now, this fellow, the President, he is selected for 5 years. And he is naturally obligated to the directors, is he not? They elect him.

Mr. MARTIN. Three of the directors are directly appointed by us. All of the directors are responsible to us——

The CHAIRMAN. I am talking about the six. Let us say that there was a controversy, and six of them wanted him, and three didn't, and he is elected. Now, it is his duty to serve all the directors, is it not?

Mr. MARTIN. Let me get this straight.

There are six to three. Now, it comes up to us.

Do you think we would approve it?

The CHAIRMAN. Well, I am talking about something after he was all approved and everything. That question of approving; Mr. Martin, I think you are emphasizing that a little bit too much, because it seldom, if ever, comes up, as you know. And that hasn't been a major issue in the Federal Reserve System.

But I am talking about when you have a President who has been selected, he has been approved, everything.

Now, what is his duty? His duty is to work with the Board that selected him, is it not? He works with them, and carries out their will, doesn't he?

Mr. MARTIN. Quite frequently he leads the Board, and shows them—takes the leadership in the System, and the Board doesn't contribute as much as it should to the management of the bank.

The CHAIRMAN. That doesn't exactly answer my question, Mr. Martin.

It is his duty—in other words, he is a sort of a servant of the board of directors, is he not?

Mr. MARTIN. He is elected by the board of directors.

The CHAIRMAN. And he is under obligation to carry out their will and wishes, is he not?

Mr. MARTIN. Well——

The CHAIRMAN. When he knows their will.

Mr. MARTIN. Well, to show you how complicated this is, Mr. Patman, in the case of open market operations, the board of the bank cannot be told what—I have often wondered why some of the boards accept the responsibility. But the responsibility is back here, and the knowledge is back here. The President comes on to the Open Market Committee, and he is not at liberty to reveal the Committee's deliberations on the policy, even to his board of directors.

The CHAIRMAN. There is no violation of the law for him to tell, is there, Mr. Martin?

Mr. MARTIN. Well, we cannot put all of this on a legal basis, Mr. Patman.

The CHAIRMAN. I know. But from all——

Mr. MARTIN. We are talking about responsible people who are trying to do a good job.

The CHAIRMAN. Dealing with human nature, as we know it is——

Mr. MARTIN. And by and large——

The CHAIRMAN. The 108 directors of the 12 Federal Reserve banks know pretty soon after you have an Open Market Committee meeting what has happened, don't they?

Mr. MARTIN. No; they frequently never know.

The CHAIRMAN. Frequently never know?

Mr. MARTIN. Frequently never know.

Only when it affects some action that they are going to take.

The CHAIRMAN. Well, it is——

Mr. MARTIN. Now, individual Presidents report in more or less detail. We have tried to bring this thing together in this new Open Market Committee concept that I have exposed here a good many times, so that there will be more integration of information that ought to be known throughout the System.

But we have had a good record, as you yourself have indicated, on leaks.

The CHAIRMAN. On leaks?

Mr. MARTIN. Yes. You indicated that——

The CHAIRMAN. Certainly—you keep it on the inside. Nobody but the insiders know. There are 30 or 40 or 50 people there that know what goes on. And they go outside.

Now, normally those 30 or 40 or 50 people tell somebody. Around Congress here, if as many as two people know it, it gets out, and it gets in the paper.

Mr. BOLTON. Mr. Chairman, that is the very reason I took the position I did on your earlier motion on the minutes.

The CHAIRMAN. About the leaks?

Mr. BOLTON. Yes, sir.

Mr. BALDERSTON. Chairman Patman——

Mr. VANIK. I want to say that the public interest is more often served by the disclosure of information than by the concealment. I think the American people are capable of receiving and properly handling any information that they get.

To think that all these things have to be in the realm of secrecy is a disturbing thing to me. Frankly, I like to walk off when secret matters are submitted to a committee, because I can read about it the next day in the paper, and I am not bound by the committee secrecy.

The CHAIRMAN. On the political part, I don't like the idea to say always "politicians." The politicians have responsibility. If they don't carry out the will and wishes of the people, they are defeated. They have a great responsibility.

Now; if you have a Federal Reserve System set off by itself, a sort of a kind of dictatorship, and you are not responsive to the people at all, they have no way of reaching you.

That is the reason I wanted it into the Government some way, so that some way somebody can be reached who operates the Federal Reserve System against the public interest.

If you just have 12 men with 14-year terms set off to themselves, and doing everything they want to do, make a report to nobody, and claim the main things are secret, the people don't know what is going on. The Members of Congress don't know what is going on, the President doesn't know what is going on, and there is no way to reach them.

They cannot vote against you. You don't run for office.

But we run for office. And we are responsible for your deeds and your acts. We are responsible for the fact that during the last 40 years the debt has been increased to $300 billion. We are responsible for that—Congress is.

The Federal Reserve caused a good part of it, but we are responsible for it.

Mr. WIDNALL. Mr. Chairman, has any President of the United States ever complained to you about the fact he doesn't know what is going on?

Mr. MARTIN. None.

Mr. WIDNALL. I would like to ask that of the chairman.

Has any President of the United States ever complained to you about the fact he doesn't know what is going on in the Federal Reserve System?

The CHAIRMAN. Well, that question should be directed to any Member of Congress. You don't see the President much. You are not talking about everything clear across the waterfront about what goes on in the Federal Reserve. A President, I think, can remove every member of the Board if he wants to under the law. That is what I believe.

Of course the Presidents don't agree to that. But I think under the law it is very plain—that the President has control of this Board, and can remove any one of them any time he wanted to.

But the President never discussed this with me. And I would have to answer your question, no. I don't know.

Yes, I do. I will have to say two Presidents told me that they complained about that. I will have to change that.

Mr. BALDERSTON. Chairman Patman, may I revert to a point raised by Congressman Reuss before you put the motion for a vote?

Since we turned over the 1960 minutes to your committee, there has come into the activity of the Open Market Committee a radical change that perhaps Congressman Reuss had in mind. I refer to the swap arrangements that have been worked out between the Federal Reserve System of this country and the central banks of other countries. Those discussions are highly sensitive—to use the word that some of you have used already.

If Open Market minutes which, contrary to what Congressman Vanik has said, do reveal the actual points made in almost the language used by members of the committee—if those minutes should somehow, by accident, reach public view, it would, in my judgment, do great harm to the relations between this country and others that are trying to help protect the dollar against the inroads of speculators.

And so I would like to suggest to you, even at this belated point, that Congressman Reuss was touching on something that is of great concern to me personally, and I am sure must be of great concern to each member of this committee—the protection of the dollar, and the stoppage of the resultant outflow of gold when the dollar is subject to raids by speculators. This is something that is of concern to every American.

But it is especially the responsibility of the Congress, of this committee, and of the Fed.

Mr. REUSS. Mr. Chairman——

The CHAIRMAN. Mr. Reuss.

Mr. REUSS. On that point, certainly the members of this committee are no less devoted to the protection of the dollar than members of the Federal Reserve System.

And I think that the format of the motion which was adopted by this subcommittee enables due protection of anything in the minutes which should be kept secret.

And I hope that the Federal Reserve, when it reports back to us on the request made in the motion, will point out any parts of the minutes the public disclosure of which it feels would be damaging to our world payments position.

And, again, I think that very member of this subcommittee would agree with the statement which I made for myself—that I will be just as zealous to protect such critical information from improper disclosure as members of the Federal Reserve System itself.

Mr. VANIK. I might say, Mr. Chairman, that if the dollar depends on this high degree of secrecy, we must be indeed in greater peril than I suspected.

I believe in having a good forthright dollar that doesn't have to cloak behind anything. The dollar should be a good, solid piece of monetary exchange that has high regard because of considerations other than those that may be developed in secrecy.

I fear that the secrecy argument might be used to shield things just as the security argument was always brought up when the Department of Defense was involved in many mistakes, in order to protect them from public scrutiny. The shield of secrecy would be drawn over mistakes, to protect those people who may have erred in making decisions in the Pentagon.

I think, frankly, that the action that we have taken provides adequate safeguards to whatever there may be for this item.

I think, at the same time, the denial of this information to the committees of Congress may keep us from legislating in an area where we might deal legislatively with these very problems that Mr. Balderston thinks ought to be protected through the secrecy of the minutes.

I think if we know about these things, maybe we can provide legislation in some way. There ought to be some legislative approach, or executive approach, to the problem of the manipulators in the money market and the effect of their actions on the stability of the dollar.

Mr. REUSS. Mr. Chairman, I have a brief question.

Mr. Martin, we in the Congress this week have received the President's budget message and his economic message, the total sense of which seems to be that by virtue of the tax cut that the administration hopes for, it anticipates that it may be able to bring down even unemployment by the end of this year to somewhat over 5 percent of the work force.

My question to you is this: Does the Federal Reserve System intend to cancel out any part of the stimulus of this tax reduction by tightening money in 1964 over its present level?

Mr. MARTIN. Mr. Reuss, I cannot predict what the Federal Reserve System will do.

Mr. REUSS. What about your own views, as Chairman?

Mr. MARTIN. My own views are that, as to Mr. Rains' resolution, or any resolution that might be introduced saying that money was already too loose, and that the Federal Reserve had a responsibility to tighten it up, that we should consider these points actively and intelligently and come to our own conclusions on what is required with respect to the flow of the economy.

Mr. REUSS. The question was, do you intend, as Chairman, to cancel out any of the stimulus of the tax reduction by tightening money in 1964?

Mr. MARTIN. I cannot answer that question, because that is not the sort of question you can give a yes or no answer to, because it depends on the flow of funds.

When you say cancel out——

Mr. REUSS. Then your answer is——

Mr. MARTIN (continuing). The Federal Reserve is just as interested as you are, Mr. Reuss, in seeing the economy expand, and unemployment reduced.

Now, it means——

Mr. REUSS. Your answer is that you, then, might want to cancel part of the stimulus of the tax reduction by tightening——

Mr. MARTIN. "Cancel" is the wrong word. That is why I say you are dealing in words that do not permit of a yes or no answer.

Mr. REUSS. I dealt with it because President Johnson, in his economic report, page 11 says, "It would be self-defeating to cancel the stimulus of tax reduction by tightening money."

Now, your answer to that proposition is you don't know whether you go along with President Johnson or not?

Mr. MARTIN. I don't know what the developments will be in the next few months.

Mr. WIDNALL. Mr. Chairman——

Mr. MARTIN. Let me just make this comment:

I think that President Johnson's handling of the budget has made our problem considerably easier than it would have been if we were going to have twice the budget deficit that was being projected some time ago.

Mr. WIDNALL. The quotation that Mr. Reuss used from the President's budget message was correct. But he pointedly left out what followed, two sentences later: "But monetary policy must remain flexible, so that it can quickly shift to the defense if unexpectedly inflation threatens or the balance of payments worsens."

There is no intent by the first part of that statement to say there shouldn't be any flexibility in Federal Reserve action.

Mr. REUSS. Well, if I may reclaim the floor for another question: Do you anticipate grave inflationary dangers in this country while unemployment remains over 5 percent in 1964?

Mr. MARTIN. I think there may be, yes. I won't rule that out.

Mr. VANIK. Will the gentleman yield?

Is it possible that in these efforts to keep the economy on an even keel, that you may have to recommend an increase in the interest rates, or policies which will lead to an increase in the interest rates?

Mr. MARTIN. Yes, it is possible, Mr. Vanik. I would not want to be up here and say anything different. But I don't know. And I don't want it.

Let me make it very clear. I am not anxious for that. This is a matter of judgment that has to be exercised by the members of the Board. And I will simply do the most conscientious thing that I can as an individual, and my fellow Board members will do the same.

And we would hope, as I said earlier, that we could have as low interest rates as is possible to have.

But if the alternative is inflation, I think that that would undermine things and would do more to harm the employment problem than help it.

Mr. VANIK. Couldn't you solve this problem a little bit by somehow increasing the reserves required by banks—this is another way—without raising interest rates?

Mr. MARTIN. That is something considered at each of these meetings, Mr. Vanik.

Mr. VANIK. When did you last consider increasing reserves during the threat of an inflationary spiral?

Mr. MARTIN. We did it largely in the accord period.

Mr. VANIK. In the what?

Mr. MARTIN. In the accord period—1951–52, when we had a head-on inflation.

We found one of the problems with reserve requirements was you put them up, and if you are supporting the Government securities market at the same time, the banks just dump the Government securities.

Mr. REUSS. Just that I may be sure of what I thought I heard as your answer, Mr. Martin, it is your view that you may feel called upon, while unemployment is still in excess of 5 percent, to tighten the money supply this year?

Mr. MARTIN. Market forces may produce this without any action by the Fed.

But a better way of putting it is the Fed may not feel it should interfere with those market forces to prevent interest rates from rising.

Mr. REUSS. Well, it comes to the same thing, because you interfere every day with market forces—that is what open-market policy is, is it not?

Mr. MARTIN. But this is the big difference. You cannot manipulate interest rates indefinitely against the forces of the market. There are a great many people who think you can.

Mr. REUSS. But you can change the money supply, can you not?

Mr. MARTIN. You influence them, and we have influenced them. I made the point that there are people today in the country who think that money is too loose. I don't happen to agree with them. But there are a surprising number of people who do.

Mr. REUSS. Yes.

But what, of course, is of interest to us and the country is what you think, because you are the man who more than any other single person governs whether money is too loose, too tight, or just about right.

And to conclude, then, I do have——

Mr. MARTIN. As one man.

Mr. REUSS. That is right.

I do have it as your testimony that this year, though unemployment does not get below the 5-percent figure, you nevertheless envisage the possibility of your tightening the money supply over what it now is.

Mr. MARTIN. I envisage the possibility that the money supply may tighten. If we should have a boom or have an upsurge in the economy, yes. And I don't think that necessarily means that you have a certain level of unemployment. The process of inflation goes on, Mr. Reuss, through the creation of money.

And at some point it takes hold. And if you are sound asleep until it takes hold, and then the prices are way up—and prices have been tending up recently—then you are talking about something that has gone. You are after the fact.

Mr. REUSS. I do see what your position is, and in lieu of our annual Joint Economic Committee session, which I guess we are not going to have this year, I want to register my view with you, Mr. Martin, that——

Mr. MARTIN. And I always welcome it, Mr. Reuss.

Mr. REUSS. That you and your colleague on the Federal Reserve should not tighten the money supply at least until unemployment gets lower than 5 percent, because I don't think that the danger of inflation with 5 percent unemployment, at least demand inflation, is a very grave one.

Mr. MARTIN. I always welcome your view. I can assure you we will take it into account.

Mr. VANIK. Maybe the Fed ought to have the flexibility to push up the reserve margins to 100 percent, and then when the banks dump the Government securities the reserve ratio could be pushed up to check inflation.

How about that?

Mr. MARTIN. I don't know—I don't quite follow you on that.

You are thinking about stock market margins now?

Mr. VANIK. No, I am talking about the reserve margins.

Mr. MARTIN. Well, I could not visualize very well 100 percent reserve requirement. It would be a very drastic change in the structure of the money market.

The CHAIRMAN. This is off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Mr. BOLTON. Mr. Chairman, in view of the fact, because of the opening of the Ohio Development Office this afternoon, I may not be able to be here at 2:30, may I just ask a question?

The CHAIRMAN. Yes, sir.

Mr. BOLTON. Mr. Martin, in this whole discussion of your position, and the position of the Fed on interest rates, vis-a-vis, the expected results from the tax reduction bill, what you are, in effect, saying is that the effect of the tax bill cannot be accurately predicted at this point, that the effect on the money market, on the balance-of-payments problem, on the supply and demand of cash—these are all things which you have to take into consideration, and you cannot commit the Federal Reserve Board at any time for the action that will be required a month or two or three hence. Is that true?

Mr. MARTIN. That is correct.

Mr. BOLTON. And that that action will depend not just on one factor of unemployment, or one factor of under or overemployment, or one factor of overdemand, but that it is a judgment which is based on the sum total of a great many influencing factors on the economy.

Mr. MARTIN. That is correct.

Mr. BOLTON. Thank you.

The CHAIRMAN. We will recess, then, until 2:30.

(Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 2:30 p.m., the same day.)

AFTERNOON SESSION

Present: Representatives Patman (presiding), Reuss, Widnall, and Bolton.

The CHAIRMAN. The committee will please come to order.

STATEMENT OF WILLIAM McCHESNEY MARTIN, JR.—Resumed

The CHAIRMAN. Mr. Chairman, I will not take much time. I want the committee members who desire to ask questions, to be allowed to do so. But I wanted to go over these particular bills with you briefly.

Now, I will ask the members who have questions they would like to ask to submit them to me in writing, or to the clerk, and we will make sure that we don't duplicate, and will reconcile them as far as possible before submitting them to you, to make it as easy as possible. And then we will ask you to answer them for the record.

Will that be satisfactory?

Mr. MARTIN. That will be satisfactory.

The CHAIRMAN. Now, we have this bill here to retire the Federal Reserve bank stock. That is one of the bills we are considering in connection with an overall study of the matter.

(H.R. 3783, referred to, follows:)

[H.R. 3783, 88th Cong., 1st sess.]

A BILL To provide for the retirement of Federal reserve bank stock, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the last sentence of the first paragraph of section 2 of the Federal Reserve Act (12 U.S.C. 222) is amended by striking out "subscribing and paying for stock" and inserting in lieu thereof "obtaining a certificate of membership".

(b) The last sentence of the third paragraph of such section 2 (12 U.S.C. 282) is amended by striking out "subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates." and inserting in lieu thereof "obtaining a certificate of membership pursuant to the provisions of this Act."

(c) The fourth paragraph of such section (2) (12 U.S.C 502) is hereby repealed.

(d) The paragraphs which, prior to the repeal made by subsection (c) of this section, were the eighth, ninth, tenth, eleventh, and twelfth paragraphs of such section 2 (12 U.S.C. 283–286) are hereby repealed.

(e) The first sentence of the last paragraph of such section 2 (12 U.S.C. 281) is hereby repealed.

SEC. 2. (a) The last sentence of the first paragraph of section 4 of the Federal Reserve Act is amended by striking out "a subscription to the capital stock of" and inserting in lieu thereof "an application for a certificate of membership in".

(b) The second paragraph of such section is amended (1) by striking out "when the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted," and inserting in lieu thereof "when the organization committee shall deem that a sufficient proportion of eligible banks have applied for membership in a Federal reserve bank in process of organization,", (2) by striking out "the amount of capital stock and the number of shares into which the same is divided,", (3) by striking out "subscribed to the capital stock of" and inserting in lieu thereof "applied for membership in", (4) by striking out "and the number of shares subscribed by each", and (5) by striking out "subscribed or may thereafter subscribe to the capital stock of" and inserting in lieu thereof "applied or may thereafter apply for membership in".

(c) The subparagraph numbered "Eighth" of the fourth paragraph of such section 4 (12 U.S.C. 341) is amended by striking out "stock".

(d) The tenth paragraph of such section 4 is amended by striking out "stockholding" and inserting in lieu thereof "member".

(e) The second sentence of the twelfth paragraph of such section 4 is amended by striking out "subscriptions to the capital stock" and inserting in lieu thereof "applications for membership."

SEC. 3. Section 5 of the Federal Reserve Act (12 U.S.C. 287) is amended to read as follows:

"SEC. 5. (a) The Federal reserve banks shall have no capital stock.

"(b) A bank applying for membership in the Federal Reserve System at any time after the date of enactment of the Act entitled "An Act to provide for the retirement of Federal reserve bank stock, and for other purposes" shall submit such application, in accordance with the regulations of the Board of Governors of the Federal Reserve System, to the Federal reserve bank of its district. Such application shall be accompanied by a membership fee of $10, which shall not be refundable unless such application is disapproved or withdrawn bbefore approval.

"(c) Upon the approval of an application submitted pursuant to subsection (b) of this section, the Federal reserve bank shall issue to the applicant a certificate attesting the membership of the applicant in such Federal reserve bank and in the Federal Reserve System.

"(d) When a member bank voluntarily liquidates, it shall surrender its certificate of membership and cease to be a member of the Federal reserve bank of its district and of the Federal Reserve System."

SEC. 4. (a) The first paragraph (12 U.S.C. 288, first paragraph) of section 6 of the Federal Reserve Act is hereby repealed.

(b) The second sentence of the paragraph which, prior to the repeal made by subsection (a) of this section, was the second paragraph (12 U.S.C. 288, second paragraph) of such section 6, is amended to read as follows: "The certificate of membership held by said national bank shall be surrendered to the Federal reserve bank of its district, and said national bank shall cease to be a member of such Federal Reserve bank and of the Federal Reserve System."

SEC. 5. (a) The first paragraph (12 U.S.C. 289) of section 7 of the Federal Reserve Act is amended by striking out "the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met,".

(b) The second sentence of the second paragraph (12 U.S.C. 290) of such section 7 is amended by striking out "dividend requirements as hereinbefore provided, and the par value of the stock,".

(c) The third paragraph (12 U.S.C. 531) of such section 7 is amended by striking out "capital stock and".

SEC. 6. (a) The first paragraph (12 U.S.C. 321, first paragraph) of section 9 of the Federal Reserve Act is amended (1) by striking out, in the first sentence of such paragraph, "the right to subscribe to the stock of" and inserting in lieu thereof "membership in", (2) by striking out the second and third sentences of such paragraph, and (3) by striking out, in the last sentence of such paragraph, "stockholder", and inserting in lieu thereof "member".

(b) The first sentence of the second paragraph (12 U.S.C. 321, second paragraph) of such section 9 is amended by striking out "Federal reserve bank stock owned by the national bank shall be cancelled and paid for as provided in section 5 of this Act." and inserting in lieu thereof "membership of such national bank shall be extinguished and the certificate of membership cancelled as provided in section 5 of this Act."

(c) The first sentence of the third paragraph (12 U.S.C. 321, third paragraph) of such section 9 is amended (1) by striking out "stockholder" and inserting in lieu thereof "member", and (2) by striking out "stock" and inserting in lieu thereof "membership".

(d) The fifth paragraph (12 U.S.C. 323) of such section 9 is hereby repealed.

(e) The first sentence of the paragraph which, prior to the repeal made by subsection (d) of this section, was the ninth paragraph (12 U.S.C. 327) of such section 9, is amended by striking out "stock" and inserting in lieu thereof "certificate of membership".

(f) The paragraph which, prior to the repeal made by subsection (d) of this section, was the tenth paragraph (12 U.S.C. 328) of such section 9, is amended (1) by striking out, in the first sentence thereof, "all of its holdings of capital out the second proviso of the first sentence thereof, (3) by striking out, in the last sentence thereof, "stock holdings" and inserting in lieu thereof "certificate of membership", and (4) by striking out, in the last sentence thereof, "a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to".

(g) The paragraph which, prior to the repeal made by subsection (d) of this section, was the sixteenth paragraph (12 U.S.C. 333) of such section 9, is amended (1) by striking out, in the first sentence thereof, ", except that any such savings bank shall subscribe for capital stock of the Federal reserve bank an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership", (2) by striking out all of the remaining sentences of such paragraph except the last sentence thereof, and (3) by striking out, in the last sentence of such paragraphs, ", except as otherwise hereinbefore provided with respect to capital stock".

(h) The paragraph which, prior to the repeal made by subsection (d) of this section, was the twenty-second paragraph (12 U.S.C. 337) of such section 9, is amended (1) by striking out, in the second sentence thereof, "stock", and inserting in lieu thereof "certificate of membership", and (2) by striking out, in the last sentence thereof, "stock", and inserting in lieu thereof "certificates of membership".

(i) The last paragraph (12 U.S.C. 338) of such section 9 is amended by striking out, in the last sentence thereof, "stock", and inserting in lieu thereof "certificates of membership".

SEC. 7. The first sentence of the third paragraph of section 10 of the Federal Reserve Act is amended by striking out "capital stock and surplus" and inserting in lieu thereof "net earnings for the immediately preceding half year period".

SEC. 8. The amendments made by the first seven sections of this Act shall take effect on the thirty-first day after the date of enactment of this Act.

SEC. 9. (a) Not later than 31 days after the date of enactment of this Act, each holder of stock in any Federal reserve bank shall surrender such stock to such bank, which shall, as of the thirty-first day after the date of enactment of this Act, cancel and retire the same and pay or credit to such former holder the par value thereof, plus interest at the rate of one-half of one per centum per month from the date of the last dividend, less a membership fee of $10, which shall not be refundable.

(b) Upon the cancellation and retirement of Federal Reserve bank stock as provided in subsection (a) of this section, each Federal reserve bank shall issue to each such former holder thereof a certificate attesting its membership in such Federal reserve bank and in the Federal Reserve System.

SEC. 10. The eleventh paragraph of section 9 of the Federal Reserve Act is amended to read as follows:

"Any applying bank shall be eligible for membership if it is an insured bank as defined in subsection (h) of section 3 of the Federal Deposit Insurance Act. The capital stock of a state member bank shall not be reduced except with the prior consent of the Board of Governors of the Federal Reserve System."

The CHAIRMAN. And, of course, our point here is that the stock doesn't serve any purpose. It doesn't give the banks even the privilege to vote by reason of their stock. The stock cannot be mortgaged, it cannot be hypothecated, it cannot be sold. It is something that is rigid in the law, going up and down according to the capital and surplus of the bank.

That is correct; is it not?

Mr. MARTIN. Yes, that is correct, Mr. Patman, except that the stock does not fluctuate in value.

The CHAIRMAN. No, it goes up and down according to the 3 percent that is required.

Mr. MARTIN. According to the capital and surplus of the banks.

The CHAIRMAN. That is right. I meant to say according to the 3 percent of the capital and surplus. As capital and surplus goes up, the amount of stock goes up. But the stock carries no proprietary interest.

Mr. MARTIN. No proprietary interest—that is a very good statement.

The CHAIRMAN. And, for that reason, we feel that the stock should be repaid, because a lot of bankers think they own the Federal Reserve System. And some of them write in that they ought to have a cut on the interest that is paid in on the $33 billion of the portfolio. They are honest in that belief.

Of course, if they did that, they would get a 200-percent dividend practically every year. And, of course, it was intended they get 6 percent, as the law sets out, as you outlined this morning.

The stock business—I don't think there is too much controversy about that.

You believe one way, the Board believes one way, and I believe another, and some of the committee believe like I do and some believe probably the other way.

But where is that stock listed in this annual report?

You have one there with you, don't you—an annual report?

Mr. MARTIN. No, I don't, Mr. Patman. I am sorry. But it is listed in the back.

The CHAIRMAN. Here it is—earnings and expenses in Federal Reserve banks.

Now, where in there—will someone hand this report to Chairman Martin?

Where in there would the stock, say, of the New York bank be listed, or where—what figure there would include the stock in the New York bank?

Mr. MARTIN. Paid in capital accounts, on page 145, would show $466,926,000.

The CHAIRMAN. That is the total amount of all——

Mr. MARTIN. That is the total. And the surplus would be $933,851,000.

The CHAIRMAN. All right.

Now, then, where is that stock now? Where is that money for that stock? Where is it located? Is it in the 12 Federal Reserve banks? Is it in some commercial bank? Where is it?

Mr. MARTIN. The stock certificate is held by the member bank.

The CHAIRMAN. But the money that they got for the stock certificate, where is that money?

Mr. MARTIN. That is on deposit as a part of their reserve balance.

The CHAIRMAN. Part of their reserve balance.

But I think if you will consider that reserve balance, that was all acquired by reason of interest on Government securities and earnings of the bank; was it not?

Mr. MARTIN. Yes; that is correct.

The CHAIRMAN. I know. But that doesn't include the stock, then, does it?

I don't understand that.

Mr. MARTIN. The earnings on the stock are included in the earnings of the member bank.

The CHAIRMAN. I know. But I don't think you understand me.

I just have not made myself plain.

I have made the statement, Mr. Martin, that the stock, this $466 million, is idle and unused. It has never been invested. It is idle and unused now. And, therefore, it ought to be paid back to the banks. And then this $933 million ought to be paid into the Treasury on the theory that the Federal Reserve banks will never need any surplus.

You know, we went over that in 1957, I think, over at the House Small Business Committee.

Mr. MARTIN. We did indeed.

The CHAIRMAN. What is that?

Mr. MARTIN. I said we did indeed.

The CHAIRMAN. Yes, sir. And all the members of the Board, I think, were there at different times. And every one of them admitted they could not conceive of any circumstances that would ever require them to need any part of that surplus or capital that there could never be a need for it because you get your money when you need it by creation. You don't need to take the surplus, you don't need to take stock. You create your money. The law gives you that right. That is correct, is it not?

Mr. MARTIN. I didn't concede that we would under no circumstances need it. One of the items is self-insurance that we can engage in.

Now, we lost a million and a half dollars in this bank robbery so widely publicized.

The CHAIRMAN. You mean that $7½ mililon—you mean up in Boston?

Mr. MARTIN. Up in Boston.

The CHAIRMAN. You lost $7½ million out in San Francisco, too.

Mr. MARTIN. No; we have not lost that.

The CHAIRMAN. Well, you have not found it.

Mr. MARTIN. I feel confident from the course of events that we will.

The CHAIRMAN. That is good.

I hope you find it in this country.

Mr. MARTIN. Well, I have grave question whether it is in a numbered account in Switzerland.

The CHAIRMAN. Don't overlook the fact there are numbered accounts in New York.

You realize that, don't you, Mr. Martin?

Mr. MARTIN. I don't have any contact with any numbered accounts in New York, Mr. Patman.

The CHAIRMAN. Well, that is another thing. I object to what is going on. That a State like New York can make what is tantamount to agreements with Switzerland, and tell the officials of Switzerland, "You can establish a bank here in New York State, and we will give the permit, we have the right to do it. We don't have to go to Mr. Martin of the Federal Reserve, we don't have to go to the Treasury, the Comptroller of the Currency, the FDIC. We don't have to go to anybody. We will let you have a bank here, if you let us have one in Switzerland."

They are doing that all the time; are they not?

Mr. MARTIN. Not to my knowledge, on that basis.

The CHAIRMAN. Well, you have knowledge in California, where in Tokyo, Japan, they have several banks there. You have knowledge of that, don't you?

Mr. MARTIN. All of those have come before us.

The CHAIRMAN. All of them have? They were national?

Mr. MARTIN. Yes.

The CHAIRMAN. Now, then, some of them are owned exclusively by Tokyo banks; are they not?

Mr. MARTIN. They must come before a State authority. If they don't come before us, they come before a State authority.

The CHAIRMAN. Just like in New York they came before a State authority.

Mr. MARTIN. That is right.

The CHAIRMAN. That is the part I object to. The Federal Government has the power over money. Why should a State have the right to license a foreign bank, and then let that foreign bank have the benefit of the fractional reserve system here in the United States, which is equal to using the credit of this Nation free of charge? You don't agree to that, do you?

Mr. MARTIN. No; I don't agree. But I don't agree that it is using the fractional——

The CHAIRMAN. Why? You don't deny that they are using it. Of course they are using it, all the time.

Mr. MARTIN. Well, the Royal Bank of Canada, for example, that comes in here—what are they doing with respect to these reserves?

The CHAIRMAN. The Royal Bank of Canada, I don't know about that. But any bank that is established in New York, they have everything that they have here if they want it, the way I understand it—even a secret account, like Switzerland—they have a numbered account in New York.

Mr. BOLTON. Mr. Chairman, will you yield for a question?

Is the chairman making a point that he doesn't believe in the fact that foreign banks should be able to establish here?

The CHAIRMAN. Without the authority of the Federal Government. I am protesting the States being allowed, the 50 States, each of them, being allowed to contact foreign countries and make trades with foreign countries to establish branches or banks or units in the State, provided that State can let some bank have a branch in their State, or another unit.

Mr. BOLTON. Does the gentleman then, in effect, say he does not believe in the dual banking system?

The CHAIRMAN. Oh, certainly I do.

Mr. BOLTON. But because it is in the international field——

The CHAIRMAN. I don't believe in the States dealing with foreign governments. I think that is a matter for the Federal Government of the United States of America to do.

Mr. BOLTON. And, therefore, because the banks are national banks abroad——

The CHAIRMAN. Well, the National and State bank doesn't make too much difference. I object to a State being allowed the privilege of making deals with foreign governments—specifically in Switzerland's case.

Now, they have a bank in New York that accepts deposits. And they have the fractional reserve system. They issue money on the credit of our Nation. They do everything that a bank in New York does—for the reason that the Swiss bank and Switzerland agreed to let the New York bank have units or branches over there. That is the part I object to.

And if one State can do it, and California can do it, 50 States can do it. And where would we be?

I think it is in a mess, myself. And I think Mr. Martin ought to begin to look into it, and make recommendations to Congress on it.

Mr. MARTIN. Mr. Patman, I am sure if the State authorities in New York approve a foreign branch that does not come through the Federal orbit, that they check with the State Department at the time that they do it.

The CHAIRMAN. I know. But the State Department is not the monetary part. We are talking about that part of the Constitution which says that Congress shall have the power to coin money and regulate its value. That comes under that.

Mr. MARTIN. We keep in close touch with the State Department on this type of thing.

The CHAIRMAN. The State Department has nothing to do with it.

Now, of course, I think where it is national you should. But what I mean—so far as New York is concerned, making a deal with Switzerland, the State Department has nothing to do with that, the way I see it.

Mr. MARTIN. I think they have the foreign policy aspect of it.

The CHAIRMAN. Certainly. But that is Federal, you know. That is the reason you do business with the Federal Government, because this is a Federal proposition. It is not a State deal.

Anyway, I will not take up too much time on that. But I will ask you some questions about this bill.

You said you didn't state—and I am not sure that you did—I think you are correct—that you are one of the ones that did not state that it was inconceivable to you that there would ever be an occasion arise that you would need any part of the surplus. But some members of the Board did state it.

Now, then, under what conditions can you conceive of a situation that would necessitate you throwing $1 or any amount out of that $933 million?

Mr. MARTIN. There are a lot of vicissitudes in this world, Mr. Patman, that you cannot foresee.

The CHAIRMAN. Name one of them.

Mr. MARTIN. I just mentioned one of a bank robbery.

The CHAIRMAN. Bank robbery?

Mr. MARTIN. Where we had self-insurance.

The CHAIRMAN. Would you take that out of the surplus?

Mr. MARTIN. That is what it could be used for.

The CHAIRMAN. I thought you carried insurance. I never did see any reason you should, but I thought you did.

Mr. MARTIN. We have had self-insurance.

The CHAIRMAN. Self-insurance—just like the Government has. A lot of things you have insurance on, don't you?

Mr. MARTIN. We have had it. This has been one of the things that has been discussed frequently in the System.

The CHAIRMAN. All right.

In case of a robbery, you might need part of that surplus. What else would you need it for?

Mr. MARTIN. I could not possibly conjure up a series of cases where we would use it. But this is a businesslike procedure. And I think that there is no reason at all why circumstances, where we are having heavy losses, and our earnings are not substantial—there may come a time——

The CHAIRMAN. How could your earnings fail when 99 percent of your earnings come from the interest on Government bonds? And you bought the bonds with created money.

Mr. MARTIN. Mr. Patman, the situation can change very quickly, and has changed before.

If we had a major depression in this country, which I certainly hope will never happen again—but if we did, you would find that all of the circumstances around this would change surprisingly quickly.

The CHAIRMAN. But my point is you could save the taxpayers a lot of money if you paid this into the Treasury today, $933 million. If you had a loss of $5 million, if you had to have it, Congress could appropriate it out of that very fund you turned in to the Treasury. There is no reason why it could not.

But why have a billion dollars almost there that is idle and unused? You have no good reason to believe you will ever need it. But if you did need it, it could be taken care of. And it would save the taxpayers a lot of money every year.

Mr. MARTIN. I question whether in the long run it would save the taxpayers money.

We have set this up in this way as a businesslike procedure. And it is perfectly true, as you say, that we could pay all of this into the Treasury at this juncture, and then if we got into trouble we could come back to the Congress to appropriate the money.

But it seems to me that by and large this was a good, workmanlike, businesslike way of handling it.

The CHAIRMAN. Well, of course, this is not necessarily a private business. This is a Government business.

Mr. MARTIN. Well, I am putting it on a Government business basis. The Congress can change this at any time that you want. I have never denied that. You can take the Federal Reserve Act and rewrite it any time that you want.

The CHAIRMAN. Yes, sir, that is very true.

Mr. MARTIN. That is your prerogative and your authority, and I have never questioned it in any way.

The CHAIRMAN. But it is awfully difficult to get consideration of the subject as important as this.

You said this morning—you kept talking about the accord. Don't you agree, in order for you to say that you have a real accord, like in March 4, 1951, that you would have to have not only the Federal Reserve, but you would have to have the President in on it—he would have to be a party to it, would he not?

Mr. MARTIN. Well, the President was a party to it.

The CHAIRMAN. Well, he says he wasn't.

Mr. MARTIN. Well, I am not in a position to question the President.

The CHAIRMAN. Mr. Truman—he says he was not a party to it.

Mr. MARTIN. I wish you would read President Truman's letter to Mr. McCabe, commending him for his part in arriving at this accord.

The CHAIRMAN. I know. But he commended him on the theory that he had just been in with the whole Board and promised that he would not let that long-term interest rate go up, didn't he?

Mr. MARTIN. Oh, no, Mr. Patman. That came following that. The Board meeting was in the latter part of January, if I remember correctly, and the accord was on the 4th of March.

The CHAIRMAN. Well, I can tell you now——

Mr. MARTIN. I had some small part in working on that.

The CHAIRMAN. I know you did. And Mr. Truman did not agree to that accord, and the President of the United States fixes the long-term interest rate. You agree to that, don't you?

Mr. MARTIN. I agree that the President agreed to fix the long-term interest rate?

The CHAIRMAN. He is the one that agrees to the amount of interest on a long-term rate.

Mr. MARTIN. On Government securities, he has to approve it, yes.

The CHAIRMAN. That is what I say. That is the reason it is necessary for him to be a party to it.

Mr. MARTIN. Well, he was a party. We issued at the time of the accord, as you will recall, a 2¾-percent nonmarketable bond, which was sold to the insurance companies in very large measure, and took the overhang off the market.

And the President's signature is on that piece of paper.

The CHAIRMAN. There are two people that have never been heard on that—one of them is Mr. Truman, and the other one is Mr. McCabe, who was chairman. We might ask him to testify.

Mr. MARTIN. I have no objection to your calling either one of them.

I merely want to point out to you that the accord which was announced—I think it was in the papers on March 4 of that year—was negotiated over a period of about 6 weeks preceding its arrival. And it was a meeting of the minds at that time.

I was authorized by the Secretary of the Treasury, my superior, to go over to the Federal Reserve Open Market Committee and negotiate with them on his behalf. And I went over—I think it was on the first of March or thereabouts. I have been looking through some of my notes in my diaries on this. And it was on the first of March, I think, the Open Market meeting at that time, that I went over and negotiated with the Open Market Committee on behalf of the Treasury.

The CHAIRMAN. Mr. Snyder was in the hospital at that time.

Mr. MARTIN. Mr. Snyder was kept fully informed. I went with Under Secretary Foley out to the hospital, and despite the fact that he was suffering and lying on his back, and was, as you say, incapacitated, he was informed.

Now, the accord may not have worked out the way you wanted it, or the way I wanted it, necessarily. But that was an accord—in my judgment it is an indisputable fact of history.

The CHAIRMAN. We will go into that a little more, because I think it is important in connection with this study.

Now, I have a bill here, H.R. 9685 to amend the Federal Reserve Act to provide that interest received by Federal Reserve banks on obligations of the United States will be covered into the Treasury as miscellaneous receipts, to authorize appropriations for the expenses of the Federal Reserve banks and the Board of Governors of the Federal Reserve System, and for other purposes.

(The bill, H.R. 9685, referred to, follows:)

[H.R. 9685, 88th Cong., 2d sess.]

A BILL To amend the Federal Reserve Act to provide that interest received by Federal Reserve banks on obligations of the United States shall be covered into the Treasury as miscellaneous receipts, to authorize appropriations for the expenses of the Federal Reserve banks and the Board of Governors of the Federal Reserve System, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7 of the Federal Reserve Act is amended by inserting immediately after the section heading the following new paragraph:

"The full amount of all interest and discounts received by Federal Reserve banks on obligations of the United States shall be paid or credited by such banks to the Secretary of the Treasury and covered into the Treasury as miscellaneous receipts. To the extent that the income of such banks from other sources is insufficient for the payment of their expenses, there are hereby authorized to be appropriated such sums as may be necessary."

SEC. 2. (a) The third paragraph (12 U.S.C. 243) of section 10 of the Federal Reserve Act is amended to read as follows:

"There are hereby authorized to be appropriated such sums as may be necessary to pay the expenses of the Board of Governors of the Federal Reserve System and the salaries of its members and employees. Subject to the availability of appropriations, the Board may maintain, enlarge, or remodel its office building in the District of Columbia and shall have sole control of such building and space therein."

(b) The fourth paragraph (12 U.S.C. 244) of section 10 of the Federal Reserve Act is amended by striking out the third sentence.

SEC. 3. The first section and section 2 of this Act shall take effect on the first day of the first fiscal year which begins after the date of enactment of this Act. During the period between the date of enactment of this Act and the effective date of the first two sections, the several Federal Reserve banks and the Board of Governors of the Federal Reserve System shall take such steps as may be necessary to change their accounting period from the calendar year to the fiscal year and otherwise to bring their accounting practices and procedures into conformity with those employed by other agencies of the United States operated with appropriated funds.

The CHAIRMAN. Now, that is to do away with what is known as back-door financing.

And you are opposed to that. You gave your reasons for it.

Mr. MARTIN. That is correct.

The CHAIRMAN. Now, then, the bill to require the payment of interest on certain funds of the United States held on deposit in commercial banks to provide for reimbursement of commercial banks for service performed for the United States, and for other purposes.

(The bill, H.R. 9686, referred to, follows:)

[H.R. 9686, 88th Cong., 2d sess.]

A BILL To require the payment of interest on certain funds of the United States held on deposit in commercial banks, to provide for reimbursement of commercial banks for services performed for the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) no deposit exceeding such amount as the Secretary of the Treasury may by regulation prescribe may be maintained in any commercial bank to the credit of the Treasury Department or any bureau or officer thereof unless such bank pays a reasonable rate of interest thereon.

(b) The first sentence of the thirteenth paragraph (12 U.S.C. 371a) of the Federal Reserve Act is amended by inserting "(other than a deposit to the credit of the Treasury Department or any bureau or officer thereof)" immediately after "pay any interest on any deposit".

(c) The first sentence of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by inserting "(other than deposits to the credit of the Treasury Department or any bureau or officer thereof)" immediately after "the payment of interest on demand deposits".

SEC. 2. The Secretary of the Treasury shall pay such compensation for services performed by a commercial bank for the Treasury Department or any bureau or officer thereof as may be justified, taking into consideration both the value of such services and the value of benefits conferred on such bank by the United States, Federal Reserve banks, and any departments or agencies of the United States.

The CHAIRMAN. Have you made your comments on that one, Mr. Martin? That is H.R. 9686.

Mr. MARTIN. I don't think I have seen that.

The CHAIRMAN. All right. I just introduced it yesterday.

It is to require the payment of interest on these so-called tax and loan accounts, and to give the bank credit for any services rendered after measuring and taking into consideration and evaluating the services the bank renders, and also the services and benefits that the Government rendered to the banks.

After taking those two factors into consideration—where it is justified to levy an interest charge for keeping of those tax and loan accounts.

Mr. MARTIN. Well, the tax and loan account, as you know, Mr. Chairman, the Treasury is the one who operates that.

The CHAIRMAN. That is right. You would not want to comment on that?

Mr. MARTIN. They are primarily concerned. I will only comment on it to the extent of saying that when I was in the Treasury, which was some time ago, we did make studies of this. And, by and large, we were inclined to believe that net there was an advantage to the Government in the way it is presently handled.

Now, times may have changed. I think it is perfectly justifiable to investigate that.

The CHAIRMAN. Well, anyway, that is one of the bills.

And the Treasury has more to do with that, as you said.

Mr. BALDERSTON. Chairman Patman, may I make an observation at that point?

The CHAIRMAN. Yes, sir.

Mr. BALDERSTON. There are two reasons, from the standpoint of monetary policy, for maintaining the tax and loan account.

One is that the transfer of funds from the private sector to the Government sector at the time of a financing is cushioned.

The CHAIRMAN. I know. That is the reason you have a Federal Reserve System—to ease that.

Mr. BALDERSTON. Market operations would be made much more difficult if it had to take account of a sudden influx of funds at the time of financing. As it is, they are cushioned.

The CHAIRMAN. Yes, sir. But like it is now, they keep an enormous amount in those accounts. And sometimes a bank will buy, say, a million-dollar bond from the Government, and then they commence getting the interest on it immediately. Say it is a 4-percent bond. Then instead of paying the million dollars into the Treasury, where the Treasury could pay it on the national debt, and it would be an offset, they keep that money in their bank.

Mr. Neilan, the president of the U.S. Chamber of Commerce, says that his bank invests it in 3¼-percent bonds. Well, that means that as long as the Treasury keeps its balance idle, the taxpayer is paying interest twice. He is paying interest on the original long-term bond that the bank bought and then, of course, he has to pay the interest on those 3¼-percent bonds. So there is the Government paying out 7¼-percent interest. I do not see where that can be justified—having the taxpayers pay interest twice.

Recently the Committee brought out a report about the tax and loan accounts.

Did you see it, Mr. Martin?

Mr. MARTIN. No; I have not seen it yet.

The CHAIRMAN. Well, it shows the balance in the tax and loan account in each bank in the United States on October 15, 1963. And, of course, when I asked for the material, I gave a little leeway there on the date, thinking it would be more convenient one time or another.

But the date selected was—I don't charge anybody with any improper doing or anything like that—was one on which the national balance was abnormally low, at about $4 billion plus, when it has sometimes been up as high as $10 billion.

What is in these figures is about two-thirds of the average for 1963—which is about $5 or $6 billion for the country as a whole.

And, of course, I am going to try to persuade Congress to pass a bill to cause interest payments on that, giving credit to the banks for any services rendered.

And then I have one here to amend the Federal Reserve Act—H.R. 9687—by eliminating the prohibition against the payment of interest on demand deposits.

(H.R. 9687, referred to, follows:)

[H.R. 9687, 88th Cong., 2d sess.]

A BILL To amend the Federal Reserve Act and the Federal Deposit Insurance Act by eliminating the prohibition against the payment of interest on demand deposits

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 19 of the Federal Reserve Act is amended by striking out the following paragraph (12 U.S.C. 371a):

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided,* That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further,* That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further,* That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed."

SEC. 2. Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by striking out the following sentence: "The Board of Directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System."

The CHAIRMAN. How would you feel about that one? You know in the 1935 act—I think it was written in the 1933 act first—there was a provision that thereafter it would be unlawful for national banks to pay interest on demand deposits. And then, of course, the same thing was written in the FDIC law—that would apply to all banks insured, in addition to national banks.

Now, this is to repeal that provision, which says it is a violation of the law to pay interest on demand deposits.

Would you be for this bill or against it?

Mr. MARTIN. Well, I would be against this bill at the present time, Mr. Patman. This is an outgrowth of the difficulties we had in the 1932 period.

The CHAIRMAN. But that period is over, Mr. Martin—I hope.

Mr. MARTIN. Yes, that period is over. But the whole structure of the banking business has been impressed with the results of that period.

And I would favor, as I have indicated before, eliminating perhaps regulation Q—any ceiling on time and savings deposits. But in the case of demand deposits——

The CHAIRMAN. You mean take the ceiling off of time deposits?

Mr. MARTIN. Time and savings deposits—I would think we would permit competition there without seriously disrupting either the money market or the banking system.

In the case of demand deposits—I think you would give the big banks of the country a very great advantage, and that they would tend, at least for some time, to siphon off from the smaller banks of the country, the ones that you are very much interested in, as I know—you would siphon off from them a good portion of deposits that come to them, because the larger banks would be able to pay for this.

Now, I know there are two sides to this argument, and this has been argued for many years. There are some people who say banking should be a completely competitive business, and we should not worry about that—the bankers can be prudent and take care of themselves.

But by and large the bankers were not prudent in the 1932 period, and banking is a regulated industry. I would hesitate to give the big banks of the country the advantage that I think would come to them instantaneously by permitting competition for demand deposits to just suddenly be offered them.

The CHAIRMAN. Well, Mr. Martin, I don't understand you, my dear sir. Now, in 1933 and 1935 they put this into the law on the pretense of two things. One, that banks were competing with one another in such a substantial way that they were weakening the foundation of the banks, and therefore they wanted to stop it.

Mr. MARTIN. That is right.

The CHAIRMAN. And the other was that they were going to have to pay FDIC insurance premiums, and by not paying interest on demand deposits it would help them in the payment of those premiums.

Now, then, you are suggesting that they still not be allowed—I thought bankers were opposed to direct controls and regimentation, and this is regimentation of the worst kind. You are advocating that the law remain in effect which tells a banker that although he can charge you interest on a thousand-dollar loan, when you keep a thousand dollars there all that time, the banker cannot even pay you a little interest on what you have kept there on deposit.

You make it unlawful for one and legal for the other. It is legal for the bank to charge you, but it is illegal for the bank to pay you interest on the same amount that has remained there on deposit.

And then the worst thing, Mr. Martin—you advocate taking the ceiling off of time and savings deposits. You talk about a knockdown and drag out and skull-busting campaign now—you would really have it there. Because they would really go after one another on these time deposits and savings deposits. And they would get people to switch from demand deposits to time deposits and savings deposits and this could have very serious effects on our economy's growth.

Then they could, of course, go after the savings and loans. That would help the banks which already have a great advantage over savings and loans, because the banks create their money. The savings and loans have to get theirs on investments. And you are advocating something there that I think is very unfair. It would be unfair as between the banks. As between the banks and other institutions it certainly would be unfair.

That is the way I view it.

Mr. MARTIN. Yes. Well, this is just another case, Mr. Patman, where you and I are as far apart as the east is from the west.

The CHAIRMAN. All right. There are several cases like that, I am sure.

Let me ask one more question. You know, we passed a law in the early part of the war providing that during the war and for 6 months after the banks could buy bonds and would not have to put up any reserve requirements. When did that period expire? You are acquainted with that?

Mr. MARTIN. Yes. I would have to check it up. I don't have it.

The CHAIRMAN. Well, you put in the record as to when that 6 months expired.

Mr. MARTIN. I will be glad to look that up and put it in the record.

(The information referred to was subsequently submitted as follows:)

The provision in question, which was added to section 19 of the Federal Reserve Act by act of April 13, 1943, reads as follows: "* * * until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress no deposit payable to the United States by any member bank arising solely as the result of subscriptions made by or through such member bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended, shall be subject to the reserve requirements of this section." The President issued a proclamation determining "cessation of hostilities" on December 31, 1946.

The CHAIRMAN. If you don't mind we will take a recess for 10 minutes.

(Short recess.)

The CHAIRMAN. The committee will please come to order, after recess.

Mr. Martin, I believe that I have asked you the questions that I wanted to ask you about these different bills. I will probably submit some to you in writing. But I will make sure they don't duplicate questions asked by others, to make it as easy on you as possible.

Mr. MARTIN. Fine. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Mr. Chairman, Mr. Martin, starting tomorrow the Joint Economic Committee starts its annual deliberations on the President's Economic Report. You recall last year we had some discussions, and you and the Federal Reserve were most cooperative in getting to the Joint Economic Committee your annual report for the previous year, so that we could consider it in connection with the report which the Joint Economic Committee each year has to give to Congress by March 1.

Are you going to be able to help us out this year by getting to us either officially or unofficially a copy of that report this year?

Mr. MARTIN. I was just checking with Mr. Molony on that. The report itself we think we can get out by the 15th of March. The policy record, which is what we tried to facilitate for you last year, we will try to get out in galley sheet before the end of your hearings, so you will have the benefit of that in the hearings.

Mr. REUSS. You can do that again this year?

Mr. MARTIN. We think we can; yes, sir.

Mr. REUSS. We will be very appreciative of it. And it is entirely all right to have it in galley or pregalley form. But it would be helpful. And we intend to finish our hearings by the end of next week so that if you can have them in the Joint Economic Committee's hands as soon as possible, recognizing that we have to get our report out and printed and in the hands of the Speaker and the President of the Senate by March 1.

Mr. MARTIN. We will do our very best, Mr. Reuss.

Mr. REUSS. I know you will, and I appreciate it.

Just one more question. In your prepared statement, on page 13, when you speak of the goals of the Federal Reserve, you mention sustained high employment. Now, I don't mean to quibble with words, and I am all for sustained high employment. In fact, we have had it now in this country for the last several years, and presently we have 70 million jobs, or close to it, which in one sense is excellent. But what worries a great many of us is the sustained high unemployment that this country has had, averaging close to 6 percent for the last 4 or 5 years.

Mr. MARTIN. This disturbs us equally.

Mr. REUSS. I am sure it does. And I just wanted to make sure that sustained high employment is not your idea of the sole goal of our economic system. It is sustained maximum employment, and as little unemployment as possible.

Mr. MARTIN. That is right. This is not intended with any note of complacency.

Mr. REUSS. My idea of a rate of unemployment which we ought to shoot for as a national goal is that it should not be higher than 3 percent of the workforce. We have got some ways to go, because it is almost double that now.

Do you have any disagreement with that?

Mr. MARTIN. Well, I have no goal in a percentage way in mind. I would like to see it as low as we can possibly make it. I would like to see it lower than 3 percent, if we could do it. I realize there is some frictional unemployment, and I don't know what that level ought to be.

Mr. REUSS. The fact is, however, there have been periods, peacetime as well as wartime, when we have had less than 3 percent—I think 1950, for example, when I think it was something like 2.3. Therefore, it seems to me that 3 percent is a reasonable goal for public policy. And I gather that you do not choose to differ from that.

Mr. MARTIN. I don't choose to differ. I think our goal should be as low unemployment as we can possibly make it. I don't think we ought to keep a target in mind. I think that you are right in pointing out that in the immediate postwar period we had low levels, and to what extent that has been influenced by the war or what the relationship is to the size of the force itself and the components of it, whether it is structural or cyclical, all the other factors, I think all have to be weighed and taken into account.

But our goal certainly should be to continue to promote reduction in the unemployment rolls.

Mr. REUSS. We talked this morning about the situation this year in which the administration's most optimistic estimate is that we won't be able to get unemployment below 5 percent. You and I hope they are wrong, and that we can do better. But this is the best guess of people who know.

In the light of that, do you really think that there is much danger of demand inflation, as long as we have 5 percent or more of our workforce unemployed, and that, therefore, you need to be quite as poised and ready as I am afraid you are to tighten money, prior to bringing unemployment below the 5-percent mark?

Mr. MARTIN. I am not poised and ready to do anything here. But I am alert to market forces, and market forces frequently come with a surge. They move more rapidly than you would like to have them move, because human nature has a frailty in this direction. And we have a real problem, where you have had a budget deficit of the size we have had—now we are going to contract that slightly. And we have had all of these swings in expenditure and utilization of funds, retained earnings, and depreciation in companies. But the one thing I am certain of is that inflation creeps up on you.

And the reason that I am against inflation is because I know that it ultimately leads to not only disruptions in the economy, but to a lower level of employment than would have been possible but for the inflation. That is the only reason in the wide world for our fighting it.

Mr. REUSS. Isn't it true in retrospect that the Federal Reserve System put on the brakes and tightened money at a premature time, at least once or more in the last 5 or 6 years?

Mr. MARTIN. Mr. Reuss, I don't like to take the position that I think that everything the Federal has done has been perfect. Neither do I like to confess error on things that are matters of judgment.

I think you can make an equally good case that the dereliction of the System was that we didn't put the brakes on soon enough and hard enough. And I do not think that this matter of what causes a downturn is so simple as to just be able to isolate it and say tight money did it.

Now, that would be very nice if you could do that. But what you are dealing with in any upswing is the framework of waste and inefficiency and extravagance and incompetence that comes with every period of speculative affluence.

And we had a great deal of that in the postwar period. We were fighting inflation—the inflationary surges that were submerged in the entire postwar world. And as I pointed out a number of times to this committee, we were losing—the gross national product was rising by more than a billion dollars a month without any additional goods and services.

Now, there are people who think that the problem of the downturn that came in 1957–58 was due to the simple fact that the Federal Reserve shouldn't have raised the discount rate, because it should have known that the peak of this particular movement was over.

If you can act within 6 months of the time I think that you are doing fairly well. And the Federal Reserve reduced the discount rate in the fall of 1957. We had an inflationary psychology that had built up to the point that most corporations were just marking their inventories up at the end of every year, and that had become a part of their profitmaking processes.

Now, against that I am not trying to say you cannot make a case that the Federal Reserve might not have handled things differently or more wisely. But I say that within the tolerance of human error, and of differing judgments, that I am not willing to concede that the Federal Reserve, by its policy in 1957, brought on the downturn. I think that the causes were much more fundamental than that.

Important as I think monetary policy is, I don't think that it has as much influence as some people seem to think it has.

Mr. REUSS. I note your refusal to don the hair shirt I was holding out for you.

Now let's talk about the year 1964 in which I am disturbed by your assertion that you may feel it necessary to tighten money, even though unemployment continues in excess of 5 percent.

Would you give me a conceivable situation in which you would feel justified in tightening money this year, where unemployment remained at about its present level or at least did not decline below 5 percent, and where our industrial plant, as is now the case, has a considerable excess capacity. That is the situation we have today.

Mr. MARTIN. I am not willing——

Mr. REUSS. I cannot see money tightening as an appropriate remedy for any foreseeable period this year. Therefore, I would like you to define this possible beast so I can be ready for him.

Mr. MARTIN. I cannot define it for you, Mr. Reuss. This is not the sort of problem that can be defined.

As I tried to point out this morning, I think we have to be alert to the flow of funds, as well as this matter of unutilized capacity that you raised.

There are some people who think there is a great deal of unutilized capacity in this country today, and there is, if it doesn't make any difference what the price of the product is they sell.

Mr. REUSS. McGraw-Hill thinks there is about 13 percent of our capacity unused, and I have not heard anyone challenging that figure successfully.

Mr. MARTIN. We need a great deal of modernization of equipment. If you are going to ignore that, of course, there is unutilized capacity. But I am not willing to concede it is any particular figure at the moment. But it is not a major factor, in my judgment. It is one of the factors we must bear in mind. I want to keep all of these factors in mind.

Mr. REUSS. It may well be that 100 percent of our industrial capacity is not of the most modern 1964 type—I am sure that is true. But that seems to me irrelevant on the question of whether our somewhat antiquated, or partially antiquated, industrial capacity is not capable of providing jobs for more people, assuming that demand is increased by the tax reduction, and assuming that money is not so tightened as to vitiate the effect of that.

I don't see why the fact that some of our unused capacity could be more modern than it is means that it thereby disappears into thin air and could not be used at all.

Mr. MARTIN. It doesn't necessarily mean that. But don't forget foreign competition. And it may be that with the tax reduction that there will be some domestic lines that can be utilized against foreign competition because of the demand that is created in this country.

But when you are bucking up against foreign competition, you have a different problem. This is where the problem of the balance of payments is tied in. Since the period when we inherited the markets of the world at the end of the war, we have reached a period where, to get back on our favorite theme here—interest rates—we can no longer in the money markets be isolationist on interest rates any more than we can in the political area. You can transfer funds all around the world and you can transfer goods all around the world by the price mechanism.

Mr. REUSS. Well, what you have just said, Mr. Martin, if it means anything, and I think it does, says this—that you are prepared to tighten money in order to make us more competitive abroad, to bring down prices.

Now, if that is really what you mean, I hope somebody stops you from doing it, because the effect of this would be to bring down prices, sure enough, by creating a worse recession and more unemployment than we have got.

Mr. MARTIN. Well, I don't happen to think so, Mr. Reuss. But I have not indicated that I intend or any of my colleagues intend to tighten money. And I have indicated that the forces of the market are the principal factors here.

As I pointed out to you this morning, there is quite a difference between positively trying to tighten money on the one hand, and permitting the forces of the market to be reflected in the money market, on the other hand.

But I say that under present conditions, and with the speculative impulses that there are in the world, and the current levels of liquidity there are in the world, we would be most irresponsible, in my judgment, as custodians of the credit facilities of this country, if we just said under no conditions will we permit interest rates to rise because it might vitiate the tax reduction.

I don't think it would vitiate the tax reduction at all. But this again is in the area of judgment. You certainly are doing all you can to see to it that we do not move in this direction, and I think that is perfectly proper. Anyone who wants to give us suggestions is perfectly all right. As I said this morning, Mr. Rains has a resolution—it is possible for someone to introduce a resolution saying to be equally aware of the fact that money could get too loose. You could have a spillover of speculative impulses that create an inflation that will undermine employment and lead to a decline in business of the sort that we don't want. And then we would have more difficulties.

Now, this is the problem that the Federal Reserve has to deal with. And all I want to do is be sure that there is no misunderstanding between you or me, or any other member of the committee; we are not making a commitment to anything in the course of the year 1964.

It is far too early to have any idea of what impact the tax reduction will have. It might create a boom that would be unwise. It may not have the effect that it has been advertised as having. Nobody knows what is going to come from the tax reduction at this point.

Mr. REUSS. That is quite true. And I certainly was not asking you to make a commitment as to what you in fact would do under any set of circumstances. What I wanted to do is explore your mind on what you would do, assuming that the tax cuts effect is what the administration thinks it will be; namely, one not bringing our present unemployment rate below a most unsatisfactory 5 percent level this year.

And on that hypothetical proposition, you said that you might want to tighten money anyway. And when I asked you to present to me the set of circumstances under which you might want to tighten it, all that I have so far been able to gather is that you would feel like tightening it if you felt that American export sales needed a shot in the arm by lower prices, which you would then try to bring about by tightening money.

To me this is not a legitimate reason for tightening money. I think our $4 billion export surplus every year is peanuts compared to our $600 billion economy. And I would not like to see you tighten money, with 5½ percent of our workers unemployed, simply because it would be nice to have lower export prices.

Mr. MARTIN. This is a matter of competitive pricing that we are talking about, not necessarily lower prices. It is keeping prices competitive—particularly if there is a surge upward in the economy.

But let me state over again, as I have a number of times, what I conceive to be our function in this.

We want to see the economy progress as rapidly as anyone. It makes my job, our job, much easier when it does.

We have a responsibility, however, that when we create money, that we do not ignore the forces in the market, nor do we think that we can come along here and say that we will create money over and above and beyond what in our judgment the economy can utilize without producing inflation, merely to assist the Treasury in its financing, or making it possible for the Treasury to finance at a lower rate than it would otherwise have to finance.

Mr. Reuss. Yes. I said nothing about that.

Mr. Martin. But this is the fundamental. That is why I say you have overlooked what to me is the basic point in this problem. The very fact that you said nothing about it is why I wanted to raise it.

Mr. Reuss. Well, I didn't suggest for 1 minute that you should conduct your monetary policy primarily to assist the Treasury's financing.

Unlike my chairman, I have never found fault with the treaty, the accord of 1951. But that has nothing to do with the question or whether you should tighten the money supply at a time when we have 5½ percent unemployed.

Mr. Martin. Well, I just beg to differ with you there, because as long as we are running a deficit in this country, we have to finance that deficit. And I insist that the major portion of any Federal deficit should be financed out of bona fide savings, and not out of created money.

We have been successful in the last couple of years largely due to depreciation factors and retained earnings in corporations following the post-Korean period coming to a halt in 1958–59. We have been successful in doing that with the very sizable deficit that the Government has been running.

I am very pleased that President Johnson's budget has recognized this, and I believe that our problem is somewhat easier now as a result of his budget than it would be if we were projecting a $10-billion deficit instead of a $4.9-billion deficit.

But these are all part of the factors that have to be borne in mind.

Now, it may be that these forces will be here. But the process of inflation goes on when money is created, in excess of the supply of goods and services.

Now, there is always a point of judgment at where that point comes. But let me point out that the people are always asking: "Where is the inflation?" And then all of a sudden you have it. And our job is to try to prevent this, try to keep this in its incipient stages from getting out of control. And to go back to the 1957–58 period we were talking about, we then had an inflation psychology. And I think it was essential that we stop it. And I happen to believe that the Federal Reserve made a real contribution, for which it has been widely damned—which has made it possible for the expansion that is presently occurring to be as successful and as noninflationary as it has been.

And we want to see to it that this time we don't have to wait until that late—if the forces of the market make it possible.

Now, we can have easy money and lower interest rates any time you have a declining economy. We don't want that. We don't want easy money in that way.

But as a device for promoting growth, I will confess to you, as I have confessed to many groups—I still have very serious doubts that deficit finance and easy money is a sound basis for promoting growth.

Mr. REUSS. And I agree with you, but that really is not the problem.

Is it not a fact that tight money and high interest rates are an excellent way of clobbering a rise in the economy and an attack on unemployment?

Mr. MARTIN. Anything that is overdone can have unfortunate results. We want neither too loose nor too tight money, and that is exactly what we are trying to achieve.

Mr. REUSS. But we are trying to give some content to this airy principle to which we all agree by applying it to a specific situation; namely, an economy with close to 6 percent unemployed, and with something like 13 percent of its productive equipment not being used.

In this connection, I want to divest myself of a role which you seem to want to push on me—of guardian of the Treasury's debt financing activities. I am an old accord man. I agree that Treasury financing is a secondary requirement. But why isn't the job of the Federal Reserve in the days to come in 1964 simply to provide adequate increases in the money supply to make possible the national goal of a very much lower rate of unemployment and, consequently, a higher rate of growth, because that is what you have to have in order to get rid of unemployment? Why isn't it just as simple as that?

Mr. MARTIN. This is always our goal.

Mr. REUSS. And if this means that the Treasury has a hard time funding the debt, well, that is its problem. If it means it will have an easy time, well, we would not want to change an otherwise good policy just to give them a hard time.

Mr. MARTIN. We certainly would not.

One of our goals is to help the Treasury, consistent with this overall objective, and we do not want that to interfere.

Mr. REUSS. Getting back to——

Mr. MARTIN. Let me just put one other thing, because the line of questioning you are pursuing is of great interest to me, and I am very sincere in this. I think that it is possible when we talk about spelling these things out, you know, and you and I have had this interlocutory——

Mr. REUSS. We are making a career of it.

Mr. MARTIN. That is right; we are doing very well at it, and each of us has a point of view on it.

It would be possible for the Congress to spell out what the level of free reserves ought to be, for example, over 1964. I am not saying——

Mr. REUSS. I would be against this.

Mr. MARTIN. I know that.

Mr. REUSS. We have set you up to do our day-to-day implementing for us.

Mr. MARTIN. Right; that is right. But I am saying it would be possible, and it would be possible in this framework to set up some criteria.

But the reason I think the Federal Reserve Act is drawn as it is, and we are given the discretion that we are given, is that we are the ones who have to accept the responsibility, and if Congress specified these benchmarks, and then those benchmarks did not work out, the Congress would have the responsibility.

Now, all I am saying here is that I want to maintain for the Federal Reserve Board this area of judgment which the Congress has given to us, recognizing fully that if it goes wrong, if we get too tight, so to speak, we will bear all the brunt of it. If we get too easy we will bear all the brunt of it, and we have been through two periods like that. The period of the preaccord was a period when almost the entire country had suddently wakened to the fact that monetary policy was too easy, and the depreciation of the currency was undermining everything. Now we have come into a period here recently where some people think that in 1957–58 the Federal Reserve brought on this recession. I have some question about it on either score, but that is an intellectual problem, and I do not want to deal in semantics there any more than you do.

Mr. Reuss. Getting back to 1964, and the 5½-percent unemployment rate, would you agree with me that with as high an unemployment rate as 5 percent or more, and with as great an unused industrial capacity, however modern it may be, as presently exists, that it is unlikely that you will be called upon in exercising your good judgment to tighten money?

Mr. Martin. Oh, I would not go even that far.

Mr. Reuss. You would not even agree with me on this?

Mr. Martin. I won't even go that far because those things can change so rapidly, and I do not want to tie it. Whether it is 5½- or 3- or 2-percent unemployment depends on conditions at a given time, and also has to do with world markets. We are facing inflation abroad today. We are——

Mr. Reuss. I was waiting for you to bring that up.

Mr. Martin. Yes. We are facing it abroad. That has helped us somewhat with our balance of payments recently. But all of these are factors, and I have gotten very wary, as you can see, having lived with this for a long time, I have gotten very wary of putting up prospective models or conditions and believing that I can see the answer.

Now, I say to you perfectly openly that I do not have the answer to this overall problem. I simply say to you as a defense for that I would be a much more dangerous man than I presently am if I had the answer.

Mr. Reuss. Let me ask you this in the light of my relative lack of success at finding out from you what circumstances you think would justify your tightening money with 5 percent or more unemployed, would you be willing to notify this committee, through its chairman, and ask for an executive session, if you prefer it, as you well might, if you should in this year of 1964, feel that money tightening is necessary although the unemployment rate continues at above 5 percent? What I have asked you there is simply this: If things go much better than the President and his advisers think, and our unemployment goes down markedly, then I not only would expect you to tighten money but I would applaud your doing it if anybody asked what I thought of it.

But as long as we have more than 5 percent unemployment, speaking only for myself, I can see no apparent justification for money tightening. Now, I do not say that something might not come up which might change matters, but what I ask is simply this:

Would you and your six colleagues on the Board of Governors be willing under those circumstances to request an executive session conference with the Banking and Currency Committee so that you might inform us of precisely what ugly cloud it is on the horizon which induces you to embark upon a policy of tighter money? Are you willing to do that?

Mr. MARTIN. No, Mr. Reuss; I would not be willing to do that.

I would think, and we have discussed this one before, too, I would think that under those circumstances all of you ought to be members of the Federal Reserve Board.

Mr. REUSS. Under the Constitution we cannot do it.

Mr. MARTIN. Well, that is right.

Now, we took an action last summer that was disapproved by a good many people, although it had the backing of the President of the United States and the Secretary of the Treasury. We took an action, and we were up here explaining it to this committee 3 days after we took it. I personally think you ought to wait a little bit longer than that. I have no quarrel with it, though, and it is perfectly proper for this committee to inquire into our actions through public hearings.

But I do not think in the decisionmaking process—before decisions are reached—that I should be put in the position of coming up and talking to small groups of the Congress and telling them what we might do or getting this into an arena where somebody might try to divide my Board.

We have to make our decisions and we have to stand or fall on them. We are responsible. You are not responsible for our decisions. You can tear us apart after they are over. This is a matter——

Mr. REUSS. The only trouble with that is that it is no satisfaction to any of us to tear people apart. What we are interested in is seeing that the constitutional function of Congress to see that we have a stable and sound dollar, that contributes to maximum employment and production, is maintained, and we delegate that, and I think properly so, to the Federal Reserve.

But what I am trying to work out is some nonmechanical, friendly relationship of mutual understanding and confidentiality which will then enable us to discharge our obligation better, and the position you put us in is the position of bystanders who are welcome to learn these things 13 months later when we see in March your annual report which tell us what you did——

Mr. MARTIN. Oh, no; we were up here 3 days after the last—Mr. Patman had us up here 3 days——

Mr. REUSS. That was because of the extraordinary acuteness of our chairman who, by some divination, had a hunch as to what was going on. But many times decisive action can be taken by the money managers and yet this decision not be known to Congress.

For example, you could make such a decision which, I think, would be very ill advised, to tighten money tomorrow. We would not know of it. We would not know of that decision for 15 months until March 1965, and our economy simply moves too fast nowadays for the constitutional managers of it—the Congress—to be kept in the dark that long.

You talk about a small group of Congress. If you would prefer to have a caucus of the full Senate and full House to which to report, that is all right with me. I thought I was being merciful in suggesting this committee, which is the committee that the House has entrusted this constitutional jurisdiction to be the one to consult with.

Mr. MARTIN. We issue a statement, you know, every Thursday, and the market reads that statement like a hawk hovering over its prey.

We supply more information about our activities, in my humble opinion, than any other central bank in the world. It is impossible for us to take any overt steps that are kept completely silent. The modus operandi of it may be, but when free reserves fluctuate even due to a snowstorm, they are watched with respect to Federal Reserve policy.

Now, we get back again—and I am not trying to deal in semantics—to the earlier point that I made. You have been using 5½ or 5 or 3 percent of unemployment as the principal factor that we ought to be concerned with here. I want sustainable employment, and by that I do not mean I am against full employment. I do not know what full employment is.

But the Congress has the power, and I do not challenge it for a moment, to amend the Federal Reserve Act and change this authority that we now have of a discretionary nature, and put us into a box and say to us in the law that, "You shall never permit free reserves to fall below a certain level or interest rates to rise above a certain level unless unemployment is less than 5½ percent," and then you can spell out how that unemployment is going to be figured.

I am sure that my job, and the Federal Reserve Board's job, would be simplified. Then, if we had a wild inflation, and unemployment was 5.3, 5¾ percent, and the currency was depreciating all around the country, we could say, "Well, Congress did it."

You have delegated this authority to us under the Federal Reserve Act. It is a very grave authority. I do not happen to think that we are quite as powerful as Mr. Patman does. Mr. Patman very graciously frequently says I am more important than the President of the United States. I do not believe that, but I think that we are important, and we have a very serious responsibility, and I think that within the limits of our powers we have to discharge it.

When I first became Chairman of the Federal Reserve, Senator Maybank was chairman of the Banking and Currency Committee.

My predecessor, Mr. McCabe, had from time to time talked to him about various actions that the Federal Reserve might take. I had very close relations with Senator Maybank. He was a man for whom I had great respect, and I got along with well, and he told me early in my regime, "I don't want to know until after it is all over what you people are going to do."

He said, "I don't want to get tangled up as chairman of this committee in getting an inkling of what you are doing because then I don't know whether I ought to tell every other member of the committee and, after all, it is your responsibility."

Now, I want to be honest with you and say that I do not think it would be proper for me to come up to this committee and say that despite the fact that unemployment is 5½ percent we are going to have a meeting of the Open Market Committee next week, and it is just possible we might permit money to tighten.

Mr. REUSS. That is not what I asked. I asked whether after such a meeting if the Open Market Committee decided that despite 5½ percent unemployment and the existence of 13 percent excess industrial capacity, if despite that it had decided to tighten money by action solemnly taken, I would have hoped, assuming it is done in this month, January 1964, that there would be some way in which the Banking and Currency Committee could be made aware of that action prior to March 1965, 15 months later when it will read your report.

You say, no. Well, OK; no harm in trying. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, sir. Any questions?

Mr. Widnall?

Mr. WIDNALL. I am a little bit confused by the line of questioning of Mr. Reuss. I have been a member of the Joint Economic Committee for some time, and also of this committee, and it seems to me now that he is making a distinction between the type of action you should take between 5½ percent unemployed and 5 percent unemployed, and that when it is below 5 percent.

I thought we had concern, from the testimony I heard before, for anybody who was unemployed, all the way down to 3, 2½, 2 percent. I do not understand this new cutoff at 5 percent. It may mean—maybe the administration thinks 5 percent is acceptable unemployment in the United States now. I used to hear 3 percent quoted all the time as being thoroughly unsatisfactory. I do not quite get what is going on.

Mr. REUSS. Will the gentleman yield?

Mr. WIDNALL. Yes, I will yield.

Mr. REUSS. I think the gentleman was not, perhaps, here earlier when I stated my view that 3 percent was the highest tolerable level of unemployment that we ought to have in this country at any point.

The way 5 percent got into it, I wanted to relate my questioning to the current unemployment situation which hovered between 5 and 6 percent.

Mr. WIDNALL. Then I understood you to say you could not understand any action that might be taken to tighten credit until unemployment was down to 5 percent, and that if it went below 5 percent then you could understand if some action was taken. This is what I understood you to say. Wasn't that your understanding, Mr. Martin?

Mr. REUSS. Let me clarify what I was trying to say, which is that I am concerned with the likelihood or possibility that the Federal Reserve is going to tighten money under present conditions.

If conditions get considerably better than they are now, I want to put that to one side, but I did want to ask whether the Federal Reserve envisaged as a distinct possibility that there would be a tightening of money under conditions approximating present unemployment conditions, and the answer was, I am sorry to hear, that, "Yes, they are," but that certainly did not mean that I regard anything over 3 percent unemployment as any way tolerable.

Mr. WIDNALL. Wasn't I correct in understanding that you said below 5 percent you could understand the possible taking of measures then of tightening credit if they found it necessary?

Mr. REUSS. I think you are right in understanding that I said that, and I think on reading the record I probably did say that.

Since what I am concerned with, however, is what they are going to do with unemployment rates of over 5 percent, that was the main thrust of my questioning.

Mr. WIDNALL. I understand.

Mr. REUSS. And in this connection I do not suggest that the monetary authorities always under all circumstances should wait until unemployment gets down to 3 percent before they do a single thing about tightening money. Where I disagree with the Federal Reserve is that I think you start putting on the brakes much too early, and that you tend to thwart any real attack on unemployment, that this has been the effect of what you have done in the past, and I do not like to see it repeated in the future, and that is what I am mainly concerned with what happens over 5 percent unemployment. Thank you.

Mr. WIDNALL. Just one point: In thinking of prize ring parlance in connection with this, the Federal Reserve System, I look to, as a fighter who is in the ring against inflation and against deflation. Now, no fighter who is worth his salt telegraphs his punches. It is deadly in the prize ring, and it seems to me that what is being tried now is to put them in a position of telegraphing their punches, which would make any steps they make ineffective as far as the economy is concerned. That is all I wanted to say.

The CHAIRMAN. Mr. Bolton?

Mr. BOLTON. I have some questions I would like to address to the witness, but in order to clarify one thing, Henry, in discussing unemployment, there is no question that the monetary policy has very real effect on the expansion or contraction of business. But wouldn't you agree with me that you can well visualize a situation where you can have 5, even 6, even higher percent unemployment and still have an inflation with it, because of the demand for the need for labor and for jobs that do not exist in the unemployment market?

Mr. REUSS. No; I do not. But this is the fundamental question. Let me reply to you briefly. If you have 5, 6 percent unemployment, such as we have got now, and if you have from 10 to 15 percent excess industrial capacity, which is what we have now, according to all the people who make these studies, I think that any inflation that you are going to get is inflation that comes about through what is called administered wage-price inflation. We had some of that back in the late fifties, and it results from labor organizations and business organizations being able to, despite excess capacity and unemployed labor, being able to either raise prices or raise wages, so that a price increase can be based upon such an increase.

I do not think that when you have 6 percent unemployed and 13 or 15 percent of the industrial capacity unused, you are going to get demand inflation, because additional demand is simply going to pull the whole structure up toward the full employment level. It is going to put people back to work, and it is going to put idle machines back to running again. This is precisely what you want to have happen.

Mr. BOLTON. Well, I do not think we need to hold the witnesses on this, but I did want to ask that question.

Mr. Martin, if I could return to the bills before us, I do not have the number of the bill retiring the stock, and I wonder if I could just ask you a few questions to make myself clear. Why was the stock for the members' bank originally created? Has this purpose for which this stock was created become unnecessary in view of the present portfolio system?

Mr. MARTIN. I think it was originally the idea that you would have a business-like structure, that the Reserve banks were going to be corporate instrumentalities of the Government, and would be set up like corporations.

Now, with respect to your question of whether stock is now necessary, I think it probably is not. I won't say that I think the System will stand or fall on this. I think we could have a $10 membership in place of stock, but I think that people would wonder why it was changed after all the years that the System has operated this way, and some people, including some of our friends abroad, would see it as a step toward nationalization of the banking system. I do not think the change would achieve any positive benefits to balance the harm it might do.

Now, as I pointed out, there are differences between State and National banks. All national banks are compelled to be members of the Federal Reserve System. State member banks do not have to be members of this System.

The majority of the banks of the country, because of this compulsion, have been in the System, and we have been able to maintain standards that might be lowered to the lowest common denominator if we did not have this membership, and this stock. While I do not want to make a big point of it being attractive as an investment, it is certainly one inducement. You can take 6 percent of your capital and surplus and you get a stock interest.

Now, we could have another device—this was just a device—for electing the A and B directors in some rational way.

I have weighed this many times, and I think if we were beginning the System today, I want to be completely honest with you, we might not start it this way today. But in the light of 50 years of experience, and the heritage of corporate management that we have tried to develop in the Federal Reserve banks, where we have tried to get the benefit of private management along with public management, I believe on net it is better to retain the stock.

Mr. BOLTON. Well, when the System was originally established, weren't the contributions for the stock considered in the same way an equity investment is in a corporation?

Mr. MARTIN. That is correct.

Mr. BOLTON. They were in there in order to get the System going.

The CHAIRMAN. Would the gentleman yield briefly?

Mr. BOLTON. May I finish the statement? To get it going and produce a reserve that did not have the common cost of the Federal Government as a cushion.

Mr. MARTIN. That is correct.

Mr. BOLTON. I will be glad to yield to the chairman.

The CHAIRMAN. That being true, why did some of the banks use their capital for operating expenses? Some of this capital stock was used for operating expenses.

Mr. MARTIN. Well, they needed it.

The CHAIRMAN. I know. But that is contrary to the principle announced by the gentleman from Ohio.

Mr. BOLTON. Excuse me, it is what I was trying to imply in my question, Mr. Chairman, frankly, on the surface, for a fellow like myself who is just recently getting into this, let us say, as a second exposure only, on the face of things, does not seem to make sense that we should not pay off the stock and return to the Treasury the amount which is paid each year in dividends, therefore, in effect, save the operation of the Federal Government this amount of money because the funds of the banks would then not be tied up, and would be able to operate normally.

Mr. MARTIN. I cannot quarrel with that analysis except on the psychological basis and, as I said a number of times, I do not think the System will stand or fall on this. By and large, I think it would be wiser to retain it the way it is.

Mr. BOLTON. Along the same line, Mr. Chairman, the statement shows, I think it is about $33 billion in the portfolio. How was this created? Was this just made or did this come out of the operations of the System? How was this made?

Mr. MARTIN. This came out of the operations of the System in purchasing Government securities. This is the fruit of the work of the Open Market Committee.

Mr. BOLTON. I would like to again, shifting water, go back to a statement of the Chairman who stated that the long-term interest rate is, and I presume we were then talking about, purely about, Government obligations, was set by the President, but actually the real interest rate, the real return on the Government securities, regardless of what the face interest bore, the real interest is actually set by the market; is that not right?

Mr. MARTIN. No question of that. When I said, "set by the President," I meant that he has to sign for everything beyond 90 days or 6 months that the Treasury puts out. He has to approve the issuance of that. That is what Mr. Patman and I were referring to.

Mr. BOLTON. I see. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Martin, I will try to be brief. Suppose we were to deny any bank the privilege of getting its checks cleared, directly or indirectly, through the Federal Reserve System unless they were members by the payment of this small fee. Don't you think that would be a sufficient inducement?

Mr. MARTIN. It might be, Mr. Patman. It depends on the charge.

The CHAIRMAN. Well, you know that is quite a valuable item to each bank. Now banks that are not members of the System get their checks cleared by the Fed through their correspondents that are members, and they get the same service members get. So there is no inducement to be members, from that standpoint. But if you charged them for the clearing of their checks, I think that would be some inducement.

Now I do not know of anyone who wants money too loose or too tight. The question is who is to guide whether it is tight or loose. The issue here is, I believe, whether an agency that has such vital powers should not be accountable to those elected by the people, so that they would be responsible, if not directly, at least indirectly to the people, the electorate. Because when people come into office, like a new party, they have maybe sweeping reforms. They have things they want to do, and I think they ought to be charged with it, and if they do not succeed, the people should be allowed to vote against them.

But if we have an independent body like you are insisting that we have, which is almost a dictatorship, the people have no way to express their disapproval.

They do not vote against you at any time in the future. You are in a stormproof celler with all modern conveniences. You have a 14-year term and cannot be reappointed.

Mr. MARTIN. Now, you are underestimating your own activities, Mr. Patman.

The CHAIRMAN. You have nothing to lose at all.

But now somebody connected with the administration who is responsible to the administration, they have something to lose. You have nothing to lose. You cannot even lose your job.

Mr. MARTIN. I can do pretty good——

The CHAIRMAN. And that is the reason, I believe, that an agency that is under obligations to the Government, that is in power by reason of the confidence of the people, is much better than one that is off to the side and not directly responsible.

You see, a politician has the greatest responsibility of anybody. He has many decisions to make, and they had better be good ones, because if they are not in the people's interest, the people will turn him down, as they should.

But here you are off in a stormproof cellar; they cannot reach you; they cannot vote against you, they can hardly get to you to criticize you.

Mr. MARTIN. Well, Mr. Patman, I am very humble as a nonelected officer of the Government, in the face of you who do face the electorate from time to time. But I want to return to the fact that the Congress does have the power to coin money and regulate the value thereof.

In an evolutionary way through the first bank of the United States, and the second bank of the United States, down to the Federal Reserve System, the Congress determined that in their interest as well as the country's interest they would delegate this authority to the Federal Reserve Board. We would have a managed currency. In the early stages, you remember, Mr. Hamilton had great difficulty even getting access to the books of the first bank of the United States. The people were so afraid of the Government with respect to the money power.

Now, that shifted in Andrew Jackson's time. He did not destroy the second bank of the United States because he thought it was bad. He just thought it was not responsive enough to the people.

Now we have brought into being a Federal Reserve System, following the money panic of 1907. The Congress has delegated this authority to us under the trust indenture of the Federal Reserve Act.

Now, we do bear the slings and arrows of the public. You are in the position of being able to blame us if it goes wrong. We are certainly not asking for your applause if it goes right, but to say that if things collapsed we would not bear the brunt of the public opprobrium I do not think is quite a fair approach to it. I think we will bear the opprobrium of the people if things go wrong, and we have to, this is part of our responsibility.

I say quite respectfully that this may be the wrong setup, but I do not think so. I think it is a very effective and a wise one.

You think we would be better off if the chairman of the Board were the Secretary of the Treasury. He is subject to appointment by an elected official, just as I am, but the President can remove him. He does not have a term of office the way I have.

People, through the ages, have come to feel that money will not manage itself, as has frequently been said, from Walter Bagehot down, and that money management to be effective and useful should be insulated so far as possible from private pressures just as much as political pressures; but that it ought to be given a chance to develop itself without being directly the result of those pressures.

Let me say to you I do not believe it will ever be completely insulated from those pressures. Nobody who has been in my position believes that there are not pressures that are brought to bear on the Chairman of the Federal Reserve Board. They come from every direction. But I am given the ability to resist them by you people.

If you people want to take that away or want to change that or want to place in the hands of the Treasury the power to create money that can be done. It would be very nice if we could finance the Government by just selling our debt, whatever it is.

The CHAIRMAN. No one is advocating that.

Mr. MARTIN. When you talk about removing $300 billion, when you say that if the Federal Reserve had acted wisely we would not have any debt, I say it would be very nice if we could just finance the Government by selling bonds to ourselves and then writing it off.

The CHAIRMAN. Oh, I did not advocate just issuing bonds.

Mr. MARTIN. I did not say you were advocating it. I said that is where it would lead.

The CHAIRMAN. If you had just charged the interest rates charged by Mr. Roosevelt and Mr. Truman, say, from 1939 until 1951, our debt would be greatly reduced now. And if you had followed full employment momentary policies these last 10 years we would have had some big surplus budgets instead of deficits and we would have had still less debt today because of these full employment surpluses.

About the first and second banks of the United States, now, they had 25-year charters, I believe—maybe 20, I do not recall exactly—but anyway their charters expired.

Now, this third Federal bank, the Federal Reserve System, had a 25-year limitation on its charter, and some people opposed the Federal Reserve System. The big banks opposed the Federal Reserve System, I do not think there would be any denial of that, when it was established, they did not like it, but as time went on it began to look like they might begin to get more of a voice in the Federal Reserve, that had to do with the volume of money and the interest cost. They began to like the Federal Reserve.

So in 1926 or 1927, along in there, I do not recall, when Mr. McFadden was chairman of this committee, they rushed through a bill right quick to take off that 25-year limitation because they could see coming up what happened to the other two banks of the United States, and they did not want to go through that. So while the going was good they got that limitation cut off, and now it is a perpetual charter, so to speak.

Mr. MARTIN. But you can change it at any session of the Congress.

The CHAIRMAN. I know we can. But you see there are lots of problems there, you know. It does not take very many to block the passage of a bill because there are so many people who can say, "No," in a legislative body and make it stick.

So the first and second banks, they had a limitation and they did expire. This third bank might be a lot better today if it had gotten right up to the 25-year limit and Congress had looked it over good for its first 25 years, and this national debt might—and I am sure it would—be a lot smaller, and our country, I believe, would be in better shape. But by rushing through that bill to take off that 25-year limitation that contest did not come off.

Now, in your case, you are so far removed—you talk about isolation, you have real isolation. You are isolated against the voters, you are almost isolated against Congress. You just tell Congress to do anything they want to, and they cannot do anything with you. You have got a 14-year term. You cannot be reappointed anyway, you have got nothing to lose, you have got nothing to gain. This is the most important power the Government has, the money power, and it is all to the side, and we cannot reach you like we can other agencies.

Other agencies have to have an appropriation. Congress passes on that. The committees of Congress, passing on the appropriation of the Federal Reserve, would have you up there, Mr. William McChesney Martin and say, "What have you done with this money and that money and what are you going to do?" and you would have to account for it.

But here you are even isolated against the Appropriations Committees. You have this back-door financing, and you are allowed to buy Government bonds and pay nothing for them.

Mr. Bolton asked you what you paid for them. You said you created money, which is right. You paid nothing for them. You get all the money you want from the interest on these bonds and you do not have to deal with an Appropriations Committee, so you are isolated against the voters, you are isolated against Congress, you are isolated against the committees. You are just in a stormproof cellar with all modern conveniences, Mr. Martin, and my complaint is that a Board with as much power as your Board has should be under just a little bit more control of the people of the Nation. When the people express their will and elect an administration, they expect that administration to carry out the promises that are made, and here you are occupying a position where you can veto everything that the Congress does and everything that the Executive does, and what can we do about it? Nothing; absolutely nothing, and that is what I would like to change.

Now, a while back the President of the United States had to select a Chairman of the Federal Reserve Board. Maybe he would have selected you anyway, but that is not the point. The point is that he had to pick one of the seven Governors. The president of the United States was in a straitjacket. He did not have the freedom of choice. It is not democracy to give the President of the United States no freedom of choice. He could not go out and pick the best man or woman in the United States to exercise the powers of the Chairman of the Federal Reserve Board, which is more power, in many ways, than the powers of the President of the United States, and the powers of the Congress of the United States.

He did not have a right to pick out the best person for that. He had to take one of you seven. Maybe you were the best one, but what I object to is the fact that he had to take one of you seven. That is putting the President in a position of no freedom of choice which, I think, is entirely wrong.

For all these reasons I think we ought to seriously consider a Board that will be obligated to the people, and in some way not set off to themselves.

I believe the bankers have too much control over the volume of money and the cost of interest. I honestly believe that, Mr. Martin.

I am not impugning your motives, I am not questioning your honesty or sincerity of purpose and I have never done that. I think you are a fine man. But you have 12 banker representatives on the Open Market Committee, along with seven members of the Board, and normally you would know who would win. Of course, I know you are a strong man. You would stand up to them and fight, but I doubt that you have won any battles. In fact every battle I have known of you lost because every time a question of low interest and high interest came up the high interest man always gains, and that is where the bankers come in. They make money out of high interest. It is in their interest, they think, to help the bankers help the country, and I do not criticize them for thinking that, although I disagree with them.

So these are the differences between us, the things we expect to pursue here, and we want to get all the information we can on them.

Mr. MARTIN. Let me just return the compliment, Mr. Patman, by saying that one of the nice things about the duels that you and I have had, if I can use that phrase, is that neither one of us impugns the motives of the other.

The CHAIRMAN. That is right, and I am very proud of that.

Mr. MARTIN. But we are both trying to serve the public interest.

The CHAIRMAN. That is right.

May I bring this up: Of the 62 former presidents of the 12 Federal Reserve banks, not counting the 12 presidents currently serving, 9 served only one 5-year term, and 37 served over 5 years; 20 served over 10 years, 6 over 15 years, and 6 over 20 years.

The 16 not accounted for served less than 5 years, their terms evidently cut short by death, resignation, or disability. Thus it seems quite customary for Federal Reserve bank presidents to serve more than one term.

If we assume that these men like their jobs and want to continue to hold them, we can readily see that not only are the six banker-elected directors able to elect a president with views favorable to private banking interests, but they are also able partially to insure his continued good behavior by threatening not to reelect him. I think there is substance to that, Mr. Martin. These people who are serving as presidents of Federal Reserve banks, one of them gets as much as $70,000 a year and all expenses, does he not?

Mr. MARTIN. That is correct.

The CHAIRMAN. And others are pretty well paid, especially where they are not doing much, and they like that.

Mr. MARTIN. Well, I insist they are doing quite a bit, Mr. Patman.

The CHAIRMAN. I have often said that in the 11 Federal Reserve banks outside of New York, all the people working really for the Federal Reserve carrying out the Federal Reserve Act, can be put in a room one-third as big as this and carry it out. The others are just used for clearing checks and different things like that, but not directly connected with the administration of the Federal Reserve Act.

We will have more and more of that, Mr. Martin, as we go along. But the point is that these are good jobs these presidents have. I am not impugning their worth. They are wonderful men, I like them all, but they are human beings. They are going to carry out the will of their directors, and the bankers who elect a majority of the directors. You cannot expect them not to, and they have too much control over the monetary affairs of this country, according to my beliefs. They have a reason to cooperate with these six of the nine directors elected by the banks, because they might want to serve again, just like Members of Congress want to be reelected, and they want to do things that will not cause their defeat.

I think that there is strong reason to believe that they are influenced by the private bankers in that way.

Mr. MARTIN. May I just comment, Mr. Patman——

The CHAIRMAN. Yes, sir.

Mr. MARTIN (continuing). Because I know you do not intend it that way, but I just wanted to be on the record that the integrity of these men is such that in my judgment they could not be captives of the bankers.

The CHAIRMAN. Oh, they would not be. Neither would a Member of Congress be captive of any group of his constituents, but we are not going to do anything to——

Mr. MARTIN. I know you do not want to impugn their integrity at all.

The CHAIRMAN. No, sir.

Mr. MARTIN. But I really want to point out that is really what one of the basic problems is.

The CHAIRMAN. I certainly would not want to impugn their integrity; no, sir. But I do honestly believe that our national debt is too high by reason of the practices of the Federal Reserve System, which were unfortunate. I think that our national debt would be much, much lower if it had been operated so that the people's interest and the Government's interest had been considered above everything else. I honestly believe that.

I am apprehensive, and I am afraid if it is not changed, Mr. Martin, in 15 years we will have a $600 billion debt, and——

Mr. BOLTON. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. BOLTON. You made the statement on two different occasions during these hearings, and because it puzzles me I would like a little explanation of it—I do not see how a government can spend more than it takes in year after year without having a debt.

The CHAIRMAN. Well, you have a debt that way. I can give you a good verse and page on this deal. You see back in 1943 I went before the Ways and Means Committee. At that time our national debt was about $132 billion, and I said that it looked like our national debt would be $300 billion by the end of the war. And I did not object to heavy taxes. I felt like Mr. Roosevelt was right that we should pay half of the cost of the war and the other costs of Government as we went along, and because people were making money it would siphon off purchasing power, and it would be so much nicer to do it that way.

I advocated heavy taxes, and then I advocated people buying bonds that they could buy with their own money out of real savings. But I suggested that the Ways and Means Committee change the laws so that after the people had bought all the bonds they could and wanted to buy with their money, and the corporations had bought all the bonds they could buy with their money, if more money was still needed, the Fed should create it. I said that the Treasury should issue bonds and the Fed would buy them, and there would be no interest, and it would be a 2½-percent repayment of principal every year, and in 40 years it would be wholly paid off. I advocated that, and if we had started that back 20 years ago, we would have a lot less national debt today.

Mr. BOLTON. How would the Federal Reserve have done this?

The CHAIRMAN. Just like they bought the $33 billion in bonds. You see, there is no limit to what the Federal Reserve can do. They can buy a trillion dollars worth of bonds; isn't that right, Mr. Martin?

Mr. MARTIN. Well, there is a limit.

The CHAIRMAN. What is the limit?

Mr. MARTIN. In the statute, you know, we have to——

The CHAIRMAN. I am talking about the Federal Reserve.

Mr. MARTIN. Well, I am talking about the limit with respect to the gold requirements that we have. We cannot just create money indefinitely beyond that. But to come back to my earlier point, it would be very nice if the Federal Reserve could just buy these securities, which in a sense is the Government buying them from itself, and then cancel them out. But I do not believe there would be many people who would hold Government bonds very long if that were done.

The CHAIRMAN. I did not advocate that you create money indefinitely. I advocated that the Federal take care of these bonds and that they be paid off 2½ percent a year.

Mr. MARTIN. I do not believe a lot of people would believe they would be paid off.

The CHAIRMAN. We did not get anything like that done at that time, because during the war people were not paying much attention to logic and reason, and if the leaders suggested something, people would do it. We did not pay much over 25 percent of the war as we went along.

Mr. MARTIN. I agree with you that it would have been better to have increased taxes more than we did during the war.

The CHAIRMAN. Yes, sir. I advocated 50 percent all the way through, and I voted against the excess profits tax repeal at the end of the war because I wanted more taxes to be paid on the national debt.

Mr. BOLTON. The fact is that blame cannot be placed on the Federal Reserve System for not doing it.

The CHAIRMAN. Well, they could have advocated it. If they had come in and advocated it it could have been done.

Mr. MARTIN. I doubt that, Mr. Patman. We do not have that influence.

The CHAIRMAN. Well, you have more than you think.

Anything else before we close for the day? Well, Mr. Martin and Mr. Balderston, we appreciate your attendance, and we will try not to impose on you any more than we can help, but it is possible we would like to have you up here again later on, and if so we will get in touch with you and we will agree on a time mutually satisfactory.

Tomorrow we will have three members of your Board, and then after that we are going to have the presidents of the Federal Reserve banks, two a day. We expected to have the Secretary of the Treasury after the Chairman of the Federal Reserve Board, because he logically belongs there, but the Secretary of the Treasury is engaged in some matters right now that he cannot leave very well, possibly some of it in connection with the tax bill, and we agreed to postpone him until after the presidents of the banks were heard. He will be here some time in the early part of February. If there are any suggestions you have now or if any of you gentlemen wish to offer suggestions to the committee at any time, we shall be very glad to receive them. You will be allowed the privilege of extending your remarks in the record, including anything that you think is germane to these hearings.

Mr. MARTIN. Thank you. We are at your service.

The CHAIRMAN. Thank you, sir. We will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:45 p.m., the committee recessed, to reconvene tomorrow, Thursday, January 23, 1964, at 10 a.m.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

THURSDAY, JANUARY 23, 1964

House of Representatives,
Subcommittee on Domestic Finance of the
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Minish, Weltner, Widnall, Bolton, and Brock.

The Chairman. The committee will please come to order. We have this morning as our witnesses Gov. A. L. Mills, Jr., Gov. J. L. Robertson, and Gov. Charles N. Shepardson. We are delighted to have you gentlemen.

We had two members of the Board of Governors yesterday, the Chairman and the Vice Chairman. We have you three senior members today, and the two junior members, who are not in the city, we expect to have later on. Do any of you have prepared statements?

STATEMENTS OF A. L. MILLS, JR., J. L. ROBERTSON, AND CHARLES N. SHEPARDSON, GOVERNORS, FEDERAL RESERVE BOARD

Mr. Mills. No, sir.

The Chairman. You would just like to answer questions then, I assume. We have before us, gentlemen, a reevaluation of the Federal Reserve Act for the past 50 years.

We know the strength of the Federal Reserve System, and we believe we know some weaknesses. It is not our desire to injure the System. We will try to keep the good, and if there is any bad, we expect to recommend that changes be made.

Mr. Mills I believe is the senior of the three. Would you like to comment on the Federal Reserve Act over the last 50 years, just a thumbnail sketch, Governor Mills, and tell us what you consider the strong points and the weak points?

Mr. Mills. Mr. Chairman, the most effective answer that I could give to your question is if the committee will bear with me, to allow me to discuss the various measures that you, sir, have introduced.

The Chairman. I will ask about those if you don't mind. First is the one about—we will take them up in order—about the retirement of the stock, and we will just get your brief opinions on it, each one of you, and then we will go to the other bills.

There are five bills here. Suppose you give us your opinion first on the one about reimbursing the banks the amount they paid in for what is known as stock. What do you think about that, Governor Mills?

Mr. MILLS. Mr. Chairman, that would be a very drastic revision of the original principles and spirit of the Federal Reserve System which provided, as has been brought out in previous discussions and hearings before your committee, a mixed representation of private and public interests acting in the public interest. If the Federal Reserve bank stock was retired, in my own thinking the result would be to weaken the very happy combination that now exists, and in a sense draw the System by one step nearer to nationalization and to a closer relationship with the executive branch of the Government than was intended by the framers of the act.

The CHAIRMAN. I believe that clearly expresses your view. Governor Robertson, suppose you express your view on that bill.

Mr. ROBERTSON. Could I take 30 seconds to say something else before that?

The CHAIRMAN. Yes, sir.

Mr. ROBERTSON. Because I would like the record to show that I think these hearings are not only appropriate but very well timed. I think that any agency performing as important a function as the Federal Reserve System performs should be scrutinized by the Congress from time to time to see whether or not it is up to date, whether its organizational setup is what the Congress wants, whether its policies are in accord with what the Congress wants, and it seems to me that this should be done at a time when it can be looked at objectively and dispassionately, and I believe this is such a time.

Therefore I think that it is all to the good that you are taking a look at the whole System and all aspects of it. I would like to add that I think the scrutiny which you, Mr. Chairman, have personally lavished on the system over the years has been beneficial in more ways than you know, because it has served to keep the System on its toes.

I think that the System is a better system because of the fact that somebody has been scrutinizing it. I think the prodding that you have done as an individual has resulted in real improvements. I think we are in a much better position to justify whatever actions we take as a result of that than we otherwise would be, and yet I don't think it has resulted in the System being so afraid of making a mistake that it has always acted in a cautious manner. I think it has realized that it would make mistakes from time to time and it always will.

Having said that, you will probably find that I am not in accord with many of the suggestions which are here, but this doesn't mean that they shouldn't be discussed. They should.

As for the desirability or undesirability of retiring the stock of the Federal Reserve banks, I think there is very little to be gained and very little to be lost if this proposal were enacted. I think the System certainly has no need for the funds represented by that stock. It was a desirable way in which to set up the System, to get it launched in the first instance, but it isn't needed at this time.

It seems to me that the absolutely safe, tax-free, 6-percent return on stock issued before 1941 is probably one of the best assets in any bank in this country, even though it is a very tiny part of any bank's annual income. Unquestionably the expenses of operating the System would be reduced if the stock were eliminated by the amount of dividends paid each year and by the cost of handling stock transactions. But what the effect would be on the allegiance of commercial banks to the System—and we need member banks in this System—the extent to which the prestige and status of the System would be lessened by enactment of the proposal is anybody's guess.

If it were bad, I think it wouldn't be worth it, but if it weren't, and anyone can guess, then I see no real problem involved in this particular proposal.

The CHAIRMAN. Thank you very kindly. Governor Shepardson?

Mr. SHEPARDSON. Mr. Chairman, I can add very little to what has been said. It seems to me that this question is not one of great importance on either side. Admittedly in the beginning the capital stock did provide a base for the start of the System. At this time I don't think it is significant in the operation of the System.

To me the principal question here is what the appearance is as an organization, functioning as the System does as the central bank of this country, whether or not the image of that organization would be affected by the presence or absence of a capital structure. I am not in a position to judge what the reaction may be. It might be adverse, it might not.

So far as affecting the membership of the banks, certainly it is not a deterrent to membership at the present time, because, as Governor Robertson has mentioned, it is a good investment.

The deterrent to membership is not in the stock retirement. It is in other areas.

The CHAIRMAN. I want to ask you gentlemen something further on that particular bill. Don't you think the ownership of this stock creates the impression that the banks own the Federal Reserve System?

Mr. SHEPARDSON. Mr. Chairman, I think that might have been true, probably was true at the time the System was created. I think the discussions that have been held on this point over the years have completely disabused any such thought in the minds of bankers, and I think the public generally. I don't think that it is a factor today. I think it is well understood.

The CHAIRMAN. What do you think about that, Governor Mills?

Mr. MILLS. Mr. Chairman, you will find my remarks at a different scale than either Governor Robertson or Governor Shepardson. I place great store and importance on the stock ownership.

The CHAIRMAN. I am just talking about that impression. Now, do you think that the "stock" creates the impression in the minds of the bankers and other people that the private banks own the Federal Reserve banks?

Mr. MILLS. If you go back to the fact that there are nine directors of the Federal Reserve banks of which only three are bankers, three represent the public and three are elected from the business interests, the banker representation is minor, and by and large in my observation over the years the directorships of the Federal Reserve banks have been indoctrinated with a very high degree of public interest, and if there were any inclination to press the private interests above the public interest, they have refrained from doing so.

There is a symbolic importance in the ownership of Federal Reserve bank stock because the Federal Reserve banks, in being organized as corporations with a capital and surplus, it gives the opportunity and the right to the directors to guard the operation of those banks in the light of the risks that they take, and to apply their own judgment as to their proper administration, which is of value to their public officials and to the overall public interest represented in the banks.

If you withdraw the capital stock and there was just a symbolic interest in the Federal Reserve bank, in other words the directors became merely an advisory body, I think it would so detract from their lively interests and their intent to supervise adequately the System, that the general public would stand to lose.

The CHAIRMAN. You do not claim though, Governor Mills, that the banks own a proprietary interest in the Federal Reserve banks?

Mr. MILLS. No, sir.

The CHAIRMAN. They do not own a proprietary interest, is that right?

Mr. MILLS. Indirectly Chairman Martin has chosen a happy expression, that the stock in Federal Reserve banks is not an equity stock. In essence it is a preferred stock, in which the member banks are returned a dividend, and beyond that the earnings that accrue to the Federal Reserve banks of course funnel net to the Treasury.

The CHAIRMAN. Governor Robertson, do you believe the ownership of this stock gives the banks a wrong impression that they own a proprietary interest in the system and own the system?

Mr. ROBERTSON. I think the ownership of stock in the Federal Reserve banks has led some people, including some legislators, to suspect, I think mistakenly, that the System is banker dominated.

The CHAIRMAN. That is right.

Mr. ROBERTSON. I don't believe that the banks themselves really believe that they own the System or can control it.

The CHAIRMAN. Now that covers generally the first bill. Now the second one.

Mr. BOLTON. Mr. Chairman.

The CHAIRMAN Yes, sir.

Mr. BOLTON. Is it your thought as to procedure that the members of the committee should ask questions?

The CHAIRMAN. I thought we would just go through the bills briefly and then yield to you gentlemen. Will that be satisfactory? Then in that way we will surely get them all in the beginning.

Now if you will make your comments brief, gentlemen, so we can have your ideas about the bills, and then we will yield to the other members so they may ask questions. Now the second bill is H.R. 9631 proposing to change the Board. That is really in essence what it is. It is changing it from what some people call an independent interest Board to one where the Secretary of the Treasury would be Chairman, and where the terms are shorter. What would be your comment on that bill, Governor Mills.

Mr. MILLS. Mr. Chairman, that would be again in my personal opinion a further step toward the nationalization of the Federal Reserve System and its coverage into the executive branch of the Government, which is a moot question, and it has both its antagonists and its protagonists. But the theory has been continuously expressed that the Federal Reserve System is independent within Government, but at the same time you could add that it is not irresponsive to the thinking and the policies of whatever administration holds office.

So that you have sort of equalization there that is beneficial by insulating to a very moderate degree the Federal Reserve System from the executive branch of the Government.

The theorists have always held, with good reason, that it is to the public advantage to protect the central banking authority from being embroiled in politics by way of maintaining its direct responsibility to the Congress in carrying out and fulfilling the delegated responsibilities that Congress vests with us.

The CHAIRMAN. What is your comment, Governor Robertson.

Mr. ROBERTSON. I think this bill would effectively destroy the independence of the system and would make it—and I think it is perhaps so designed—an appendage of the Treasury. I think this would not be wise. I think that there is a real need to separate monetary policies from fiscal policies, because of the possibility of utilizing the money creating facilities of the Federal Reserve System for purposes of financing unsound operations on the part of the Government.

We have seen this happen in many other countries of the world; it is happening right now, and I think unfortunately. I think that a reversal of our present setup to one such as would be contemplated by this bill would not be wise. Do you want comments on individual aspects of this bill?

The CHAIRMAN. No, sir; just the general bill. Governor Shepardson?

Mr. SHEPARDSON. Mr. Chairman, it seems to me that the integrity of the money supply of the country is vital in the life and economy of the country, and that the watchdog, if you please, over that function should be removed as far as possible within a free government such as ours, from the day to day swings and pressures. It seems to me the organization of the system as it was created, and the organization of the Board, with the long term, was a definite move to provide that insulation.

It seems to me that is essential as a safeguard to the continuing integrity of the money supply, which shouldn't be subject to day-to-day pressures. Those pressures change, and under, in some instances, widespread emotional feelings. At such times some things may be undertaken that in the long run and on more sober reflection later we might regret.

To the extent that those pressures can be minimized, by a shock absorber if you please, a balancer to try to smooth out these fluctuating pressures, I think the present organization or something similar to it, to the extent that it insulates the board from those daily pressures, is in the interests of the economy as a whole.

I think that a move such as is contemplated here, particularly the move to reestablish the Secretary of the Treasury as a member and Chairman of the Board, would be unfortunate. The Secretary of the Treasury has a responsibility in his function of handling the public debt that, at times, could be a matter of conflict of interest with the longtime stability of the money supply. I think that a wise move was made when that separation was made some years back. I think it would be unfortunate to reverse the setup.

The CHAIRMAN. All right. Now the next three bills are short ones. The first one, H.R. 6985, is to provide that the interest that is received on the open market portfolio should be covered into the Treasury as miscellaneous receipts, and authorize Congress to appropriate the money for the expenses of the Federal Reserve Board and the Federal Reserve banks. Now what is your brief comment on that, Governor Mills?

Mr. MILLS. Mr. Chairman, I am not certain what the complaint is with the present arrangement whereby in keeping with this theory of independence the Federal Reserve System is granted the stewardship and the expenditure of the funds that reach its possession through its earnings.

Now you will recall through your very close familiarity with the history of recent years, that at one time it was proposed, and the Federal Reserve System has repeated its recommendations, that there be a franchise tax enacted that would by statute funnel the earnings of the System beyond its expenses to the Treasury. Approximately the same purpose has been accomplished by a tax, an interest tax on the Federal Reserve bank issuance of Federal Reserve notes, so that all earnings above expenses and some retentions to capital accounts move to the Treasury.

Now, the only reason that I could see for changing that program would be a distrust or lack of confidence in the way by which the Federal Reserve System handles these funds and safeguards them through its general supervision over the Federal Reserve banks and the management of those banks, and through the outside accounting, independent accounting that is done of its own affairs.

The CHAIRMAN. Governor Robertson?

Mr. ROBERTSON. There is no reason at all why the Federal Reserve System could not operate effectively on the basis of appropriated funds or on the basis of the appropriation process such as other Government agencies are subjected to. However, it seems to me that the purpose of this proposal is simply to reduce and eliminate the independence of the system which I think is bad and therefore I would be in opposition to the proposal.

The CHAIRMAN. Now Governor Shepardson?

Mr. SHEPARDSON. Mr. Chairman, I am not clear that it won't impede the operation of the System, because it is not clear to me how we separate certain types of experiences. In the operation of the System, operating through the Open Market Committee, in the purchase and sale of Government securities, as it relates to influencing the money supply, at times there will be profits, at times there will be losses. I would assume that those are part of the profits or expenses of the System. There have been times and conceivably will be times again when there will be considerable swings, and when the System might find it desirable to be engaging in operations which for the moment would incur considerable loss in the System account.

Now, I would assume that that is part of the expense of operating the System, and it is not clear to me, if we put this on a basis of turning in earnings and getting our operating costs through the appropriation process, how that could be taken care of. I think it would impede the efficiency of the System in its operations to influence the money supply according to the needs of the economy from time to time.

I also think that it would be one other step in impairing the independence of the System, which I stated earlier I think is essential in the idea behind the original creation of this organization to safeguard the money supply of the country.

The CHAIRMAN. Now H.R. 9686, to require the payment of interest on certain funds of the United States held on deposit in commercial banks, to provide for reimbursement of commercial banks for services performed for the United States, and for other purposes; would you like to comment on that one, Governor Mills?

Mr. MILLS. Mr. Chairman, I lack the knowledge and the competence to discuss that problem which is surrounded by many technicalities, and essentially is a matter subject to the discretion and the responsibility of the Treasury.

The CHAIRMAN. Yes, sir; I know that. Would you like to comment on it, Governor Robertson?

Mr. ROBERTSON. I would like to comment on it, Mr. Chairman.

It seems to me that the present arrangement for holding tax and loan accounts in commercial banks—certain types of tax receipts and proceeds from the sale of government securities—has some very desirable features.

The fact that these large payments are initially only transfers from the accounts of corporations and individuals to the account of the U.S. Government on the books of the commercial banks avoids reserve effects which would be disruptive to the smooth operation of the money market and the banking system as a whole if large sums were abruptly pulled out of the banking system. Care should be exercised to make sure it woudn't be difficult or impossible for the Treasury to maintain these accounts or for the banks to hold them, but the terms on which these accounts are maintained should be subject to review and analysis.

Activity in the accounts and most of the services performed by the banks for the Treasury are subject, in my opinion, to the same kind of cost analysis that is used on the accounts of large corporations. If further study should demonstrate that more service to the Treasury or even some cash payment of interest is possible and desirable it should be provided. However, any changes in the arrangement should be permissive rather than mandatory.

The Treasury should be left free to work out the details in a manner designed to protect all aspects of the public interest. For example, I do not believe that we would ever want to go so far as to require the Treasury to concentrate its balances in the hands of the highest bidders, the banks that would pay the largest amount of interest because even though such a policy might result in some small benefit to the Treasury from a dollars-and-cents point of view, it might lead to a general concentration of Government balances in the money centers, which would be very undesirable—again from my point of view as a matter of public policy.

The CHAIRMAN. Thank you, sir. Governor Shepardson, would you like to comment on that one?

Mr. SHEPARDSON. I don't think I can add materially, Mr. Chairman, to what has been said.

The CHAIRMAN. All right.

Mr. SHEPARDSON. I think that it is significant in the flow of funds in the banking system. As to the cost of service and the value of service rendered, I would feel that is a function that the Treasury is in a much better position to evaluate than I.

The CHAIRMAN. Now the last one here, H.R. 9687, if you gentlemen will comment briefly on it, then I would like to yield to the members of the committee to ask questions. It is a bill to amend the

Federal Reserve Act and the Federal Deposit Insurance Act by eliminating the prohibition against the payment of interest on demand deposits. Governor Mills, would you like to comment on that?

Mr. MILLS. Mr. Chairman, the best answer I can offer is to refer to Governor Robertson's statement and the concern he expressed with regard to Treasury tax and loan accounts, that a situation might develop which should be prevented, by which the bidding for interest on deposit accounts would draw funds into the banks of great size and best able to afford to pay that interest. The same possibility resides in this proposal that if there was a competitive race to pay rates of interest on demand deposits the smaller banks that are less able to meet that cost would lose funds to the larger institutions in the more important financial centers and, in doing so, their ability locally to finance their communities would be lessened by that loss of deposits.

The CHAIRMAN. Governor Robertson?

Mr. ROBERTSON. In my opinion, Mr. Chairman, there was no reason, no valid reason, in the first place to prohibit the payment of interest on demand deposits, but it was done and it is now a part of the warp and woof of our whole banking system.

I think what would happen if the banks were now free to pay interest on demand deposits is a matter of conjecture. I fear that it would result in higher loan rates or higher service charges in order to offset the additional costs, neither of which do I think would be desirable. I think it might also lead to some siphoning off from the banks in the inland part of the country to the large cities in times when they could utilize those funds more profitably. This I don't think would be good. Consequently, it seems to me the risk of transition from no interest on demand deposits to interest on demand deposits is not worth the effort. Now, this is quite aside from the question of time and savings deposits. There I think a mistake has been made all along. I think commercial banks should be in a position to compete for these funds, not only against each other but against other types of financial institutions.

If I had my way about it, the interest rate ceiling on time and savings would be raised so high that it would not constitute a barrier to free competition, and I think this would redound to the interest of the public as a whole.

The CHAIRMAN. Governor Shepardson.

Mr. SHEPARDSON. Mr. Chairman, I agree essentially with what has been said. There is only this further thought in my mind. We do know that a situation developed at one time that led to this prohibition of payment on demand deposits. I am not persuaded that human nature is so changed that it isn't desirable to continue to maintain that safeguard.

The CHAIRMAN. Thank you, sir. Now, then, I would like to yield to Mr. Widnall to ask questions.

Mr. WIDNALL. Thank you, Mr. Chairman.

The demand deposits are in different categories, aren't they, as to size of banks, the amounts that are actually held over a period of time, A, B, C?

Mr. MILLS. Did you refer to reserve requirements Mr. Widnall?

Mr. WIDNALL. Yes.

Mr. MILLS. That the banks are required to set aside from their demand deposits, the member banks, and have them in the deposit with

Federal Reserve banks a percentage which is 16½ percent for the Reserve city banks, the larger banks, and 12 percent for the other banks through the country.

Now in nonmember banks, some States have formal reserve requirements and they vary from State to State, but where reserve requirements are not imposed by law, they are carried out largely by the banks as a means of having a first line of cash defense to meet fluctuations or unexpected withdrawals of deposits.

Mr. WIDNALL. Where the Government is calling for funds and the funds are on deposit in large-, medium-, and small-size banks, the one that can expect the major calls almost daily are the large banks, is that not so?

Mr. MILLS. I believe so. that there are A, B, and C banks, and I forget which category the larger banks come into. But by and large, if I am correct, the Teasury, when it wishes to reconstitute its balances against its expenditures, draws first on the larger banks where their funds are more readily accessible, and only secondarily on the smaller banks which they are not inclined to disturb by withdrawals and interfere with the normal course of their operations.

Mr. WIDNALL. So that if interest was paid on these deposits, actually paid by the banks on these deposits, the smaller banks would be hurt more than the larger banks as I understand it.

Mr. MILLS. I couldn't answer that. That would be relatively—I would be inclined to doubt it, because I think the Treasury's dispersal of these funds in tax loan accounts is such that no one class of recipient banks would be disadvantaged relative to the others in the obligatory payment of interest.

Of course those deposits originally arise out of subscriptions that banks have made to Treasury offerings of securities, the proceeds of which are placed to the Government's credit in those accounts.

Mr. WIDNALL. Is the amount that is on deposit there a fairly stable balance or does it fluctuate violently throughout the year?

Mr. MILLS. There would be fluctuations, but at a guess there is a residue of deposits that would carry through over 12 months in the year, and, above that, fluctuations above that amount would of course depend on the Treasury's needs for drawing on those deposits to meet its outpayments.

Mr. WIDNALL. If interest was to be paid on the account, wouldn't there have to be some kind of guarantee as to the stability of a minimum amount in the account throughout the year, in order to make it a profitable rather than a loss operation as far as the bank is concerned?

Mr. MILLS. If I recall correctly, there is within the Treasury and the commercial banking system a program that would intend to analyze the exact status of those accounts, and to arrive at the kind of conclusions that you seek and which I couldn't answer.

Mr. WIDNALL. You say there is a program in effect at the present time that you haven't seen the results of.

Mr. MILLS. I believe so. I wouldn't want to be firm on that.

Mr. WIDNALL. I will follow up on that. For the benefit of the committee, could you give, could each of you give us some idea of your own background before you became a member of the Federal Reserve Board?

Mr. MILLS. Mr. Chairman, if I might, my background isn't one that Chairman Patman would welcome, and whether I have been as good a convert to a public servant as I hope I have been is for others to decide. But I am now in my 44th year of financial work, bank work. The first 32 years was as a commercial banker and employee and officer of commercial banks in Portland, Oreg., which was my home.

Mr. WIDNALL. What about you Mr. Robertson?

Mr. ROBERTSON. I have been in the Government service for 36 years. I worked here on Capitol Hill for a while, for 3 years while I was going to school. I was then in the FBI. I went with the Comptroller of the Currency as an assistant counsel in 1933 during the banking holiday, and eventually became First Deputy Comptroller. I was in the Navy during the war. I went to the Federal Reserve in 1952.

Mr. WIDNALL. Mr. Shepardson?

Mr. SHEPARDSON. Mr. Widnall, I was from the time of graduation from college, or after service in the Army in the First World War in land-grant college work as a professor of agriculture. In 1928 I went to Texas at a time the chairman will well remember when there was considerable distress about the one crop cotton farmer and a program to diversify farm income. I went down there as head of the dairy department at Texas A. & M. College to assist in promotion of a dairy program throughout the State. My training had been in dairy production. One of the first problems we encountered was the fact if you were going to put a man in the dairy business and finance cows, it took a different type of financing than it did to finance a cotton crop from planting time to picking time. I became increasingly interested in the matter of farm credit and farm finance.

I countinued at the college and was made dean of agriculture there in 1944 and came to the Federal Reserve Board in 1955. During my service in Texas, I became increasingly concerned in this matter of farm credit and finance, and for whatever background I have in it, it is what I accumulated out of that work.

My entire service was with the State agricultural college.

Mr. WIDNALL. I asked that question of all of you because I think there has been some question raised as to whether or not members of the Board had a prejudiced viewpoint because of what their background was prior to being a member of the Board.

I also know that you all take an oath in connection with your office to serve the public interest and not any special interests as I understand it. I would like to ask this further question.

There seems to have been some discussion as to whether or not Mr. Martin, the Chairman of the Board, runs the Board with an iron fist and his vote is the vote of the Board. Do you all indicate your own individual views? Do you all cast your own individual vote without pressures? I would like an answer from all three of you on that.

Mr. MILLS. The case is that policy decisions are reached by vote and the Congress very wisely requires that the Federal Reserve Board publish a report annually that gives the background of policy decisions, and the votes of the individual Board members which reflect differences of opinion as they occur and where they are of sufficient importance to an individual member to justify his dissent from a majority.

Mr. WIDNALL. I would like a statement from you, Mr. Robertson.

Mr. ROBERTSON. I would say no one knows better than Chairman Martin that I vote in accordance with my own conscience. My record of dissents over the years would so indicate.

Mr. WIDNALL. This is obvious from what I have heard. Mr. Shepardson?

Mr. SHEPARDSON. Mr. Chairman, frankly I have been most agreeably surprised at the lack of any intimation of pressure from the Chairman or anyone else in matters before the Board or any member of the Board. I have felt perfectly free and have sensed no indication of pressure from anybody to influence my decisions in actions before the Board.

Mr. WIDNALL. Thank you very much. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Mr. Robertson, you referred in your statement in opposition to H.R. 9686 that withdrawal of the deposits might disrupt the banking system. Why isn't it disrupted on April 15 when all the payments on individual income taxes come in?

Mr. ROBERTSON. That is the very point. You see, as these taxpayments are made they go into the tax and loan accounts of these banks. They aren't pulled out of the banking system at one fell swoop.

Mr. MINISH. I am talking of the individual.

Mr. ROBERTSON. But take any taxpayment you want, anywhere the payment comes in and is credited to the tax and loan account in the commercial banks; it stays in the banking system rather than going into the account of the Treasury in Federal Reserve banks and thus be pulled out of the reserve funds of the commercial banking system. You could have terrific swings in the volume of reserves of the entire banking system if you didn't have some sort of a procedure like this.

Mr. MINISH. Why do you feel that the banks shouldn't pay interest on this?

Mr. ROBERTSON. I don't say that at all, just the opposite. I say that these accounts should be subject to cost analysis just like any other account, and the Government should either get paid or should pay—depending entirely upon both sides of the coin—the services rendered by the banks and the benefit to the banks from the funds they hold. I take exactly the opposite point of view.

Mr. MINISH. If I understand you correctly, you agree that the bank should pay interest on the money it holds?

Mr. ROBERTSON. I don't say that. I say that you ought to subject these accounts to an analysis to determine whether or not the banks should pay for having these deposits. If the analysis turns out that they should, I say yes, they should.

Mr. MINISH. The analysis will show it isn't their money, it is the Government's money.

Mr. ROBERTSON. Oh, yes; it is the Government's money, but also these banks perform many services free for the Treasury.

Mr. MINISH. They should be compensated for that.

Mr. ROBERTSON. That is right. I assume the present setup is on the basis that the cost of the services is equal to the benefits which the bank gets, so that no one benefits, banks or the Government. If this is so, fine. I don't know this, and I say the only way to find out is to subject them to a cost analysis. That is, as I understand it, what is being done now on an experimental basis.

Mr. MINISH. Thank you.

The CHAIRMAN. Mr. Bolton?

Mr. BOLTON. Thank you, sir. Going back to the individual bills, gentlemen, first referring to H.R. 9631, this contains a provision which would subject the Federal Reserve System to audit by the GAO, which was not brought up in the original questioning. I wondered if you would each comment on that?

Mr. MILLS. Mr. Bolton, to tackle that subject may bring up institutional concerns that aren't justified, but over the years where there have been recurrent proposals to reduce the independence of the Federal Reserve System, it has been the sense of the officers of the Federal Reserve System that if the System were to become subject to examination by the General Accounting Office, that the next step would be to bring its operations under the coverage of the Budget Bureau and appropriated funds, and to terminate the present authority of the System to recruit for the Board in particular its personnel as its own wishes dictate, and not from the civil service list. So it is a fear that movements in those directions would set up a momentum that at its logical conclusion would change the character of the System and limit its independence.

Mr. BOLTON. Then I take it, Mr. Mills, that you would also oppose the appropriation process. I think I gathered that.

Mr. MILLS. Yes, sir.

Mr. BOLTON. Mr. Robertson?

Mr. ROBERTSON. I don't see how anyone could object to scrutiny by an impartial outside agency of the Federal Reserve System for the purpose of determining whether or not money has been stolen or wasted. If this is the purpose of it, that is one thing. If the purpose is to exert pressure on the independence of, or judgment of, the System, if it is to raise questions whether or not Open Market Committee meetings ought to be held every 3 weeks or whether that is wasteful or whether or not the Federal Reserve operations ought to be based on their profitability rather than economic factors, this is an entirely different matter. But from my point of view, there is no need for a GAO audit—and I have some knowledge of audits from my past experience. We do have in every Federal Reserve bank and branch a good internal audit system. Secondly, we do have a good staff of examiners of our own in the Board. They go into each of these Federal Reserve banks and branches each year. We have taken many steps to improve these examinations. They are still subject to improvement. But there isn't any other agency in Government that can do a better job.

Consequently I think it would probably be a waste of funds to employ an additional outside agency, whether it is the GAO or anyone else, to duplicate the job.

Mr. BOLTON. Thank you, sir. Mr. Shepardson?

Mr. SHEPARDSON. I have essentially the same feeling, Mr. Bolton. We do have not only this internal audit within the banks, which is directly responsible to the Board of Directors and not to the management of the several banks, we do have our own examination force.

It is constantly in the field checking these facts. In addition to that, to assure ourselves that we are keeping current with modern techniques in examination and audit, that we are maintaining appropriate standards, the Board has consistently for a number of years engaged the services of an independent nationally reputable firm of public accountants to review our procedures, to see that we are maintaining appropriate standards, so that personally I feel confident as a responsible officer of this Board that we are getting a review of the operations and expenditures that puts us in position to appraise these actions, for which we are responsible. From the standpoint of a change in the supervision, I would feel that it was, as Governor Mills has indicated, a possible step that might impair the present independence within the Government of a function that I think should be as independent as is possible in any public agency.

I think this might be one of the steps toward that impairment and I feel confident the job is being done at the present time.

Mr. BOLTON. If I could summarize what all three of you have said then, in effect you are opposed to the GAO audit, first, because you feel a satisfactory audit procedure is not being done, and therefore that this would be an additional expense to the Government, and secondly, because you fear that this would inject a policymaking audit into the purely monetary auditing proceeding, an outside policy.

Mr. MILLS. Mr. Bolton, may I add one comment. Chairman Patman, as you are aware, is examining the expenditures and the various activities of the Federal Reserve System, which is certainly in keeping with the responsibility of Congress to follow the activities of its delegates, and that is a very welcome program.

Now, it may develop that expenditures within the System might not in all instances meet the satisfaction of the investigation. If they don't, it will be an opportunity for corrective action on the part of the System, or to respond by explaining those expenditures to your satisfaction. But if the House Banking and Currency Committee is the parent, you might say, of the Federal Reserve System, in its vigilant observance of our activities and examination of those activities, it is a very wholesome plan or program.

Mr. BOLTON. Thank you sir. If I may now go to the bill which would remove the stock, I think, Governor Robertson, you mentioned that the interest paid on the stock was tax free. Just for the record that is——

Mr. ROBERTSON. Only on that which was issued before 1941.

Mr. BOLTON. Right.

Mr. ROBERTSON. It is about a quarter of the total.

Mr. BOLTON. On the face of it, this proposal would mean that the System would have $33 million a year and therefore certainly has something to advocate it. As I understood the Chairman yesterday, his objection to the proposal was on the basis, or one of the reasons that he favored continuation of the stock was that this ties in member banks and is an attraction to banks to join the Federal Reserve System. The proposal, the suggestion was made in the discussion yesterday that an additional attraction to pull member banks into the System would be to only furnish a canceling and forwarding service for checks to members of the Federal Reserve System. In your opinion would this add to the attractiveness of the System, and would it perhaps provide a greater incentive than the stock now does? I wonder if you would comment on that.

Mr. Mills. Mr. Bolton, you are addressing the question to me?

Mr. Bolton. To all three of you, sir.

Mr. Mills. I believe that there would be a loss if the membership in the System was identified merely by a certificate and not by a financial participation, that the Federal Reserve banks are in their operations in keeping with other financial institutions, and there is a symbolic importance in the private ownership, irrespective of the return on that ownership, that is an incentive to the directors of the Federal Reserve banks and the members of the Board of Governors to be stewards of that financial interest, and to see that the System is operated in accordance with financial principles, the best financial principles.

Mr. Bolton. Mr. Mills, on that point then would you feel that same stewardship feeling was present if you just did away with the interest?

Mr. Mills. Frankly, Mr. Bolton, I have never thought in terms of the interest or the dividends paid the Federal Reserve bank stock. There unquestionably would be a saving to the Treasury if those interest payments were terminated.

Mr. Bolton. Mr. Robertson.

Mr. Robertson. Mr. Bolton, I do not think that the existence or nonexistence of stock makes members or keeps banks from becoming members. This is merely one of the little items which I think doesn't weight heavily on either side. I personally think every bank in the country should be a member of the Federal Reserve System and should participate in what I think is the central banking function.

I think their reserve requirements ought to be identical among all banks, whether they are National or State, member or nonmember. This should apply across the board. Now there are means, of course, of enticing banks into membership by providing greater services, greater services than any correspondent bank can provide. But this I don't think is the way to go about it. I think that it ought to be done on a basis of a compelling national interest. Every bank should participate in the central banking function and carry its full share of the load, and not get a free ride by virtue of getting all the benefits of an economy which is influenced by the central banking system and still not pay the penalty of having reserve requirements equal to all of its competitors.

Mr. Bolton. Mr. Shepardson.

Mr. Shepardson. I couldn't add anything further. I agree completely with this last point Governor Robertson has made. If the System serves a function in our country, it does so through its effect on the money supply of the country, and to do that it must have a significant part of the total deposits of all banks represented. That being true, I don't see any basis for justifying a line that if we get enough, we don't need to bother if the rest aren't in. I think, as Governor Robertson stated, this is a matter of policy in connection with the money and credit of the country, that we are rendering a service to the whole country, and that all banks have a responsibility.

Specifically to the stock question, I don't think that is a significant factor one way or the other, and I do think it would be unfortunate if the System were to operate on a basis of trying to gain membership by the free services it might give them.

I don't think that is our function. Our function in the matter of these services is to render such services as will facilitate the economy of the country. The checking process for example some would say is a benefit to the banks. I say primarily it is a benefit to the economy. The depositors, the recipients of payments across the country, have those payments facilitated, and we are serving the economy.

Incidentally, it is a service to the banks. It is a part of the whole check movement, and our economy today works primarily on checks. We talk about currency, but most of our transactions are checks. In my opinion checks should move at face value, and we should facilitate their movement in the interests of the economy.

Mr. MILLS. Mr. Bolton, may I add a comment on the subject?

Mr. BOLTON. Fine.

Mr. MILLS. On this subject of stock ownership, ownership of stock is an investment, an investment in the Federal Reserve bank or any other corporation which also implies an investment at risk.

It can be argued of course that the risks incurred by the Federal Reserve banks are nominal, but on the other hand there are risks in looking to the future. You don't know to what extent they will grow.

Our entry into these swap arrangements, as they are called, reciprocally with foreign nations involve an element of risk that wasn't familiar to the System in the past. If at some unlikely time in the Reserve banks, in discounting paper for their members banks, or discounting for nonmember banks on an emergency basis, was obliged to absorb losses, it is necessary that the Federal Reserve banks have a proper amount of capital to protect them against those losses, and so that they would never have to become dependent on the U.S. Treasury to restore their capital. I think the capital stock ownership in the Federal Reserve banks serves that purpose of keeping in the mind of the directors of those banks the necessity of following the risks and the activities that those banks undertake.

Mr. BOLTON. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, sir. Mr. Weltner?

Mr. WELTNER. Thank you, Mr. Chairman. Governor Mills, I believe in response to the request for your views on H.R. 9687, you stated that you feel this would result in a reconcentration of wealth. Deposits, you feel, would move to the larger city banks, is that correct?

Mr. MILLS. Mr. Weltner, that is correct, and there is some indication of that kind of a development in the present activities of many commercial banks to issue what are called negotiable, time certificates of deposit, in which they attract funds on a term basis to the banks on an interest payment basis. Now we are told that some of the smaller banks find themselves unable to meet the competition, on the higher rates paid by the larger banks on these certificates, and are therefore concerned about losing funds that otherwise could be constructively employed in their own communities.

So there is an element of substance to the concern that might be expressed in that direction.

Mr. WELTNER. Is it true that a Reserve city bank has about a 4½ percent higher reserve requirement than country banks?

Mr. MILLS. Yes, sir; that is correct.

Mr. WELTNER. Isn't that a factor that would permit a country bank to compete, and actually give it a competitive advantage in paying interest on bank deposits?

Mr. MILLS. I would say that that is true, that they have less in the way of funds isolated on deposit with the Federal Reserve banks. But whether that is a sufficient differentiation to offset these possible difficulties I wouldn't be able to say.

The CHAIRMAN. Would the gentleman yield for a brief question?

Mr. WELTNER. Yes, sir.

The CHAIRMAN. The national city bank pays the same interest on time and savings deposits accounts as all banks; is that correct?

Mr. SHEPARDSON. Mr. Chairman, could I interject there? It is not the same payment of interest. I think we are confusing the rate of interest and the reserve requirement.

The CHAIRMAN. I know.

Mr. SHEPARDSON. The reserve requirement on savings, on time deposits, is the same in all banks.

The CHAIRMAN. In all banks, that is the point, the reserve requirements. You see they only have 4 percent, and in practice they comingle these reserves. If they have what is that, 12 percent in our national city banks, and add 4 to it, that is 16. That is 8. For practical purposes it is an 8-percent reserve.

Mr. SHEPARDSON. Assuming that they are half and half.

The CHAIRMAN. Where the time deposits are about the same as——

Mr. SHEPARDSON. That varies in different banks.

The CHAIRMAN. Excuse me, but I thought that point was important.

Mr. WELTNER. Governor Mills, what was the history of the movement of funds when it was permissible under the banking laws to pay interest on demand deposits?

Mr. MILLS. As a practical matter, and this is going back into memory in my earlier experiences in the banking business, that you didn't have the fluidity in the flow of funds, the availability of transferring them, that was made possible when the Federal Reserve Bank System was established, so that it wasn't a problem of great moment at that time.

In practice, the banks that paid interest on demand deposits were very largely located in the financial centers on the eastern and middle western and the Pacific seaboard. It didn't affect the smaller banks.

Mr. WELTNER. You say, then, that the actual movement was not such as to justify the fears, but that the situation is different; that we have a much more fluid situation now which in your opinion would result in movement of funds?

Mr. MILLS. Yes, sir; that is correct.

Mr. WELTNER. May I ask a question, turning now to the issue that was raised in regard to whether or not the general public believes that the Federal Reserve System is "banker dominated."

It is true, is it not—I direct this question to Governor Robertson because I believe he was the most explicit on that—it is true that banks do elect six out of nine directors——

Mr. ROBERTSON. That is right.

Mr. WELTNER (continuing). Of the Federal Reserve bank, and those directors elect a president. Is that not so?

Mr. ROBERTSON. That is right subject to the approval of the Board of Governors.

Mr. WELTNER. Right; and as the president is elected by the bankers, 5 out of 12 members of the Open Market Committee are elected indirectly by banker members. They comprise 5 out of 12 members of the Open Market Committee?

Mr. ROBERTSON. That is right.

Mr. WELTNER. Well, now wouldn't you say that that is a pretty fair indication as to the situation that the Federal Reserve System is banker dominated?

Mr. ROBERTSON. On the face of it you would certainly take it for granted that the System is subject to banker influence. Whenever you have a majority of the directors of the Federal Reserve banks elected by the commercial banks that are members of the System, and you have the President selected, as you indicated, by them, you would think certainly he is going to speak for them.

I think a very good case can be made in logic. This relates of course to the proposition that the Federal Open Market Committee operations should be transferred to the Board, which hasn't been raised here this morning but is contained in this bill. I think a very good case can be made for that proposition; namely, that this is so important a function that the decision should be made by a body composed exclusively of people who are 100 percent Government officials—men who are appointed by the President with the advice and consent of the Senate, and are, therefore, in the fullest sense of the word Government employees.

A very good case can be made for that. But I must say that on the basis of my observation of open market operations over the past 12 years, I do not believe that any Federal Reserve bank President could have been more objective if he had been an employee of the United States rather than the Federal Reserve. It has been amazing to me to see the extent to which they have remained objective.

And I think the traditions within the System are such as to assure real effort on the part of every individual to remain impartial and objective, and avoid any conflict of interest.

Mr. WELTNER. Governor Robertson, I don't mean to pry into the operation of the Open Market Committee, but as a matter of practice has there been any healthy dissent by the five Presidents who comprise a portion by that Board to the general conclusions of the Governors?

Mr. ROBERTSON. I would say that while I have been on this Board, there has never been an occasion in which the Presidents have lined up against the Board. There have been occasions on which the Board itself has been split, and the Presidents have been split, and the splits are not always the same, which would indicate that they are doing just as independent thinking as members of the Board themselves.

Mr. WELTNER. Thank you. If I have any more time, Mr. Chairman, I would like to inquire of the other two members of our panel today as to their feeling on Governor Robertson's expression that possibly the Open Market Committee should consist solely of the members of the Board of Governors.

I would like to direct that to Mr. Mills if that is possible.

Mr. MILLS. Mr. Weltner, the existing composition of the Federal Open Market Committee has proven out in experience, and the advantage of having seven Board members and five Presidents on the Committee permits a diffusion of its understanding and abets an opportunity to review the general financial and economic situation through the eyes of informed observers and thus better to reach sound conclusions.

Now it has been mentioned in the hearings and on other occasions that there might be no good purpose if only five Presidents served on the Committee to have the other seven Presidents in attendance at the Open Market Committee meetings. But as you are familiar with the organization of the Committee, there is a rotation in service on the Open Market Committee, and the advantage of having the remaining Presidents is that they are able to keep themselves better informed, and are better situated to move into that responsibility when it falls to their lot.

Mr. WELTNER. You don't think the matter bears close investigation then?

Mr. MILLS. No, sir.

Mr. WELTNER. Governor Shepardson, what is your viewpoint on that please, sir?

Mr. SHEPARDSON. Mr. Weltner I have exactly the same view. First I would like to reemphasize what Governor Robertson said. In my experience of close to 9 years now, we have had difference of view from time to time, both as among the Board members and as among the Presidents. But at no time have I seen anything that indicated a President split, or what you might call a banker's view of the thing. I have been particularly impressed with the concern of the Board in its function of approving the appointment of Presidents, and I have been impressed with the character and caliber of men that we have had as Presidents and their ability to approach these problems objectively, and participating as members of the Committee, or as observers and advisers who are due to be members in the course of time.

It affords the Board a safeguard that I think is vital in getting the firsthand views of these gentlemen from their respective districts of situations across the country that the Board sitting in Washington, with the best of intelligent services, can't be as intimately familiar with as these men from the several districts. I think they make a valuable contribution.

Mr. WELTNER. Now may I interrupt there and ask you—isn't it true that you can obtain the benefit of these viewpoints without giving the Presidents the right to vote on such matters as this?

Mr. SHEPARDSON. Yes, we could get those, but I think that there is an added incentive as a participating member with a voice in the thing under the present setup, and in my 9 years' observation, I have seen nothing that would indicate that we are in any way bringing in biased or prejudiced views.

Mr. WELTNER. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. Brock.

Mr. BROCK. Thank you, Mr. Chairman.

Mr. Robertson, if I might clarify in my own mind the question that was raised by Mr. Weltner, and your answer to it, first as I gathered from your response, you did not indicate that you would change the System today to make it entirely a publicly appointed membership on the Open Market Committee, that there is some value in the tradition, in the membership as it has been presently built up, the System we currently have. You do not advocate a change do you?

Mr. ROBERTSON. No. I merely say a very good case can be made for this sort of a setup. Many people have suggested it, and I think from the point of view of logic they have the best of the argument. I think it should be in that form—if you were starting from scratch, put it that way. I would set up, if I were the one who were doing it, I would set up a completely Government employee institution to make decisions on open market operations, which I think are so important. But as these gentlemen have pointed out, this System has worked over the years, and I think that the System has benefited from points of view brought into these meetings by the Presidents of the Federal Reserve banks. Now any group, and I mean any group, but this group especially, can get into a rut very easily.

It meets day after day after day after day—the same people. Their points of view get fixed. You can get into a rut. But once every 3 weeks we bring in all of the Presidents. This brings a freshness to the discussions, which I think is invaluable. In addition to that, we do have the information, economic information concerning each area of the country—which we could get even if they didn't have a vote, true. But we do get it.

So that as a pragmatic matter, this has worked over the years.

Mr. BROCK. It has worked, and as a pragmatic matter, as you suggest, you don't have a clean sheet of paper always to start with. You have an existing system.

Mr. ROBERTSON. That is right.

Mr. BROCK. Isn't it logical to assume that the present system as it is constituted today, if we were to change it, would be less efficient for a time, for a number of years, until the same type of background and tradition of knowledge and experience could be built up?

Mr. ROBERTSON. I really don't think so. I think that if the law were changed so that the operation was transferred over to the Board exclusively, and it made the decisions, it bringing in the Presidents only as advisers, there is such a tradition within the Federal Reserve System, one of real loyalty to the Federal Reserve System, that the Presidents would perform just as well in that role as they do at the present time.

Mr. BROCK. I concur with the present Presidents who have been with this present tradition but would we not destroy the position of the Federal Reserve if we put the Secretary of the Treasury on the Board?

Mr. ROBERTSON. This is a very difficult matter.

Mr. BROCK. Isn't that jeopardizing all of the traditions of the Federal Reserve System?

Mr. ROBERTSON. This is a very different matter that you are speaking about.

Mr. BROCK. We have to speak in the context of the proposal that we have before us, and this is suggested as a major reform by these bills that we have in front of us. Wouldn't that jeopardize then the tradition and the efficiency?

Mr. ROBERTSON. As I indicated, I think at the outset, I believe it would be a mistake to put the Secretary of the Treasury in charge, to relegate the System to the position of just another Government bureau subject to all the influences of the fiscal officer of the United States. I think this would be a mistake.

Mr. BROCK. I completely agree. I thank you.

Mr. SHEPARDSON. Mr. Brock, could I add a word? You indicated possibly if a change were made, that over time we might adjust to it. I think it would have the opposite effect. As Governor Robertson indicated, the loyalty of the present group of Presidents, if they were deprived of the vote on the Open Market Committee, I think would continue. But I think over a period of time, a man who sits in only as a reporter of conditions would not have the same interest, would not bring the same value to the Committee that he does as a member, and that rather than correcting itself over a period of time, there would be a deterioration of that interest that is now afforded by the direct responsibility of membership.

Mr. BROCK. I think I would concur in that. I didn't mean to give the impression that it would return to its present efficiency.

I said that it might. But I do think that there is reason to question the soundness of taking these people off, if you do take away the incentive of having the right to participate directly in the vote, I think it would reduce their effectiveness and their desire to be effective.

On another matter, Governor Robertson, you said something earlier to the effect that the System should be looked at by the Congress to see if the policies it is now effecting, I assume those are your words, is what the Congress wants. You don't, from what you have said, I don't believe you wish to change the present tradition of the independence of the Board by getting its policies, by weighting them more in the light of the current demands of the political situation. You would not jeopardize that independence, would you?

Mr. ROBERTSON. Not at all.

Mr. BROCK. I didn't want to misinterpret that desire for investigation.

Mr. ROBERTSON. No, and it isn't a desire for investigation either. It is merely a feeling that this is an extremely important function, a function which should be operated in the best interests of all the people of these United States. I think in the form of government we have, the Congress has the responsibility to see to it that this unit to which it has delegated power is operating in a way in which a majority of the people in Congress want it to operate.

Mr. BROCK. But you could not have it reflecting day-to-day changes of opinion?

Mr. ROBERTSON. That would change the whole matter. You can't operate on this basis.

Mr. BROCK. That is right.

Mr. ROBERTSON. Monetary policy decisions must be made on a day-to-day basis, and you can't treat it, for example, like the tax legislation is treated.

You can't wait for a year before you adopt a decision. You have to act today, and this should be done without regard to partisan politics or the push and pull of political debate.

Mr. BROCK. Thank you, sir. Mr. Minish, we were talking earlier in some questioning about the rate of interest paid on demand deposits, and I think Mr. Weltner raised the point of the possible shift. He was questioning whether the funds would shift. Are they fluid enough to switch from the small cities to the large cities? Isn't it true that when we did allow the interest payments on demand deposits many years ago, that the competitive situation caused some of the smaller banks, not all but some of them, to pay interest on demand deposits, and perhaps wasn't this an excessive strain on those smaller banks which might have contributed to their weakness in times of crisis?

Mr. MILLS. Yes, sir, that is my belief, and in that particular period, focused with the difficulties in the 1930's, the most extreme competition in the payment of interest rates was on time deposits and savings accounts, and to retain their deposits in the smaller communities, many banks were drawn into taking into account on their books higher yielding and higher quality assets that when the impact of bad times fell, it was an important reason for insolvencies and difficulties in that period. Now you can draw an inference at least from those times to the present times in reviewing the annual financial statements that are published by large and small banks, and to observe the cost of their interest payments as a part of their operating costs, and the heavy burden that that cost has become to a great many banks, and which if there is complete freedom in paying interest on deposits could become even a more serious burden.

Mr. BROCK. Along the same line, when you have the ability of a small bank to make loans, it is dependent in some degree upon the ability to borrow from the Federal Reserve with the eligible paper. Now it has been suggested that we might help the small banks and the small businessmen by restricting the use of eligible paper.

Wouldn't this reduce the ability of a small bank to meet the demands in a restricted or in a recession period?

Mr. MILLS. That is a question that the Federal Reserve Board is asking the Congress to consider at the present time, which is a movement away from the original concept of the System, and is a movement that Chairman Patman questions. The concern of the Board is to ask for a statute that would liberalize the opportunities of the member banks to borrow at Federal Reserve banks is that since the origin of the System there has been a remarkable evolution in the types of commercial banking loans and investments that are carried today as compared to those in 1914 and 1915.

The result is that banks now carry paper which doesn't meet the technical qualifications of the Federal Reserve Act, and are therefore foreclosed from Federal Reserve credit except on an emergency basis, and it is our belief that a liberalization of the law that would permit freer technical access, but an access which would be closely supervised and regulated by the Federal Reserve System, would be helpful.

Mr. BROCK. It would be a more realistic access though, would it not, in terms of the actual security involved?

Mr. MILLS. We believe that to be the case, sir, yes.

Mr. BROCK. And if we were to restrict the definition, further restrict it, of eligible paper and go back to the old itself like dating short term notes as eligible and that is all, aren't you going to completely dry up any source of loan funds available to small borrowers in times of an economic recession?

Mr. MILLS. It could be a crippling influence. Drawing on my own experience in the 1930's, and before the passage of the 1933 and 1935 amendments to the Federal Reserve Act, the limitations to discounting eligible paper in a time of emergency prevented smaller banks from getting help that was justified, and by the same token threw them back for assistance on correspondent banks and other institutions who were experiencing some of the same difficulties, and weren't as able to be helpful as would have been appropriate. The evolution of the Federal Reserve Act and the 1933 and 1935 amendments are rather generally held to have been a step forward.

Mr. BROCK. Thank you. My time has expired, Mr. Chairman.

The CHAIRMAN. I would like to comment briefly on the suggestion that one way to get members in the Federal Reserve System would be to permit only members to clear checks. I want to weigh that carefully with respect to the correspondent banking system. I wouldn't want to do anything that would be disruptive or would tend to destroy the correspondent banking system. Correspondent banking is doing a good job, and I feel like it should be encouraged.

Now as to the audits that were mentioned here, do you gentlemen believe that the audits that you are making now and have made over a period of 50 years are full and complete and they don't leave out anything that Congress should know or that the Federal Reserve Board should know? Is that your belief, Mr. Mills?

Mr. MILLS. Generally Mr. Chairman, but we will look forward to the results of your investigation, and to learn whether you feel our stewardship has been adequate or whether it is open to correction and improvement.

The CHAIRMAN. But if your self-audit is not full and complete, you would of course view with more favor the Government accounting office audit, would you not, Mr. Mills?

Mr. MILLS. That, Mr. Chairman, would be acknowledging a deficiency in the adequacies and efficiency of our audit reviews.

The CHAIRMAN. Not the way I framed it, Mr. Mills. You see I framed it this way. That if it were shown that your audits are incomplete, that your audits do not contain all the information that the Congress should know, and that the Board should know, why then you would give consideration to the question whether or not the General Accounting Office should make an audit.

Mr. MILLS. Mr. Chairman, I would hope that in a situation of that sort, that your committee would direct us to follow different practices.

The CHAIRMAN. That is a very good answer.

Mr. MILLS. That would meet your criticism.

Mr. BOLTON. Just a question, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. BOLTON. Mr. Mills has made reference twice to a study being made by this committee or by the chairman. Are we familiar with that, sir?

The CHAIRMAN. The only thing we are doing is getting information from the Federal Reserve over the period of the last 50 years as much as we can.

Naturally it is not complete. It is bound to be limited.

Mr. BOLTON. Are we in effect studying the record of the Federal Reserve?

The CHAIRMAN. To the extent possible, we are, yes; and that will come out as the Presidents of the banks come on, as to each bank.

Mr. BOLTON. And this is the study which the chairman——

The CHAIRMAN. Sure, it has been going on a long time, to the extent possible. It is limited naturally.

Mr. BOLTON. This is the first I had heard of it.

The CHAIRMAN. I don't agree with the gentleman there.

Mr. BOLTON. I thought the full committee had discussed the fact that we would not have such a study unless the full committee agreed to it.

The CHAIRMAN. No, just the opposite was voted.

Now on demand deposits it is your duty to enforce the law that interest will not be paid on demand deposits; is that right, Mr. Robertson?

Mr. ROBERTSON. That is right.

The CHAIRMAN. Well, what have you done on that? Have you ever enforced any law on it?

Mr. ROBERTSON. Oh, yes. We have issued regulations. We have issued rulings as to what constitutes the payment of interest.

The CHAIRMAN. I know, but what have you done in the way of enforcing it? Have you actually had any defendants, anybody charged?

Mr. ROBERTSON. No, I would say not any one charged. We have found where they were indirectly paying interest on demand deposits, for example in the absorption of exchange. That was a problem which was before the——

The CHAIRMAN. What about interest on these certificates? It occurs to me you couldn't have a plainer, more obvious evasion of the statute than when you permit them to issue certificates of deposit on demand deposits that they may be cash at any time.

Mr. ROBERTSON. No; there is a misunderstanding I think, Mr. Chairman. They do not issue any certificates of demand deposits.

The CHAIRMAN. Well, they change them to the so-called time or savings deposits, I assume?

Mr. ROBERTSON. They actually are, you see. They are for 30, 60, 90 days. They can't be withdrawn on demand.

The CHAIRMAN. But they can get their money at any time they want can't they?

Mr. ROBERTSON. No, no; that is not true.

The CHAIRMAN. They can sell them to somebody?

Mr. ROBERTSON. They can sell them to somebody else but the banks——

The CHAIRMAN. I am not talking about the banks. I am talking about negotiable certificates.

Mr. ROBERTSON. Yes.

The CHAIRMAN. On what is tantamount to a demand deposit.

Mr. ROBERTSON. There I would disagree, Mr. Chairman; it is not a demand deposit.

Mr. BROCK. Will the chairman yield for a question?

The CHAIRMAN. Yes, sir.

Mr. BROCK. When you sell notes of this type it is sold at a discount; is that not correct?

Mr. ROBERTSON. Yes; and only when you can find someone to buy it. A market has only been established in this field in the last couple of years.

The CHAIRMAN. I know it is new but it seems to me to be a direct evasion of that provision of the law. Now one thing that bothers me. Suppose you, Governor Robertson, wanted to borrow $1,000 from your local bank, and you normally keep over $1,000 in that bank at all times. You never let it get below $1,000. You do not expect it to go below $1,000, and you borrow $1,000 because you want to keep a sizeable account there and you need $1,000. Now under that ruling, it is all right for the bank to charge you 5-, 6-, or 7-percent interest, it is perfectly legal, but for the bank to allow you a small percent for your deposit that has been there all that time of more than $1,000 is illegal, it is wrong. Don't you think that is rather contrary to what the bankers have always said, that things like that were regimentation? Isn't that regimentation at its worst, that it is legal for a bank to charge a customer interest, but it is illegal for the bank to pay the customer any interest on a deposit he has had there equal to that loan at all times? Doesn't that seem a little unreasonable to you?

Mr. ROBERTSON. As I said, I think there was no real justification for this sort of a selective control even in the first instance, but it is in the law now.

The CHAIRMAN. Yes.

Mr. ROBERTSON. It has been for a number of years, and getting out of it is a difficult thing.

The CHAIRMAN. I think you will find that the small banks did better before 1933 when this law was first passed than they have since. I just say that in answer to the claim that it would be of benefit to the large banks to change the law.

Now about the Open Market Committee, you said that it consists of the 7 Governors and 5 of the 12 Reserve bank presidents. But as Governor Mills said, you have the other seven Reserve bank presidents in there, too. In other words, you have 12 men who are selected in effect by the representatives of private banks, and only 7 public members who are members of the Board. Now it is true that the extra seven presidents do not vote unless they split their votes. I have heard that they actually split their votes sometimes, where they have three presidents and there is one voting, why they kind of have a consensus to see which way they should vote on that. I don't know whether it is true or not. It is not important in this discussion.

But the point is that you have the 12 Presidents of the Federal Reserve banks there with the 7 public members, and the presidents are listened to. Their views are given and stated. In other words, they make arguments. They say and do everything right down to the vote. Therefore, they have something to do evidently with the actions of the Open Market Committee. I say that is in violation of law. I say that the laws says specifically that the Open Market Committee shall consist of the seven and five. But here you are allowing not only them to participate, but you have a large group of people. I guess you have from 30 to 50 or 60 at a time, don't you, Governor Robertson?

Mr. ROBERTSON. That is right.

The CHAIRMAN. And so that is a far cry from just a small group of 12 that is fixing the policies for the people of the Nation involving such important things as the amount of money that will be in circulation, and also the interest rates that they should pay.

Therefore, I say that since none of us wants tight money, none of us wants loose money, somebody has got to decide that question. Who is going to decide it? Should people who are directly involved, that will profit from the actions, be allowed to select the men who will make those decisions, or should those decisions be made only by people who are in the Government service, who have no conflict of interest at all, and have no reason on earth to have high interest and low interest except just in the public interest for the benefit of all the people?

Now, the directors of the Reserve banks are selected for 1 year; is that right?

Mr. SHEPARDSON. Three years.

The CHAIRMAN. Yes; 3 years.

Now of the nine directors of each Reserve bank, the big banks select two—one class A and one class B—and the medium-sized banks select two, and the small banks two, so really six of them are elected by the private banks, and they are beholden to the private banks.

My experience in life teaches me that they would be beholden. Three of them are actually officials of banks. Three of them are class B directors, and they can be stockholders of banks. They represent business. They are people that want accommodations from banks occasionally.

I am not saying that there is necessarily anything wrong about this. But at least they are beholden to the banks, six of them are.

At one time before the Joint Economic Committee or maybe it was the Small Business Committee, when I was interrogating Mr. Martin, he took the position that the class B directors couldn't be stockholders of banks, and we had a discussion about it. I insisted he was clearly wrong and he said he didn't think that they owned any stock, even if they were allowed to. I asked him to take a poll of the class B directors by name, and he did, and over half of them actually owned stock in banks—actually owned stock. I have got a record of that and can produce it. So there is a case where you have six directors who can be involved in the banking business, and they select this man to represent them, this President. They select him for 5 years. Now, the history of the Presidents shows that most of them stay on from 10 to 20 years. Naturally a President of a bank wants to be reelected just like a Member of Congress does.

He has only nine voting constituents. Six of them are selected by the bankers, and three are actually bankers. I just doubt that he would be too much inclined to go for the public interest some time when the bankers are bringing tremendous pressure against him the other way, and he wanted to be reelected say next week or next year.

I just have a feeling that they are normal human beings like the rest of us, and that would influence their decision. It is just perfectly natural to say that.

I believe that it is just simply wrong for the people who can profit from such a system as that to have the power to make the decisions.

Now, during the discussion of the original Federal Reserve Act before it was passed in 1913, Representative Glass, the chairman of this committee, took some prominent New York bankers down to see President Wilson in Princeton. This is in Mr. Glass' own book. When they went in, Mr. Wilson received them and Mr. Glass said:

> Now, Mr. President, these gentlemen are big bankers. They know the banking business. They feel that they know so much about it that they know more than other people know, and they have a right to say that, and they want to be on these boards. They want to be on the main Board of the Federal Reserve System so as to have something to do with the decisions, of course, in the public interest and so forth.

Mr. Wilson looked at each one of them and said:

Which one of you gentlemen would have me select presidents of railroads to be on the Interstate Commerce Commission to fix passenger rates and freight rates?

And not one of them has ever answered to this day. Mr. Glass said that they looked at each other and looked out the window and they changed the subject and they finally left. So that is really the basis of this whole thing the way I see it.

Would we let the railroad owners regulate the conditions under which they do business? Are we going to let the bankers determine the volume of money, something that they are vitally interested in, and the interest rates on that money? They are vitally interested in it, just as much as the presidents of railroads are interested in passenger rates on railroads. And so it occurs to me that the bankers ought to take another look at this, and be just a little bit more considerate of the public interest. They have gone too far on this thing; they have gone too far. Back 40 years ago we had 31,000 banks. We have 13,000 now.

So the number of banks has been going down, down, down. This is a great franchise: to issue money on the credit of the Nation and get interest for it—a tremendous franchise. But instead of the number of banks increasing as you normally would expect over such a profitable period in the last 20 years, the number of banks has been going down.

The bankers instead of branching out to help the people in the area where they have a franchise to do business, they are getting away from that. The small farmers can't hardly see a banker nowadays. The small businessman has difficulty getting to see a banker about a small loan. They are not interested and it is perfectly natural they wouldn't be interested, because they can handle all this other paper that is just about as profitable, and at no risk, no trouble. We have helped the bankers get out of the banking business.

Now the way I review the Federal Reserve System it is just a continuation of the old goldsmith system used for centuries in Western Europe and in other places.

One time the feeling was so strong about goldsmiths not having the actual reserve to back up this money when they had runs on the goldsmith, they passed laws in some countries that it was a hanging offense to put out a rumor that the goldsmith didn't have the money or didn't have the gold.

At one time they had a run on the goldsmith anyway and he didn't have the gold and they hung the goldsmith. So this thing is a continuation of the old goldsmith theory, that the Federal Reserve permits the banks to make loans based upon a reserve that the Reserve bank has.

A bank can take a million-dollar bond belonging to a customer and sell it to the Fed. And that bank gets the credit in the reserve of $1 million. Like it is now the deposit-reserve ratio is approximately 10 to 1, so the banks can take $1 million and pay the customer for that million-dollar bond, and lend or invest $9 million more at interest. So on every million-dollar reserve they can loan approximately $10 million or invest $10 million, and if the interest is 5 percent, that is $500,000 for the use of the $1 million.

That is a pretty good privilege banks have and I am not objecting to it, if they will do it in the public interest and take care of local communities and the small businessman and the farmers and everybody else, and quit seeking this opportunity of getting out into everybody's business, in the leasing business of heavy equipment and everything else, and reducing the number of banks to where they cannot satisfactorily serve the people. I will not go into that further because I am taking more time than I should.

Mr. WIDNALL. Mr. Chairman.

The CHAIRMAN. You want to ask a question?

Mr. WIDNALL. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. WIDNALL. You have just repeated a statement I have heard you make many, many times before about the lack of adequate banking facilities and the ability of small farmers and the small man to get a loan at the bank.

I would like to see you some day place in the record where there is a lack of banking facilities. I am sure the bank facilities could be obtained if we knew the location, and a list of some of the people who are unable to get any help through the banks. I know it is very easy to make statements like that.

The CHAIRMAN. All right.

Mr. WIDNALL. I am interested in following up on it. Get some of these people to come up and testify before us.

The CHAIRMAN. No, no; I won't do that. I will give you better evidence than that and I will give you convincing evidence. No. 1, why do we have the Farmers Home Administration to take care of farmers?

That is the only reason, because they can't get loans at the banks. I have known counties where all the bankers in that county gave the farmers notice "We won't run you next year" and they turned to the Farmers Home Administration, a Government agency, to get loans, and they don't have enough money to make the loans, and lots of farmers go out of business on that account. You don't have to chase down A, B, and C farmer. That is convincing proof right there.

No. 2, why do we have a Small Business Administration? Because the small people can't get loans from the local bank. That is why we have it. I think the RFC was one of the greatest agencies we ever had. That helped people who wanted to go into competition with big business. If a few fellows could get together and put up enough money themselves, they could borrow $75 million, build a steel mill or something else and go into competition with big business. But when you Republicans came in power in 1953, very quickly you put that RFC out of business. But you organized a Small Business Administration, which is fine as far as it goes, but they could only make loans of $150,000 at that time, and they haven't been increased too much since.

So it is just something to help the small businessman compete with other small businessmen, but denying many an opportunity to get enough credit to compete with the big businessman. And the reason the Small Business Administration is in existence today, and the reason we have the Production Credit Association and credit unions and all is because the bankers have not been doing their duty as they should.

Now those are the basic examples. You don't have to pick out individuals to prove the point. There is your proof right there.

We wouldn't need Farmers Home Administration and a number of other agencies supported by the Government to make these loans to farmers, if they could get loans from the banks.

We wouldn't need the Small Business Administration and many other small loan organizations that the Government sponsors, if they were able to get loans at the banks. They just aren't able to do it. I think the banks are subject to criticism for not rendering the service to the people they are charged with the duty of helping first, those in the area where they have a franchise to operate, and where they are allowed the privilege of creating money 10 to 1 for the purpose of helping those people. But they forget them. They leave them alone.

Mr. MINISH. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. MINISH. Mr. Mills, I think it was you that referred earlier to the House Banking and Currency Committee being the father of the Federal Reserve, or words to that effect.

Mr. MILLS. Correct, sir.

Mr. MINISH. In view of that, yesterday as I recall Chairman Patman asked Chairman Martin to present the minutes of the Open Market Committee. What is your position on that, for the years 1961, 1962, and 1963, as I recall?

The CHAIRMAN. 1960–63.

Mr. MINISH. 1960, 1961, 1962, and 1963.

Mr. MILLS. Mr. Minish, my personal feeling and belief is that at a proper period in time, that the minutes of the Open Market Committee should be made available, but I do, in line with what I understand to have been Chairman Martin's position——

The CHAIRMAN. Mr. Minish, would you excuse me just one second. I have an appointment. I have to go. Would you serve as chairman please. Would it be all right, gentlemen, if any of us on the whole committee desires to ask any questions, to clear them through the clerk to make sure that they are not duplicated, and that you gentlemen will answer them when you look at your transcript?

Mr. MINISH. Yes, sir.

The CHAIRMAN. Fine. Mr. Minish will take over.

Mr. MINISH. Mr. Mills?

Mr. MILLS. Mr. Minish, I do think a waiting period is in order, and that the minutes for 1960 through 1963 could have enough content and would be close enough to the actions of the committee to raise embarrassments that would needlessly involve in some cases foreign countries, and in other cases questions about policies and their impact on private affairs. But I very strongly feel that the committee should have at some point access to the minutes. There is one problem that comes out of that, that having access, it would be a physical impossibility for the members of the committee to individually review the contents, and that means placing a responsibility on individuals of your choice to make that examination, and to come up with findings. Now that would be all important, because there is such a range of different points of view on the policies of the Open Market Committee, and the emphasis that should be placed on policy decisions at one time or another that you might find it quite difficult to delegate the responsibility to one or two or three people, and have those individuals with the best intentions in the world, not drawing in their findings personal beliefs that other experts in the same field might disagree with.

Mr. MINISH. Thank you. Mr. Robertson, would you care to comment?

Mr. ROBERTSON. I concur generally in these views. I have been of the position for many years that the minutes of the Open Market Committee and the Board of Governors should be made available for public inspection after a waiting period, so that it cannot be used to indicate what the trend of action would be in the future.

I have thought in the past that there should at least be a 1- or 2- or maybe even a 3-year period, a gap, but that everything before that from the beginning of the System should be made available to everybody, so that every student of monetary policy would have equal opportunity to see how it was made, to make suggestions as to how it could be improved. This I think would be in the public interest.

Mr. MINISH. Thank you. Mr. Shepardson?

Mr. SHEPARDSON. I would have the same view, Mr. Chairman, that the actions of a public body, and we are such, should at some point be made available. I have raised questions about the minutes, frankly. We are required to make an annual report of all of our actions, and the basis for them, which is included in our annual report. I have had a little different feeling than the other two gentlemen have expressed when it comes to the minutes, because in the course of discussion and debate on questions that are before either the Committee or the Board, it seems to me that there is a freedom of discussion that is desirable that in any proximate period need not necessarily be laid open to the general public. I think actions that are taken and as are reflected in our policy statements in the annual report very properly should be divulged, and the reasoning back of the action that was taken.

Mr. MINISH. Thank you. Are there any further questions?

Mr. WIDNALL. Mr. Chairman, for the record I would just like to make this statement. That with respect to loans to deposits the member banks now have about a 62-percent ratio, loans to deposits, as I understand it. This compares with about 20 percent in 1945, directly after the war. That shows a rather wholesome increase as far as that is concerned with respect to the banks, and not a contraction.

Mr. MINISH. Mr. Brock?

Mr. BROCK. I might comment just briefly Mr. Robertson to pursue the point that Mr. Minish raised. The committee has requested the minutes for 60, 61, 62, and 63. You said a 3-year period. In 1963 if we reveal these minutes, if they were brought before the committee and if somehow they got into print publicly, would you not feel that there might be some jeopardy to the policies and the prospects of the U.S. Government?

Mr. ROBERTSON. Oh, yes; I think so. I think this is too close. I do not think that the minutes for last year should be made available to anybody. I think when they are made available to anybody, they ought to be made available to everybody, and that this is the reason that I think you ought to have a gap—whatever that reasonable period is, and people can differ on this—and I waiver myself as to whether it should be 3 years, 2 years, or 1 year, but certainly nothing less than that.

Mr. BROCK. It could be as much as 3 years on a particular policy or problem and 1 year on another?

Mr. ROBERTSON. It might very well.

Mr. BROCK. You can't be specific. You would have to generalize?

Mr. ROBERTSON. And that is what I am trying to do.

Mr. BROCK. Yes.

Mr. ROBERTSON. I am not trying to be specific.

Mr. BROCK. I think we would endanger the security of this country if we did this, in all sincerity.

Mr. ROBERTSON. It would be very unwise.

Mr. BROCK. If we released the minutes of the past 12 months. Thank you, sir.

Mr. MINISH. Gentlemen, thank you very much. It won't be necessary to come back tomorrow, with the exception that you may have some questions.

The committee will be in recess until Tuesday.

(Whereupon, at 12:05 p.m., the committee adjourned, to reconvene on Tuesday, January 28, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

WEDNESDAY, JANUARY 29, 1964

House of Representatives,
Subcommittee on Domestic Finance of the
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to recess and subsequent postponement, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Ashley, Vanik, Pepper, Minish, Weltner, Hanna, White, Kilburn, Widnall, Harvey, Bolton, Brock, and Taft.

The Chairman. The committee will please come to order.

We are interested in the operations of the Federal Reserve System as it is being operated today, 50 years after its founding.

We have heard from the Chairman, and the Vice Chairman of the Board of Governors, and three of the Governors. We will now continue our inquiry with the presidents of the 12 Federal Reserve banks.

Directors of the Federal Reserve banks are the responsible controlling individuals for the operation of the Federal Reserve System. Federal Reserve bank directors are charged with many important responsibilities, one being the economical and efficient operation of the Federal Reserve banks. This responsibility is carried out through prescription of the bylaws of the banks—selection of the President, First Vice President, and other officers of the banks, subject to the approval of the Board of Governors, review and approval of semiannual budgets and maintaining and supervising all internal auditing systems.

The policies determined by the directors are carried out by the presidents and other officers selected by the directors for each Federal Reserve bank. The President of each Federal Reserve bank is the chief operating official. As the chief operating official, I expect that these gentlemen are in the best position to explain to the subcommittee how the banks are operated and the reasoning behind the actions that the banks take.

Some years ago the examination reports prepared by the examiners of the Federal Reserve Board of Governors listed many questionable expenses. But recent examination reports have not mentioned similar expenses.

Was it possible that by my simply bringing the kind of expenditures to public view that the practice was immediately stopped?

I must admit that I can hardly trust such a conclusion.

In order to determine whether or not my skepticism was justified, I had two members of the staff review the working papers of the Federal Reserve Board examiners to see if questionable expenditures were in the working papers, but not in the reports. Although these questionable expenditures were not in the working papers, or the reports, I still was unbelieving.

Finally, the staff obtained listings of amounts spent by the banks in four categories for the period from January 1, 1962, through June 30, 1963. A test selection of the amounts was made, and an explanation requested.

In an effort to accelerate the receipts of the information requested, members of the staff visited the Federal Reserve banks in New York, Cleveland, and Chicago. At each location they scanned the vouchers that supported the amounts selected from the lists supplied by the banks. The search was successful in the sense that hundreds of examples of expenditures not normally found in a U.S. Government agency like the Post Office were found. They were the same kind of expenditures that had been questioned by the Board's examiners prior to 1957. But, peculiarly, they were no longer reported after I publicized the practice.

Is it reasonable to assume that the Board's examiners were instructed to not report such expenditures?

Examples of questionable expenditures include dinner parties, theater parties, luncheons and dinners for commercial bankers, card parties, garden shows, golf outings, elaborate Christmas parties, dues for trade and professional organizations, fees and other costs for attending conventions.

One might think that the Federal Reserve banks were trying to drum up business, from an examination of their travel and entertainment expenses. One might think that commercial banks paid for the free services provided by the Federal Reserve banks.

During the year 1962 I estimate that the free services provided to commercial banks by the Federal Reserve System for check collection and currency and coin handling alone amounted to about $125 million.

Perhaps the presidents of the banks can give us reasonable explanation of what seemed to be unreasonable expenditures in addition to many other of the banks' day-to-day operations.

Now, our first witness this morning, I believe, is Mr. W. Braddock Hickman, President of the Federal Reserve Bank of Cleveland.

Mr. Hickman?

Mr. HICKMAN. Yes, Mr. Chairman.

The CHAIRMAN. Now, do you have someone accompanying you?

Mr. HICKMAN. Yes. Mr. John J. Hoy, assistant vice president in charge of accounts and budgets at our bank.

The CHAIRMAN. Glad to have you, sir. And the other gentleman is with the Boston bank—he is the next witness. All right.

Well, Mr. Hickman, you may proceed in your own way, sir.

Mr. HICKMAN. I have a brief statement here which I would like to read.

The CHAIRMAN. That will be satisfactory.

Mr. HICKMAN. Thank you very much, sir.

The CHAIRMAN. Just a minute.

Mr. Ellis, we will have you after we get through with him, and you may, according to your own wishes, be at the table or back in the audience, either one you like. But we will—you can suit yourself.

STATEMENT OF W. BRADDOCK HICKMAN, PRESIDENT, FEDERAL RESERVE BANK OF CLEVELAND; ACCOMPANIED BY JOHN J. HOY, ASSISTANT VICE PRESIDENT

Mr. HICKMAN. My name is W. Braddock Hickman. I am president of the Federal Reserve Bank of Cleveland. I joined the staff of the Federal Reserve bank as senior vice president on February 1, 1960, for the purpose of familiarizing myself with Federal Reserve operations and policies with a view to assuming the presidency of the bank on the retirement of my predecessor, Mr. Wilbur D. Fulton, effective May 1, 1963. My tenure of office, therefore, has been short.

I hold a bachelor's degree in economics from the University of Richmond and a doctorate from the Johns Hopkins University.

I taught at Princeton and Rutgers Universities.

I served in the Navy for 4 years during World War II, and have since worked at the National Bureau of Economic Research, New York Life Insurance Co., and American Airlines. I have had no direct official connection with any commercial bank at any time in my career. For a short time (less than 1 year), I was associated with a savings bank in Baltimore, Md., as a fellow of the Social Science Research Council.

The possibility of my joining the official staff of the Federal Reserve Bank of Cleveland to assume the Presidency was first suggested to me by the then Chairman of the Board of Directors, Mr. Arthur B. Van Buskirk, who informed me that my name had been suggested to him by members of the staff of the Board of Governors of the Federal Reserve System in Washington, D.C.

My qualifications were first reviewed by the Board of Directors' Special Committee on Senior Officer Personnel, which consisted of:

Dr. Aubrey J. Brown, chairman, professor of agricultural and marketing and head of the department of agricultural economics, University of Kentucky, Lexington, Ky.

Joseph B. Hall, president (now chairman of the board), the Kroger Co., Cincinnati, Ohio.

Charles Z. Hardwick, executive vice president and director, the Ohio Oil Co. (now Marathon Oil Co.), Findlay, Ohio.

Joseph H. Thompson, president (now chairman of the board, Hanna Mining Co.), the M. A. Hanna Co., Cleveland, Ohio.

Arthur B. Van Buskirk (ex officio), vice president and governor, T. Mellon & Sons, Pittsburgh. Pa.

Subsequently, I met with the entire Board, which included, in addition to those above, the following:

George P. MacNichol, Jr., president (now chairman of the board), Libbey-Owens-Ford Glass Co., Toledo, Ohio.

Ray H. Adkins, president, the National Bank of Dover, Dover, Ohio.

John A. Byerly, president, Fidelity Trust Co., Pittsburgh, Pa.

Paul A. Warner, president, the Oberlin Savings Bank, Oberlin, Ohio.

Prior to meeting these gentlemen under the stated circumstances I had had only passing, casual, business or professional contacts with persons in the Fourth Federal Reserve District. I have no knowledge that those contacts, such as they may have been, played any part in my selection.

I do not feel that I am under obligation to any bank or banker or that I have been subjected to any pressure whatsoever by the bankers in the fourth district or elsewhere or, indeed, by anyone in the business world regarding the position I should take on monetary policy. On the contrary, I have felt that for the most part bankers and businessmen in the community have tended to look to the Federal Reserve System and its officials for leadership in this area.

The directors of the Federal Reserve Bank of Cleveland have been outspoken and vigorous in asserting their responsibility for, and interest in, those bank operation matters in which their training and experience have given them particular competence: efficient and economical operating methods; reasonable and responsible personnel policies; the training and development of people to assume responsibility; review and control of budgets; and review of audits and audit procedures. Their interest and activity in those areas are a part of their normal and proper responsibility as directors, and have not been used in any way to embarrass me in the discharge of responsibilities in the field of monetary policy.

Prior to assuming the presidency of the bank, I served for a short period as associate economist of the Federal Open Market Committee. As President since last May, I have been an alternate member of the Committee. During my contacts with the Committee I have been impressed with the competence of the group and with their devotion to public duty. The different backgrounds of the participants in the Federal Open Market Committee are reflected clearly, in my opinion, in the thorough discussions of the issues and policies that affect monetary management.

As an alternate member of the Committee during the past 9 months, I have tried to keep the Committee informed of business and financial developments in the Fourth Federal Reserve District. I have, also, at the invitation of the Committee, expressed my views on national and international developments, and on monetary policy. At the same time, the deliberations of the Federal Open Market Committee—the discussions by members of the Board of Governors, the other Federal Reserve Presidents, and the Committee's staff—have helped to keep me abreast of business and financial developments, and have deepened my understanding of the objectives of system policy. This experience will be helpful to me when I become a member of the Committee and face the responsibility of voting on the questions that come before it.

I am in agreement with the opening statement made by Chairman Martin before this committee last Tuesday in all major points of principle. However, insofar as you may wish me to express my own views today, I might mention a point on which I apparently differ with Chairman Martin.

I have some reservations about the desirability of reducing the size of the Board of Governors from seven to five members. As a matter of public policy, it is desirable to have the Board membership occupy a majority position in the Federal Open Market Committee, as they do now with 7 out of 12 members. With only five members, the Board majority would disappear, unless the number of Presidents holding membership were also reduced, which (perhaps because I am a President), I think would be undesirable. I should think, also, that a reduction of the Board membership from seven to five would throw an excessive burden on the Board when there are absences. The inevitable illnesses, vacations, and essential travel at home or abroad in connection with the official business of the Board, must frequently necessitate the absence of at least one member and quite possibly two members. To reduce the Board to five members would seem to be cutting it pretty thin. On the whole, it has seemed to me that the present Board membership of seven works fairly well. But Chairman Martin is clearly much better qualified on this subject than I, and I defer to him.

I would like to supplement Chairman Martin's comments regarding the proposal to retire the capital stock of the Federal Reserve banks, H.R. 3783, by pointing out that this proposal would increase the annual revenue of the Treasury by only about $3½ million. (See the exhibit attached.)

(The document referred to follows:)

EXHIBIT

In 1963, the Federal Reserve banks paid to the member banks in dividends	$29,000,000
The member banks paid estimated income taxes on these dividends of	7,600,000
The net gain to the Treasury would have been	21,400,000
The return of the $500,000,000 of capital stock would increase member bank reserves by about	500,000,000
As a result, Federal Reserve earning assets would be less (than they otherwise would have to be to provide the reserves desired for monetary reasons) by about	500,000,000
Earnings which would be lost to the Treasury, on $500,000,000 at the average rate of 3.6 percent earned by the System in 1963, amount to about	18,000,000
The difference would have represented a net gain to the Treasury in 1963 of approximately	3,400,000

Mr. HICKMAN. I do not believe that the small amount involved would justify the disadvantages that would accrue from the proposed retirement of the stock. A change in this area, unless it is clearly for the better, might disturb the confidence of bankers and businessmen. The loss of an asset yielding a certain return of 6 percent would reduce the attractiveness of membership in the System, particularly for small banks. Substantial withdrawals from membership would increase the difficulty of making monetary policy effective. If the attractiveness of membership in the System is reduced to the point where monetary policy becomes ineffective, it would be necessary to require compulsory membership or uniform reserve requirements for all banks.

The CHAIRMAN. Thank you.

I would like to ask you a few questions, sir.

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. You have had some experience in the Open Market Committee in New York. I believe you said——

Mr. HICKMAN. No, sir.

The CHAIRMAN. I misunderstood you, then, in listening to your testimony.

But you do know about the Open Market Committee, because, of course, as president of the bank you attend all the meetings.

Mr. HICKMAN. Oh, yes.

Well, I am an alternate member of the Committee.

I thought you said New York, sir.

The CHAIRMAN. I did say New York.

But you have not had experience in a New York bank?

Mr. HICKMAN. No, sir.

The CHAIRMAN. With the Open Market Committee?

Mr. HICKMAN. I have never had experience in any bank, except the Savings Bank of Baltimore, when I was a fellow of the Social Science Research Council—years ago, when I was a student at Johns Hopkins University, sir.

The CHAIRMAN. You attend all the meetings, of course, of the Open Market Committee, whether you are a member or not?

Mr. HICKMAN. That is correct.

The CHAIRMAN. Under the ruling of the Federal Reserve Board, permitting all of you to attend on the theory that you have been, or will be a member, and it will be helpful to them to get your views.

Now, when you vote on a qquestion, there are three of you from one—from three districts, and only one is a member. Do you ever have conferences and let the majority determine how the one should vote, or do you just leave it up to the one who is actually the member, entirely?

Mr. HICKMAN. Well, let me clarify——

The CHAIRMAN. In other words, if there is a dispute, and two of you want to vote one way and one the other, how do you determine it? Do you just let the fellow who has the responsibility to do it, regardless of the views of the other two members?

Mr. HICKMAN. Well, may I clarify—you say there are three of us, sir. That is not correct.

The CHAIRMAN. Well, there are two of you.

Mr. HICKMAN. Two of us—in the case of Cleveland and Chicago.

The CHAIRMAN. Usually there are three; are there not?

Mr. HICKMAN. That is correct. In the case of the other nine banks, there are three.

The CHAIRMAN. Well—two of you.

Do you discuss it and determine how you should vote, or do you just leave it up to the one who is a member?

Mr. HICKMAN. I have never discussed monetary policy in any way, shape, or form with my alternate, Mr. Scanlon, of Chicago.

The CHAIRMAN. Well, I will wait and ask one of the three about that.

Now, when you have a meeting, of course you are all charged with the duty of not telling anybody about these meetings; are you not?

Mr. HICKMAN. Yes, that is correct.

The CHAIRMAN. Do you have any kind of written obligations on that?

Mr. HICKMAN. No. The Chairman has made that very clear. Of course this is a deliberation, the results of which might affect confidence in the currency of the country, and in the financial markets of the country.

The CHAIRMAN. And could help speculators if they knew it?

Mr. HICKMAN. It certainly could.

The CHAIRMAN. So you don't tell anybody after you leave that room.

Mr. HICKMAN. That is correct.

The CHAIRMAN. But when you go back to your board of directors, what do you tell them?

Mr. HICKMAN. Well, every 2 weeks it is necessary for the board of directors to reestablish the discount rates for the district.

The CHAIRMAN. Yes, sir.

Mr. HICKMAN. Subject, of course——

The CHAIRMAN. Do you actually have a meeting to do that?

Mr. HICKMAN. We do, every month.

And then in alternate 2-week periods we have an executive committee telephone conference, around the district. And they always ask for my recommendation on this—the chairman asks for my recommendation on it. And I review the money market, the state of the bill market, the state of the long-term bond market, and so forth. And at all of these telephone hookups we have agreed we will never actually change the rate at that time—so it is usually simply a matter of reestablishing the existing structure.

The CHAIRMAN. You mean that is the Presidents of the other banks?

Mr. HICKMAN. That is what I do.

The CHAIRMAN. That is what you do. And then do you report that to your board of directors?

Mr. HICKMAN. This is in the telephone hookup. I tell them that the bill rate is 3.53 percent on 91-day Treasury bills, and so forth.

The CHAIRMAN. I am afraid I am confused on that. I thought you were first talking to the other 11 Presidents.

Mr. HICKMAN. Oh, no; I beg your pardon. This is the directors.

The CHAIRMAN. You were talking to the nine directors?

Mr. HICKMAN. To the directors. I am not making myself clear—I am sorry, sir.

The CHAIRMAN. No; I think I was just confused about it. I am not as fully acquainted with it as you are.

So you talk to your nine directors over one hookup. In other words, kind of like an old country telephone line.

Mr. HICKMAN. That is just roughly it; yes, sir.

The CHAIRMAN. All talking at the same time.

Mr. HICKMAN. No. We have an agenda.

The CHAIRMAN. What I mean—you are talking to them and they are hearing, and then you get their views on it?

Mr. HICKMAN. That is correct.

The CHAIRMAN. Now, of course, this business of recommending every 2 weeks the discount rate doesn't mean too much. You don't change it too often; do you?

Mr. HICKMAN. No; that is correct.

The CHAIRMAN. What important decisions do you make outside of that recommending?

Of course you don't establish the discount rate. You just recommend every 2 weeks; don't you?

Mr. HICKMAN. That is correct. The directors establish the rate.

The CHAIRMAN. That is right. But what decision—say in the last year, what were the——

Mr. HICKMAN. Subject to review and determination by the Board of Governors in Washington.

The CHAIRMAN. Yes, sir. The last year, we will say, what were the most important decisions you had to make as President of the bank?

Mr. HICKMAN. Well, I think the most important decision had to do with our check-handling equipment.

The CHAIRMAN. Check-handling equipment?

Mr. HICKMAN. Yes. We had a very high float due to some electronic equipment that was not working properly, and this was costing the Federal Reserve Bank of Cleveland and, of course, the Treasury large sums of money. And it was important to take steps to try to bring this into some order.

The CHAIRMAN. All right. What would you say the No. 2 most important decision you had to make was?

Mr. HICKMAN. I think the next most important decision was to review the personnel policies of the bank as carefully as I could, and try to familiarize myself with them, and as a result I changed them in some minor particulars.

But I would say that personnel matters having to do with selection of officers in charge of various functions of the bank involved some important decisions.

The CHAIRMAN. What would be the third, would you say?

Mr. HICKMAN. Well, we had a major problem having to do with some $850 odd million of bonds that were held in safekeeping by the bank against public deposits. There was a change in the State law of Ohio, and there was a question of whether the Federal Reserve Bank of Cleveland was vulnerable to legal action if we held these bonds under certain circumstances.

The CHAIRMAN. They are not the bank's bonds—they belong to other people?

Mr. HICKMAN. That is correct. And this, of course, could conceivably have involved us in a legal action. And a lot of negotiating had to go on, and rather hard decisions—some rather unpopular decisions—had to be made about that.

We decided not to continue to take these bonds.

The CHAIRMAN. What would be your next most important decision?

Mr. HICKMAN. Again, we had the problem of examiners. Some of the junior examiners were being lured away from us by a salary scale that was slightly out of adjustment. We had to make an emergency study of that. We had to make adjustments in that scale.

The CHAIRMAN. Now, of course, I know under the Open Market Committee law, you are not privileged to buy or sell Government bonds unless the Open Market Committee specifically gives you that power. Is that correct?

Mr. HICKMAN. Our bank is not allowed to buy or sell, except that we can buy or sell for the account of member banks.

The CHAIRMAN. For the account of member banks.

Who do you sell those to? Do you sell them or buy them from the dealers?

Mr. HICKMAN. That is correct. We check around. A member bank requests us to buy Government securities. We check around with the four dealers in our area.

The CHAIRMAN. Wait a minute. You mean the recognized dealers, like there used to be 17—I think there are 19 now; are there not?

Mr. HICKMAN. Yes. I think so, sir. I am not——

The CHAIRMAN. We will not quibble about that. We will put the correct number in the record. It used to be 17, but I think it is 19. Do you deal with them exclusively, or do you deal with other dealers?

Mr. HICKMAN. We deal with less than that number, sir.

The CHAIRMAN. I know. But do you deal with one of that number?

Mr. HICKMAN. We deal with four.

The CHAIRMAN. What I am trying to get is——

Mr. HICKMAN. Four in Cleveland, sir.

The CHAIRMAN. What is that?

Mr. HICKMAN. We deal with four in Cleveland.

The CHAIRMAN. What I am trying to get—you know, there are recognized dealers.

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. That are recognized by the Open Market Committee—that all the bond transactions are made through these dealers, are they not?

Mr. HICKMAN. That is right—for the System open market account.

The CHAIRMAN. Do you deal with one of those dealers, or do you deal with anybody you want to?

Mr. HICKMAN. We deal with 4 of the dealers from the 16 or 19.

The CHAIRMAN. Which are the recognized dealers?

Mr. HICKMAN. On behalf of the member banks.

The CHAIRMAN. On behalf of the member banks. In other words——

Mr. HICKMAN. Not as the Federal Open Market Committee—but as the agent of the member banks.

The CHAIRMAN. The Open Market Committee——

Mr. HICKMAN. It changes from month to month.

Mr. ELLIS. We heard yesterday there are three new ones within the last recent months. I believe the total is either 19 or 20.

The CHAIRMAN. Well, anyway, the Open Market Committee deals exclusively with those dealers, do they not?

Mr. HICKMAN. That is correct.

The CHAIRMAN. They buy and sell—don't deal with anybody else in the United States?

Mr. HICKMAN. That is correct.

The CHAIRMAN. On Government bonds.

Now, all those dealers, they also have a party line in New York. They can pick up the receiver, all of them at the same time, can they not?

Mr. HICKMAN. You mean with one another?

The CHAIRMAN. Yes—and also with the open market account?

Mr. HICKMAN. Yes, they can.

The CHAIRMAN. They all have offices right around the Federal Reserve in New York.

Mr. HICKMAN. Well, no, that is not true. Some of them are in Chicago.

The CHAIRMAN. I know. But they have a New York office. We were over there. We saw the office.

Mr. HICKMAN. I don't think they all do, sir.

The CHAIRMAN. Well, anyway, when you deal with those dealers, 19 or 20—now, the ones that you deal with as a bank president has got to be one of them, hasn't it?

Mr. HICKMAN. Yes, it has.

The CHAIRMAN. And that is the way all the other banks do.

Mr. HICKMAN. It would not have to be. But as a matter of practice, it is.

The CHAIRMAN. Well, it is important to know whether or not you have to.

You don't know whether you have to or not? Anyway, I will pursue that——

Mr. HICKMAN. You appear to be talking about open market operations—I am talking about buying bonds for the account of member banks. This is a completely different type of transaction.

The CHAIRMAN. I know it is. You see, one is Open Market Committee dealing with the 19 or 20 dealers.

Now, then, you are privileged only to buy and sell bonds for your member banks—nobody else?

Mr. HICKMAN. That is correct.

The CHAIRMAN. But suppose a bank, a correspondent bank, has a bond that belongs to a State bank that is not a member? Could you handle that for the correspondent bank, because he is not a member?

Mr. HICKMAN. Yes; we could handle it.

The CHAIRMAN. You could do that. And the point is, do you have to deal with one of those 19 or 20?

Mr. HICKMAN. No; we do not.

The CHAIRMAN. You do not? You are not exactly sure about that, are you?

Mr. HICKMAN. I am fairly sure that we don't. I don't think there is anything in the bylaws of the bank that would prevent us from dealing with anybody, sir.

The CHAIRMAN. How much would they aggregate during the course of a year?

Mr. HICKMAN. Oh, I think that they would aggregate somewhere in the neighborhood, for the Cleveland bank, of half a billion dollars.

The CHAIRMAN. In the course of a year?

Mr. HICKMAN. In the course of a year.

The CHAIRMAN. Well, as Government bonds go, that is not too many, is it?

Mr. HICKMAN. No; it is not.

The CHAIRMAN. A small amount in comparison to the Open Market Committee.

Mr. HICKMAN. That is correct. Of course, it involves a number of small transactions.

The CHAIRMAN. Now, then, you are acquainted with the Open Market Committee?

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. You have been in the New York bank?

Mr. HICKMAN. I have been in the New York bank.

The CHAIRMAN. Now, then, the New York bank is dealing with the other 11 Reserve banks as though they were keeping their books for them, are they not? In other words, if they buy a bond, they tell each bank how much is that bank's part, don't they?

Mr. HICKMAN. That is correct. They are dealing with our assets and liabilities.

The CHAIRMAN. That is right.

Mr. HICKMAN. With our claims.

The CHAIRMAN. But they keep the books there in New York, do they not?

Mr. HICKMAN. That is correct.

The CHAIRMAN. And you don't have a thing to do with that open market portfolio of $33 billion. You don't make any decision for yourself on that, do you? They make that, the Open Market Committee?

Mr. HICKMAN. That is correct.

The CHAIRMAN. So they just notify you that they have sold bonds, and your interest is so much, or that you bought bonds, each of the 12 banks interest is so much.

You, in effect, keep the books for each bank, the 12 bankbooks, right there in New York, don't you?

Mr. HICKMAN. That section of it.

The CHAIRMAN. That section of it?

Mr. HICKMAN. The participations in the Open Market account are kept there, and, of course, checked with our accountants in Cleveland.

The CHAIRMAN. Yes. In fact, they send telegrams, don't they?

Mr. HICKMAN. That is right.

The CHAIRMAN. It must be an enormous business, the telegraph business—every time they buy something or sell something, they have to notify each of the 12 banks.

Mr. HICKMAN. We have leased wires, sir, in the System——

The CHAIRMAN. It is a Western Union system, I assume.

Mr. HICKMAN. No; it is leased from A.T. & T.

Mr. Chairman, these are summarized—these purchases and sales by the Federal open market account are summarized daily.

The CHAIRMAN. Summarized daily?

Mr. HICKMAN. And sent to us.

The CHAIRMAN. And that is done by each bank, is it not?

Mr. HICKMAN. The summaries are sent to each bank.

The CHAIRMAN. The summaries are sent to each bank? In other words, you don't send one telegram on one transaction?

Mr. HICKMAN. That is correct. We do not send one——

The CHAIRMAN. You send it at the end of the day.

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. And the only information the other banks have as to what their condition is, is what you tell them, is it not? From the New York bank?

Mr. HICKMAN. It is what the New York bank tells us.

The CHAIRMAN. That is right. And in your case, they tell you?

Mr. HICKMAN. That is right.

The CHAIRMAN. The President of the Bank of Cleveland?

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. The New York bank advises you your condition every day, and they keep all the books there, do they not?

Mr. HICKMAN. No, no; just on the open market accounts.

The CHAIRMAN. Well, that is the principal business, is it not?

Mr. HICKMAN. That is a good part of it. I suppose the bonds we hold are $2,500 million out of total assets of around $4½ billion.

The CHAIRMAN. You mean your bank holds that?

Mr. HICKMAN. Yes, sir.

The CHAIRMAN. I have not seen a copy of your statement lately. Do you have one with you?

Mr. HICKMAN. I do.

The CHAIRMAN. How many copies do you have?

Mr. HICKMAN. Well, I happen to have one. Mr. Hoy has one, Mr. Chairman. Now, we would be glad to put that in the record here.

The CHAIRMAN. All right. Without objection, we will place it in the record at this point.

(The statement referred to follows:)

FORTY-NINTH ANNUAL STATEMENT

FEDERAL RESERVE BANK OF CLEVELAND,
Cleveland, Ohio, January 2, 1964.

To the Stockholders of the Federal Reserve Bank of Cleveland:

The following pages present a statement reflecting the financial results of the operations of this bank for the year 1963. For convenient comparison, the corresponding figures for the year 1962 are also shown.

An annual report of the bank for the year 1963 containing an account of its operations in greater detail is in course of preparation. When the report is issued, a copy will be sent to each member bank in the district and to others who may be interested in receiving it.

W. BRADDOCK HICKMAN, *President.*

Comparative statement of condition

	Dec. 31, 1963	Dec. 31, 1962
ASSETS		
Gold certificate account	$1, 072, 428, 053	$1, 254, 874, 381
Redemption fund for Federal Reserve notes	120, 891, 715	112, 001, 545
Total gold certificate reserves	1, 193, 319, 768	1, 366, 875, 926
Federal Reserve notes of other banks	31, 391, 715	27, 690, 620
Other cash	10, 938, 681	20, 241, 475
Total cash	1, 235, 650, 164	1, 414, 808, 021
Discounts and advances	8, 701, 000	249, 000
U.S. Government securities:		
Bills	343, 270, 000	196, 364, 000
Certificates	585, 699, 000	1, 059, 973, 000
Notes	1, 469, 507, 000	861, 788, 000
Bonds	385, 044, 000	332, 641, 000
Total U.S. Government securities	2, 783, 520, 000	2, 450, 766, 000
Total loans and securities	2, 792, 221, 000	2, 451, 015, 000
Cash items in process of collection	509, 071, 091	721, 013, 659
Bank premises	6, 427, 573	7, 275, 098
Other assets	34, 414, 996	29, 726, 416
Total assets	4, 577, 784, 824	4, 623, 838, 194
LIABILITIES		
Federal Reserve notes	2, 811, 931, 560	2, 679, 742, 230
Deposits:		
Member bank—Reserve accounts	1, 158, 351, 902	1, 201, 043, 442
U.S. Treasurer—General account	43, 915, 293	38, 220, 731
Foreign	14, 880, 000	24, 440, 000
Other deposits	7, 910, 939	13, 848, 557
Total deposits	1, 225, 058, 134	1, 277, 552, 730
Deferred availability cash items	399, 373, 828	530, 832, 841
Other liabilities	6. 738, 252	5, 257, 793
Total liabilities	4, 443, 101, 774	4, 493, 385, 594
CAPITAL ACCOUNTS		
Capital paid in	44, 894, 350	43, 484, 200
Surplus	89, 788, 700	86, 968, 400
Total liabilities and capital accounts	4, 577, 784, 824	4, 623, 838, 194
Contingent liability on acceptances purchased for foreign correspondents	8, 546, 700	7, 905, 400

Comparison of earnings and expenses

	1963	1962
Total current earnings	$94, 972, 347	$88, 180, 787
Net expenses	15, 652, 180	15, 143, 856
Current net earnings	79, 320, 167	73, 036, 931
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	26, 166	167, 498
Profit on foreign exchange transactions (net)	27, 303	27, 030
All other	18, 646	23, 005
Total additions	72, 115	217, 533
Deductions from current net earnings:		
Proportionate share of losses under Federal Reserve System loss-sharing agreement (net)	0	177, 558
All other	1, 415	418
Total deductions	1, 415	177, 976
Net additions	70, 700	39, 557
Net earnings before payments to U.S. Treasury	79, 390, 867	73, 076, 488
Dividends	2, 653, 643	2, 547, 615
Paid U.S. Treasury (interest on Federal Reserve notes)	73, 916, 924	66, 832, 373
Transferred to surplus	2, 820, 300	3, 696, 500

FEDERAL RESERVE BANK OF CLEVELAND

DIRECTORS, 1964

Chairman: Joseph B. Hall, chairman of the board, the Kroger Co., Cincinnati, Ohio.

Deputy Chairman: Logan T. Johnston, president, Armco Steel Corp., Middletown, Ohio.

Frank E. Agnew, Jr., chairman of the board and chief executive officer, Pittsburgh National Bank, Pittsburgh, Pa.

Walter K. Bailey, chairman of the board, the Warner & Swasey Co., Cleveland, Ohio.

Albert G. Clay, president, Clay Tobacco Co., Mount Sterling, Ky.

Richard R. Hollington, president, the Ohio Bank & Savings Co., Findlay, Ohio.

David A. Meeker, chairman of the board and chief executive officer, the Hobart Manufacturing Co., Troy, Ohio.

C. N. Sutton, president, the Richland Trust Co., Mansfield, Ohio.

Edwin J. Thomas, chairman of the board and chief executive officer, the Goodyear Tire & Rubber Co., Akron, Ohio.

OFFICERS, 1964

W. Braddock Hickman, president.
Donald S. Thompson, first vice president.
Roger R. Clouse, vice president and secretary.
Edward A. Fink, vice president.
Elmer F. Fricek, vice president.
Clyde Harrell, vice president.
Fred S. Kelly, vice president and cashier.
Fred O. Kiel, vice president.
Maurice Mann, vice president.
Clifford G. Miller, vice president.

Martin Morrison, vice president.
Paul C. Stetzelberger, vice president.
Elfer B. Miller, general auditor.
Paul Breidenbach, counsel.
Phillip B. Didham, assistant vice president.
Robert G. Hoover, assistant vice president.
John J. Hoy, assistant vice president.
Harry W. Huning, assistant vice president.
George E. Booth, Jr., assistant counsel.
Addison T. Cutler, special economist.
George T. Quast, chief examiner.
Donald G. Benjamin, assistant cashier.
Anne J. Erste, assistant cashier.
R. Joseph Ginnane, assistant cashier.
William H. Hendricks, assistant cashier.
Thomas E. Ormiston, Jr., assistant cashier.
James H. Campbell, assistant general auditor.
Lester M. Selby, assistant secretary.

MEMBER, FEDERAL ADVISORY COUNCIL

Leland A. Stoner, president, the Ohio National Bank of Columbus, Columbus, Ohio.

CINCINNATI BRANCH

DIRECTORS, 1964

Chairman: Howard E. Whitaker, chairman of the board, the Mead Corp., Dayton, Ohio.
G. Carlton Hill, chairman of the board, the Fifth Third Union Trust Co., Cincinnati, Ohio.
John W. Humphrey, president, the Philip Carey Manufacturing Co., Cincinnati, Ohio.
Walter C. Langsam, president, University of Cincinnati, Cincinnati, Ohio.
James B. Pugh, president, the Security Central National Bank of Portsmouth, Portsmouth, Ohio.
Barney A. Tucker, president, Burley-Belt Fertilizer Co., Lexington, Ky.
John W. Woods, Jr., president, the Third National Bank of Ashland, Ashland, Ky.

OFFICERS, 1964

Fred O. Kiel, vice president.
Phil J. Geers, cashier.
John Biermann, Jr., assistant cashier.
George W. Hurst, assistant cashier.
Walter H. MacDonald, assistant cashier.

PITTSBURGH BRANCH

DIRECTORS, 1964

Chairman: William A. Steele, chairman of the board and president, Wheeling Steel Corp., Wheeling, W. Va.
J. S. Armstrong, president and trust officer, the Grove City National Bank, Grove City, Pa.
G. L. Bach, Maurice Falk professor of economics and social science, Carnegie Institute of Technology, Pittsburgh, Pa.
F. L. Byrom, president, Koppers Co., Inc., Pittsburgh, Pa.
S. L. Drumm, president, West Penn Power Co., Greensburg, Pa.
James B. Grieves, president, Commonwealth Bank & Trust Co., Pittsburgh, Pa.
Alfred H. Owens, president, the Citizens National Bank of New Castle, New Castle, Pa.

OFFICERS, 1964

Clyde Harrell, vice president.
John A. Schmidt, cashier.
J. Robert Aufderheide, assistant cashier.
Paul H. Dorn, assistant cashier.
Charles E. Houpt, assistant cashier.
Roy J. Steinbrink, assistant cashier.

Statement of condition of the Federal Reserve Bank of Cleveland at the close of business, Dec. 31, 1963

[In thousands of dollars]

ASSETS	
Gold certificate account	1, 072, 428
Redemption fund for Federal Reserve notes	120, 892
Total gold certificate reserves	1, 193, 320
Federal Reserve notes of other banks	31, 392
Other cash	10, 939
Discounts and advances:	
Secured by U.S. Government securities	5, 725
Other	2, 976
Acceptances:	
Bought outright	---------
Held under repurchase agreement	---------
U.S. Government securities:	
Bought outright	2, 783, 520
Held under repurchase agreement	---------
Total loans and securities	2, 792, 221
Cash items in process of collection	509, 071
Bank premises	6, 428
Other assets:	
Denominated in foreign currencies	14, 194
All other	20, 220
Total assets	4, 577, 785
LIABILITIES	
Federal Reserve notes	2, 811, 932
Deposits:	
Member bank reserves	1, 158, 352
U.S. Treasurer—General account	43, 915
Foreign	14, 880
Other	7, 911
Total deposits	1, 225, 058
Deferred availability cash items	399, 374
Other liabilities	6, 738
Total liabilities	4, 443, 102
CAPITAL ACCOUNTS	
Capital paid in	44, 894
Surplus	89, 789
Other capital accounts	---------
Total liabilities and capital accounts	4, 577, 785
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined ....percent	29. 6
Contingent liability on acceptances purchased for foreign correspondents	8, 547

FEDERAL RESERVE NOTE STATEMENT

Federal Reserve Bank of Cleveland at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	2,991,515
Less held by issuing bank, and forwarded for redemption	179,583
Federal Reserve notes, net [1]	2,811,932
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	610,000
Eligible paper	----------
U.S. Government securities	2,450,000
Total collateral	3,060,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of Cleveland—Current earnings

[In thousands]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	$32	$11	$16	$56			[1] $1	$114
1916	18	107	145	117		$23	42	452
1917	375	497	318	48	$18	70	41	1, 367
1918	3, 125	1, 142	612		66	41	241	5, 227
1919	5, 342	1, 883	450		66		59	7, 801
1920	10, 571	3, 064	603		103		118	14, 459
1921	8, 042	738	480		57		75	9, 391
1922	2, 248	744	1, 947		27		29	4, 994
1923	2, 327	1, 512	740		30		47	4, 655
1924	1, 362	670	1, 582		17		140	3, 771
1925	1, 898	703	1, 246		16		152	4, 013
1926	2, 212	818	1, 274		30		183	4, 518
1927	1, 665	705	1, 584		19		225	4, 198
1928	3, 439	1, 250	1, 394		29		140	6, 251
1929	4, 588	1, 130	1, 012		50		207	6, 987
1930	1, 304	539	1, 505		29		209	3, 585
1931	1, 237	424	1, 148		36		194	3, 038
1932	2, 214	199	2, 501		54		160	5, 129

[1] Debit.

Federal Reserve Bank of Cleveland—Current earnings—Continued

[In thousands]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		$1, 106	$71				$3, 417	$111	$4, 705
1934		74	14	$6	$1		3, 953	90	4, 138
1935		8	3	88	18		3, 488	69	3, 675
1936		1	3	84	16		3, 365	68	3, 537
1937		8	2	46	11		3, 849	70	3, 987
1938		10		38	15		3, 350	76	3, 491
1939		4		18	14		3, 733	76	3, 846
1940		3		16	11		4, 291	84	4, 405
1941		2		15	10		4, 031	65	4, 124
1942		3		20	6		4, 872	74	4, 975
1943		4		28	2		6, 644	72	6, 751
1944		13		12			9, 548	70	9, 644
1945		114		2			13, 099	73	13, 289
1946		237			3		13, 511	122	13, 874
1947		217			7		14, 784	182	15, 189
1948	$376				6		28, 654	229	29, 265
1949	286				7		28, 798	240	29, 331
1950	187				4		25, 286	215	25, 692
1951	252			5	5		26, 284	20	36, 567

Federal Reserve Bank of Cleveland—Current earnings—Continued

[In thousands]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	$955		$6		$43, 908		$15	$44, 884
1953	1, 364		6		46, 085		16	47, 471
1954	277		6		37, 127		12	37, 422
1955	863		5		34, 170		17	35, 055
1956	1, 905		2		49, 230		20	51, 157
1957	2, 366		1		64, 104		24	66, 495
1958	840		1		64, 755		21	65, 618
1959	2, 051				74, 377		28	76, 456
1960	769				93, 077		53	93, 900
1961	167				79, 647		33	79, 847
1962	216				87, 614	$329	22	88, 181

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Cleveland—Profit and loss account, 1914–25

[In thousands]

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$55, 774	$301, 905	$1, 009, 138	$4, 320, 463	$6, 458, 212	$12, 129, 464
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						63, 246
Depreciation on U.S. bonds						
All other						
Total additions						63, 246
Deductions from current net earnings:						
Bank premises—depreciation					254, 684	129, 551
Furniture and equipment		8, 097	45, 986	85, 784	53, 414	141, 008
Reserve for probable losses						
Reserve for self-insurance						
Reserve for Federal Reserve Board expenses					46, 555	53, 900
Reserve for depreciation, U.S. bonds				84, 406	5, 044	48, 220
All other			209, 470	14, 477	4, 730	
Total deductions		8, 097	255, 456	184, 667	364, 427	372, 679
Net deductions from current net earnings		8, 097	255, 456	184, 667	364, 427	309, 433
Net earnings	−55, 774	293, 808	753, 682	4, 135, 796	6, 093, 785	11, 820, 031
Distribution of net earnings:						
Dividends paid		143, 237	716, 168	716, 107	556, 785	604, 194
Transferred to surplus account				3, 552, 000	5, 537, 000	11, 215, 837
Franchise tax paid U.S. Government						
Balance to profit and loss	−55, 774	150, 571	37, 514	−132, 311		

Federal Reserve Bank of Cleveland—Profit and loss account, 1914–25—Continued

[In thousands]

	1921	1922	1923	1924	1925
Current net earnings	$6, 519, 851	$2, 553, 016	$2, 104, 431	$1, 105, 839	$1, 413, 827
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses	37, 209				
Depreciation on U.S. bonds	55, 739	43, 728	4, 148	21, 612	
All other	32, 123	5, 161	7, 803	18, 385	333, 802
Total additions	125, 071	48, 889	11, 951	39, 997	333, 802
Deductions from current net earnings:					
Bank premises—depreciation	64, 759	125, 428	699, 651	1, 509, 445	271, 978
Furniture and equipment	85, 684	42, 779	336, 702	102, 466	34, 960
Reserve for probable losses	100, 000				
Reserve for self-insurance	100, 000	100, 000	100, 000		200, 000
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	10, 096	45, 010	58, 808	7, 078	30, 115
Total deductions	360, 539	313, 217	1, 195, 161	1, 618, 989	537, 053
Net deductions from current net earnings	235, 468	264, 328	1, 183, 210	1, 578, 992	203, 251
Net earnings	6, 284, 383	2, 268, 688	921, 221	−473, 153	1, 210, 576
Distribution of net earnings:					
Dividends paid	660, 228	692, 436	725, 626	756, 152	778, 811
Transferred to surplus account	2, 329, 442	861, 264	195, 595	[1] −1, 229, 305	431, 765
Franchise tax paid U.S. Government	3, 294, 713	714, 988			
Balance to profit and loss					

[1] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Cleveland—Profit and loss account, 1926–35

[In thousands]

	1926	1927	1928	1929	1930
Current net earnings	$1, 666, 376	$1, 229, 128	$3, 324, 180	$3, 884, 081	$619, 001
Additions to current net earnings:					
Profit on U.S. Government securities sold					178, 163
Other additions	10, 549	2, 138	3, 193	175	200, 333
Total additions	10, 549	2, 138	3, 193	175	378, 496
Deductions from current net earnings:					
Special depreciation allowances on bank premises	15, 818				
Reserve for losses		100, 000			
Reserve for self insurance		21, 709	19, 267	20, 024	188, 959
Building for Board of Governors					
All other deductions	345	1, 367	127, 391	158, 790	24, 761
Total deductions	16, 163	123, 076	146, 658	178, 814	213, 720
Net deductions from current net earnings	5, 614	102, 938	143, 465	178, 639	+164, 776
Net earnings	1, 660, 762	1, 108, 190	3, 180, 715	3, 705, 442	783, 777
Dividends paid	808, 505	832, 583	856, 843	910, 007	952, 934
Franchise tax paid U.S. Government					
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	852, 257	275, 607	2, 323, 872	2, 795, 435	[2] −169, 157

Footnotes at end of table, p. 157.

Federal Reserve Bank of Cleveland—Profit and loss account, 1926–35—Continued

[In thousands]

	1931	1932	1933	1934	1935
Current net earnings	$116, 132	$2, 189, 139	$1, 605, 070	$1, 014, 646	$539, 572
Additions to current net earnings:					
Profit on U.S. Government securities sold	262, 701	319, 843	98, 261	707, 893	488, 850
Other additions	6, 240	3, 277	40, 216	61, 758	21, 514
Total additions	268, 941	323, 120	138, 477	769, 651	510, 364

Deductions from current net earnings:					
Special depreciation allowances on bank premises	------	------	------	------	------
Reserve for losses	250, 000	250, 000	800, 000	700, 000	112, 593
Reserve for self insurance	------	250, 000	------	------	------
Building for Board of Governors	------	------	------	------	94, 675
All other deductions	56, 528	141, 003	211, 864	41, 600	61, 807
Total deductions	306, 528	641, 003	1, 011, 864	741, 600	269, 075
Net deductions from current net earnings	37, 587	317, 883	873, 387	+28, 051	+241, 289
Net earnings	78, 545	1, 871, 256	731, 683	1, 042, 697	780, 861
Dividends paid	936, 513	858, 427	789, 058	769, 096	772, 127
Franchise tax paid U.S. Government	------	832, 746	(1)	------	------
Paid U.S. Treasurer (sec. 13b)	------	------	------	------	8, 734
Transferred to surplus (sec. 13b)	------	------	------	−8, 156	------
Transferred to surplus (sec. 7)	[2] −857, 968	180, 083	[2] −57, 375	281, 757	------

[1] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.
[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Cleveland—Profit and loss account, 1936–45

	1936	1937	1938	1939	1940
Current net earnings	$614, 067	$1, 216, 374	$692, 963	$985, 353	$1, 495, 336
Additions to current net earnings:					
Profits on sales of U.S. Government securities	559, 635	239, 359	816, 488	432, 876	1, 163, 699
Recoveries of and withdrawals from allowances for losses on industrial advances (net)					
All other	554	138	22, 460	24, 636	175, 872
Total additions	560, 189	239, 497	838, 948	457, 513	1, 339, 571
Deductions from current net earnings:					
Reserves for contingencies	10, 000				
Losses and reserves for losses on industrial advances (net)			20, 000		[1] 10, 150
Special reserves and chargeoffs on bank premises				321, 838	
Chargeoffs and special depreciation on bank premises					812, 926
Prior service contributions to retirement system	225, 748	219, 906	439, 812		
Assessment for building for Board of Governors	185, 323	131, 155			
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
All other	34, 279	23, 749	22, 473	224, 363	110, 824
Total deductions	455, 350	374, 810	482, 285	546, 201	913, 600
Net additions or deductions (—)	104, 839	—135, 313	356, 663	—88, 689	425, 971
Net earnings	718, 906	1, 081, 061	1, 049, 626	896, 664	1, 921, 307
Paid U.S. Treasury (sec. 13b)	14, 431	13, 476	227		15, 108
Dividends paid	752, 931	773, 118	799, 145	823, 216	842, 330
Transferred to surplus (sec. 13b)				—290	
Transferred to surplus (sec. 7)	—48, 456	294, 467	250, 254	73, 738	1, 063, 869
Surplus (sec. 7) Jan. 1	14, 371, 246	14, 322, 790	14, 322, 790	14, 322, 790	14, 322, 790
Additions, as above	—48, 456	294, 467	250, 254	73, 738	1, 063, 869
Transferred to reserves for contingencies		—294, 467	—250, 254	—73, 738	—1, 063, 869
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	14, 322, 790	14, 322, 790	14, 322, 790	14, 322, 790	14, 322, 790

	1941	1942	1943	1944	1945
Current net earnings	$763, 459	$1, 368, 068	$2, 558, 187	$5, 049, 229	$8, 852, 586
Additions to current net earnings:					
Profits on sales of U.S. Government securities	132, 273	333, 826	3, 537, 441	335, 184	336, 234
Recoveries of and withdrawals from allowances for losses on industrial advances (net)			−14, 534	−4, 854	6, 074
All other	50	2, 303	413	212	63, 778
Total additions	132, 323	336, 129	3, 523, 320	330, 542	406, 086
Deductions from current net earnings:					
Reserves for contingencies					
Losses and reserves for losses on industrial advances (net)	[1] 23, 600	[1] 1, 242			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system					
Assessment for building for Board of Governors					
Retirement System (interest base adjustment)		381, 490			
Retirement System (interest base and increased benefits adjustments)			803, 689		
All other	11, 157	7, 481	96, 044	401, 924	123, 057
Total deductions	+12, 443	387, 729	399, 873	401, 924	123, 057
Net additions or deductions (−)	144, 766	−51, 600	2, 623, 587	−71, 382	283, 029
Net earnings	908, 225	1, 316, 468	5, 181, 774	4, 977, 847	9, 135, 615
Paid U.S. Treasury (sec. 13b)	15, 458	6, 848	599		7, 177
Dividends paid	869, 942	888, 550	922, 163	967, 057	1, 025, 112
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	22, 825	421, 070	4, 259, 012	4, 010, 790	8, 103, 326
Surplus (sec. 7) Jan. 1	14, 322, 790	14, 345, 615	14, 766, 685	16, 025, 697	19, 071, 303
Additions, as above	22, 825	421, 070	4, 259, 012	4, 010, 790	8, 103, 326
Transferred to reserves for contingencies			−3, 000, 000	−965, 184	
Transferred from reserves for contingencies					6, 570, 488
Surplus (sec. 7) Dec. 31	14, 345, 615	14, 766, 685	16, 025, 697	19, 071, 303	33, 745, 117

[1] Net recoveries.

Federal Reserve Bank of Cleveland—Profit and loss account, 1946–55

	1946	1947	1948	1949	1950
Current net earnings	$8, 891, 006	$8, 911, 719	$22, 507, 639	$22, 145, 081	$18, 336, 686
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	180, 206	255, 338	596, 016	2, 961, 697	3, 471, 928
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net losses)	−97				
All other	4, 864	43	69	107, 433	22, 857
Total additions	184, 973	255, 381	596, 085	3, 069, 130	3, 494, 785
Deductions from current net earnings:					
Reserves for contingencies	28, 616	32, 643			31, 791
Retirement system (salary computation adjustment)	179, 676				
Chargeoffs and special depreciation on bank premises	26, 364	220, 944		178, 577	
Retirement system (adjustment for revised benefits)				224, 183	
Losses on U.S. Government securities sold (net)					
All other	97, 714	1, 896	109, 899	1, 348	13, 001
Total deductions	332, 370	255, 483	109, 899	404, 108	44, 792
Net additions or deductions (−)	−147, 397	−102	486, 186	2, 665, 022	3, 449, 993
Net earnings before payments to U.S. Treasury	8, 743, 609	8, 911, 617	22, 993, 825	24, 810, 103	21, 786, 679
Transferred to reserves for contingencies			3, 906, 750	3, 760, 963	
Paid to U.S. Treasury (sec. 13b)	872				
Paid U.S. Treasury (interest on Federal Reserve notes)		7, 010, 672	16, 153, 370	17, 903, 138	18, 516, 074
Net earnings after reserves and payments to U.S. Treasury	8, 742, 737	1, 900, 945	2, 933, 705	3, 146, 002	3, 270, 605
Dividends paid	1, 094, 157	1, 123, 393	1, 138, 865	1, 156, 753	1, 213, 209
Transferred to surplus (sec. 13b)		−1, 461			
Transferred to surplus (sec. 7)	7, 648, 580	779, 013	1, 794, 840	1, 989, 249	2, 057, 396
Surplus (sec. 7) Jan. 1	33, 745, 117	41, 393, 697	42, 172, 710	43, 967, 550	45, 956, 799
Surplus (sec. 7) Dec. 31	41, 393, 697	42, 172, 710	43, 967, 550	45, 956, 799	48, 014, 195

	1951	1952	1953	1954	1955
Current net earnings	$27, 834, 986	$35, 392, 144	$37, 316, 509	$27, 290, 869	$25, 101, 843
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)		188, 345	184, 975	45, 289	
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net losses)					
All other	30, 189	27, 210	14, 693	11, 556	16, 315
Total additions	30, 189	215, 555	199, 668	56, 845	16, 315
Deductions from current net earnings:					
Reserves for contingencies	37, 072	36, 768	39, 472	28, 717	20, 806
Retirement system (salary computation adjustment)					
Chargeoffs and special depreciation on bank premises					
Retirement system (adjustment for revised benefits)			160, 793		
Losses on U.S. Government securities sold (net)	148, 481				74
All other	9, 904	5, 553	705	1, 454	1, 380
Total deductions	195, 457	42, 321	200, 970	30, 171	22, 260
Net additions or deductions (−)	−165, 268	173, 234	−1, 302	26, 674	−5, 945
Net earnings before payments to U.S. Treasury	27, 669, 718	35, 565, 378	37, 315, 207	27, 317, 543	25, 095, 898
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserves notes)	23, 708, 414	30, 743, 128	32, 249, 472	23, 166, 338	21, 070, 509
Net earnings after reserves and payments to U.S. Treasury	3, 961, 304	4, 822, 250	5, 065, 735	4, 151, 205	4, 025, 389
Dividends paid	1, 327, 030	1, 406, 069	1, 482, 436	1, 577, 114	1, 684, 251
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	2, 634, 274	3, 416, 181	3, 583, 299	2, 574, 091	2, 341, 138
Surplus (sec. 7) Jan. 1	48, 014, 195	50, 648, 469	54, 064, 650	57, 647, 949	60, 222, 040
Surplus (sec. 7) Dec. 31	50, 648, 469	54, 064, 650	57, 647, 949	60, 222, 040	62, 563, 178

Federal Reserve Bank of Cleveland—Profit and loss account, 1956–63

	1956	1957	1958	1959
Current net earnings	$40, 113, 427	$54, 132, 429	$53, 001, 811	$63, 709, 370
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	24, 350	14, 874	13, 848	16, 502
Reimbursements for fiscal agency expenses incurred in prior years	-----	114, 553	-----	-----
Transferred from reserves for contingencies (net)	-----	-----	-----	9, 083, 117
All other	5, 926	4, 625	18, 656	4, 506
Total additions	30, 276	134, 052	32, 503	9, 104, 125
Deductions from current net earnings:				
Reserves for contingencies	16, 896	18, 614	17, 393	-----
Retirement System (adjustmet for revised benefits)	-----	752, 928	-----	-----
Chargeoffs on bank premises	20, 147	-----	-----	-----
All other	1, 742	2, 510	558	-----
Total deductions	38, 785	774, 052	17, 951	178
Net additions or deductions (−)	−8, 510	−640, 000	14, 553	9, 103, 947
Net earnings before payments to U.S. Treasury	40, 104, 917	53, 492, 428	53, 016, 364	72, 813, 317
Paid U.S. Treasury (interest on Federal Reserve notes)	34, 468, 380	46, 416, 660	45, 918, 551	74, 774, 987
Dividends paid	1, 806, 754	1, 918, 377	1, 995, 760	2, 150, 830
Transferred to surplus (sec. 7)	3, 829, 784	5, 157, 392	5, 102, 053	−4, 112, 500
Surplus (sec. 7) Jan. 1	62, 563, 178	66, 392, 961	71, 550, 353	76, 642, 500
Transferred from surplus (sec. 13b)	-----	-----	−9, 906	-----
Surplus (sec. 7) Dec. 31	66, 392, 962	71, 550, 353	76, 642, 500	72, 530, 000

	1960	1961	1962	1963
Current net earnings	$80, 521, 299	$66, 014, 056	$73, 036, 931	$79, 320, 167
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	209, 320	294, 917	167, 498	26, 166
Reimbursement for fiscal agency expenses incurred in prior years				
Transferred from reserves for contingencies (net)	840, 170			
All other	817	1, 157	50, 035	45, 949
Total additions	1, 050, 307	296, 075	217, 533	72, 115
Deductions from current net earnings:				
Reserves for contingencies				
Retirement System (adjustment for revised benefits)				
Chargeoffs on bank premises				
All other				
Total deductions	569	4, 355	177, 976	1, 415
Net additions or deductions (−)	1, 049, 738	291, 720	39, 557	70, 700
Net earnings before payments to U.S. Treasury	81, 571, 038	66, 305, 776	73, 076, 488	79, 390, 867
Paid U.S. Treasury (interest on Federal Reserve notes)	76, 281, 883	56, 273, 169	66, 832, 373	73, 916, 924
Dividends paid	2, 219, 154	2, 360, 707	2, 547, 615	2, 653, 643
Transferred to surplus (sec. 7)	3, 070, 000	7, 671, 900	3, 696, 500	2, 820, 300
Surplus (sec. 7) Jan. 1	72, 530, 000	75, 600, 000	83, 271, 900	86, 968, 400
Transferred from surplus (sec. 13b)				
Surplus (sec. 7) Dec. 31	75, 600, 000	83, 271, 900	86, 968, 400	89, 788, 700

The CHAIRMAN. Suppose you answer this question, please.

If you were indicating in the order of importance, and I mean importance, the matter that takes up most of your time, and the time of your officials and employees, what is the most important duty that is performed by the Federal Reserve Bank of Cleveland?

Mr. HICKMAN. Well, the processing of information and the formulating of views having to do with economic conditions in the district, in the Nation, and the appropriate posture of monetary policy with respect to these conditions.

The CHAIRMAN. Where do you get that information from?

Mr. HICKMAN. From a variety of sources including businessmen and industrialists in the district. And, of course, we also have an economic staff in our bank.

The CHAIRMAN. And they are constantly calling people over the telephone or getting information from them in writing, or how would they get it?

Mr. HICKMAN. Visiting them, talking to them.

The CHAIRMAN. You think that is the most important function your bank performs?

Mr. HICKMAN. That is; yes, sir.

The CHAIRMAN. What about the check clearings? Doesn't it rank up pretty high?

Mr. HICKMAN. Well, it ranks up high in terms of numbers of people. But I thought you were asking about importance from the point of view of the national welfare, sir.

The CHAIRMAN. All right. From the standpoint of the national Federal Reserve System, that would be No. 1—getting information from local people as to the economic conditions and so forth?

Mr. HICKMAN. Yes.

The CHAIRMAN. I am talking now about the operations of the bank.

Mr. HICKMAN. In the bank operations—I will be glad to give you some figures on that, sir.

The CHAIRMAN. How many employees do you have, including officers?

Mr. HICKMAN. We have altogether about 1,500 people in the three offices.

The CHAIRMAN. Most of them are in the Cleveland office, are they not?

Mr. HICKMAN. A little over half of them, about 800, are in the Cleveland office.

The CHAIRMAN. What do those 800 people do the most? How do they spend their time the most? On what?

Mr. HICKMAN. I have a breakdown of the head count of these people in the different departments.

The CHAIRMAN. I don't want that exactly. What do they do that is considered the most important, that requires the most man-hours. We will reduce it to man-hours.

Mr. HICKMAN. I have the percent of the total employees, but I don't have the man-hours.

The CHAIRMAN. I know. But you know what takes up most of your time.

Mr. HICKMAN. Well, as to the number of employees—slightly under a third, sir, are in the——

The CHAIRMAN. Well, that is not responsive. I will yield to another member. And I will come back to you later on, and I will see if I cannot make it a little plainer.

Mr. HICKMAN. It is a third of our people.

The CHAIRMAN. Mr. Widnall?

Mr. VANIK. You were about to tell us about slightly more than a third, is that correct?

Mr. HICKMAN. 32.3 percent of our total employees are in the check collection department.

The CHAIRMAN. That is responsive; yes, sir.

Mr. HICKMAN. I meant to be responsive. But I don't know the number of hours, because they work——

The CHAIRMAN. That is all right. That is sufficiently close. Now, what is your next category, or next most important?

Mr. HICKMAN. The next most important category here is the general service functions of the bank.

The CHAIRMAN. You get paid for that, do you not?

Mr. HICKMAN. Well, the general service functions involve the stockrooms, the maintenance of the bank, and things of that sort.

The CHAIRMAN. I see. What percent is that?

Mr. HICKMAN. That is 16.8 percent.

The CHAIRMAN. That makes nearly half—about 48 plus. What is the next item?

Mr. HICKMAN. Fiscal agency, 10.6 percent.

The CHAIRMAN. All right. I will yield to Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman. I just have a couple of questions.

Mr. Hickman, as a matter of fact, there are only a few dealers who will deal in and make a market for Government securities, isn't that so?

Mr. HICKMAN. Yes, sir. It depends on what area you are talking about, sir. In Cleveland, there are four at the present time.

Mr. WIDNALL. So that if anyone wants to buy or sell Governments, they must deal with these dealers?

Mr. HICKMAN. Well, in theory, that is not quite correct, because I could sell a bond to this gentleman over here, if I knew that he wanted to buy a bond.

But the bids and asks are channeled through the market, which is comprised of these 19 or 20 dealers, that Mr. Ellis mentioned here as the correct number.

Mr. WIDNALL. As a matter of fact, as I have understood the framework of the Federal Reserve System, the banks are under no compulsion to deal with any particular list of dealers, isn't that so?

Mr. HICKMAN. As agent for member banks; that is correct. But the Federal Open Market Account, acting for the Federal Reserve banks, the 12 banks in unison, under the orders of the Federal Open Market Committee, does deal with all the qualified dealers in the country.

Mr. WIDNALL. It does deal with all of the qualified dealers?

Mr. HICKMAN. All of them, at one time or another; yes, sir.

Mr. WIDNALL. So there is no favorite son, so to speak?

Mr. HICKMAN. No, it depends on who has the low bid, the high ask—whoever it might be.

If you are on the buy side, you want to get the low offer, and so forth.

Mr. WIDNALL. But the reason you are limited to the number that you do utilize is the fact that there is no one else that actually makes a market?

Mr. HICKMAN. That is correct. It is a very risky business, and requires a fairly substantial capital to engage in it, and, of course, a great deal of skill.

And there are very few people who wish to undertake this kind of enterprise.

Mr. WIDNALL. So it is not really an unholy conspiracy that is going on when you just limit it to a few dealers?

Mr. HICKMAN. No, sir.

Mr. WIDNALL. That is all.

The CHAIRMAN. Mr. Vanik?

Mr. VANIK. Mr. Chairman, I would like to ask Mr. Hickman, how many banks are there in the Cleveland district?

Mr. HICKMAN. We have altogether, sir; 870 in the Fourth Federal Reserve District.

Mr. VANIK. What is the total number of banks, including those not in the System?

Mr. HICKMAN. That is 870. This was the figure for 1963.

Mr. VANIK. And how many are in the System?

Mr. HICKMAN. Of that number, we have 513 in the System.

Mr. VANIK. 513? Now, in your opinion, is it very important for the small banks to be associated with the System?

Mr. HICKMAN. No; it is not.

Mr. VANIK. They can, after all, get their money out of the city banks?

Mr. HICKMAN. They can hold deposits—instead of holding them with the Fed, they can hold deposits with the correspondent banks in the city.

Mr. VANIK. What is the real advantage that they have, if any, in membership?

Mr. HICKMAN. The larger banks?

Mr. VANIK. No; the smaller ones.

Mr. HICKMAN. I should say the primary advantage is the feeling that they belong to the Federal Reserve System, where they can obtain reserves in the event of emergencies. For example, the tobacco——

Mr. VANIK. Can they obtain reserves in the event of an emergency from the Fed that they would not be able to get from their correspondent banks—the city banks?

Mr. HICKMAN. In a period of great national stress, such as the 1930's, that is conceivable, sir.

Mr. VANIK. Yes. Now, you said something about—I have a question here—in the Federal Reserve building in Cleveland, we have some private tenants; is that right?

Mr. HICKMAN. That is correct.

Mr. VANIK. So that in a sense you are engaged in a proprietary operation?

Mr. HICKMAN. To that extent.

Mr. VANIK. You have an office building for general tenancies.

Now, to the extent that you rent out private space in the building, don't you feel that you ought to pay something to the local communities in lieu of taxes for at least that part of your operation which is a proprietary function?

Mr. HICKMAN. Well, we do pay general property taxes in Cleveland. We do, sir; yes. The tenants are Government agency tenants.

Mr. VANIK. You have some that are private?

Mr. HICKMAN. We have one or two. I think we have the Scripps-Howard, a small office of Scripps-Howard there, as I recollect.

Mr. VANIK. There are less than I thought. I knew at one time there were quite a few.

Mr. HICKMAN. We have the Internal Revenue Service.

Mr. VANIK. That is all right.

Mr. HICKMAN. The Comptroller of the Currency is in there; organizations of that sort.

Mr. VANIK. Yes.

Mr. HICKMAN. We do pay general property taxes to the city.

Mr. VANIK. The question that I am driving at is eventually, when we get our new building in Cleveland, it is conceivable that we might be able to consolidate all of our Federal facilities in either the Federal Reserve bank building or the new office building, so we can avoid the scattering around throughout the entire metropolitan area.

What are your space demands now? Are you contemplating any expansions, or do you find your space satisfactory?

Mr. HICKMAN. We have 12 floors. We have something like 500,000 square feet of space in our three offices, and about 250,000 square feet at Cleveland. About 50,000 square feet is available for tenants and the rest is for our own requirements. I have the figure. It is 500,097 square feet at our three offices.

Mr. VANIK. All right. Now, let me ask you this: What is the total cost in dollars of the check clearance operation?

Mr. HICKMAN. Total cost in dollars?

Mr. VANIK. You said it was 30 percent?

Mr. HICKMAN. Yes, we have that figure right here. I had it right here a minute ago, on that same sheet.

Mr. VANIK. While Mr. Hoy is looking for that——

Mr. HICKMAN. I have it right here, sir. The total cost of the check operation is $3,725,000, out of total expenses of $17,548,000; $3.7 million.

Mr. VANIK. Yes. Now, what part—what would this figure—how would this relate to the total cost of the check-handling function by the banks in the Cleveland district? In other words, as we consider the whole business of commercial accounts, what percentage of the total cost of this check handling would be represented by what you do at the clearinghouse? Does this represent 30 percent of it?

Mr. HICKMAN. Well, the total cost—a very rough estimate obtained by discussions with bankers in the district for the national scene—would be around $3 billion cost to the commercial banks for handling their part.

Mr. VANIK. How much?

Mr. HICKMAN. $3 billion.

Mr. VANIK. $3 billion?

Mr. HICKMAN. Yes, sir. Now, the Federal Reserve Bank of Cleveland's district has about one-tenth of the banking assets in the country in it. So that it would be around $300 million.

Mr. VANIK. I am trying to orient this in my mind.

What would you estimate would be the cost in the Cleveland district?

Mr. HICKMAN. I would say roughly $300 million.

Mr. VANIK. To handle checks?

Mr. HICKMAN. By the commercial banks; yes.

Mr. VANIK. I am just trying to figure out this operation.

The checks are issued, they are circulated, they go to the bank, and then they get to the clearinghouse, and you sort them all out, and get everybody's balances calculated.

It seems to me—I don't know, but it seems like you do about a third of the work for about $3.7 million. I cannot quite see how the rest of it should cost so much. I am trying to determine whether or not the commercial banks are passing on to the consumer—there are some 65 million people that have checking accounts now—I want to know if they are passing on to the consumer some of the advantages of the reduced costs of check handling brought about through the data processing systems and the computer systems that are now in vogue.

Mr. HICKMAN. I think they will over a period of time. The competitive process, as you know, works over a period of time.

Mr. VANIK. In the Cleveland district, for example, what is the charge to the individual account holder—what is the charge that is made for each check, for each item? How does it vary?

Mr. HICKMAN. It varies—I don't have the schedule.

Mr. VANIK. What is the peak on it?

Mr. HICKMAN. It varies with the size of the account and the activity of the account. Debits and credits are charged at a different rate. And that is all related to the average balance in the account, as I understand it.

Mr. VANIK. Well, does it range as high as 10 cents an item or higher?

Mr. HICKMAN. I think it could range higher; yes, sir.

Mr. VANIK. Yes, it ranges higher.

Now, is it possible that you could provide for the record a variation of the schedule in the Cleveland district on check handling charges—in other words, the maximums—and get the minimums—so that we have some idea here as to the range, the competitive range, as you say, in the cost of these services?

Mr. HICKMAN. We would be glad to do it.

Mr. VANIK. Because the cost of check handling is an item that every consumer must face. And I am anxious to see that these charges are related in some measure to the actual cost of the service to the bank.

Mr. HICKMAN. Mr. Vanik, may I say that we will be glad to provide that information. Of course, the banks also compete in many other ways.

Mr. VANIK. I would like to know the extent of their competition. For example, in the Cleveland area——

Mr. HICKMAN. Through their loan and investment processes.

Mr. VANIK. Yes. I would like to know the extent of the competition. In other words, I would like to know what is the range—what is the competitive range in the city of Cleveland, what is the competitive range in the city of Akron, what is the competitive range in Pittsburgh, and perhaps some rural area.

So that we have an opportunity to get a cross section. It seems that in the rural areas, and in other places, that these things are done for almost nothing. And in the cities, where there is a tremendous volume, the cost goes up to 10 cents an item and even higher.

Mr. HICKMAN. Yes, it may do that.

Mr. VANIK. And, at the same time, I would also like to have a cross section of the cost of official drafts. If a person in my community, for example, has to send a check to the registrar of motor vehicles to get a license number, he pays 30 cents or more for a $11 check.

It seems to me—it doesn't seem in any way to relate itself to the service, because a man comes in and brings in his $11, there is no risk to the bank, they write out a piece of paper, they charge him 30 cents, so that he can send a proper check down with his application for a motor vehicle license plate. It seems to me that these costs are getting to be a little bit out of line with reality.

And it also seems to be considerable uniformity in the charge.

I haven't been able to personally find this high degree of competition that you have talked about. And I would like to have some evidence of it submitted for the record, if you can.

The CHAIRMAN. Without objection—you will submit the information for the record.

Mr. HICKMAN. I will be glad to do that, although I don't believe I said there was a high degree of competition.

Mr. VANIK. You said there is competition.

Mr. HICKMAN. There is.

Mr. VANIK. I would like to see evidence of the competition.

Mr. HICKMAN. I think the competition is mainly on the side of availability of funds, the searching for investment outlets, loan outlets.

Mr. VANIK. If I want to open a checking account, I don't want to do it where it is going to cost me $50 a year. You show me where it can be done for $25. I want to see if there is some range of choice in where I can open my account, because the average person doesn't care which bank. They are all insured, they are all solid. The choice doesn't mean so much to him. He is concerned in getting this service at the lowest practicable cost.

(The information referred to follows:)

SCHEDULE OF SERVICE CHARGES ON CHECKING ACCOUNTS AND OFFICIAL CHECKS

CLEVELAND

High, medium, and low range, as follows:

Bank A

Regular checking accounts:

6 cents for each check written during the month.

4 cents for each check written after 100 checks in the month.

3 cents for each item deposited during the month.

2 cents for each item deposited after 100 items in the month.

Offsetting credit of 12½ cents for each $100 of the average balance on deposit in the checking account for a month and a maintenance charge of 50 cents is made.

Money order rates:	*Cents*
$10 and under	15
$10.01 to $50	20
$50.01 to $100	25
$100.01 to $250	30
$250.01 to $500	40
$500.01 to $1,000	50

No charge is made to an established depositor for an official check covering funds withdrawn by the depositor to effect a transfer of funds.

Bank B

Regular checking accounts:

6 cents for each check paid up to 500 during the month.
4 cents for each check paid over 500 during the month.
3 cents for each item deposited up to 500 during the month.
2 cents for each item deposited over 500 during the month.

A credit allowance per $100 of average balance is given personal accounts at rate of 15 cents and business accounts at rate of 18 cents and a maintenance charge of 75 cents is made.

Money order and official check charges:	*Cents*
$10 or less	20
$10.01 to $50	30
$50.01 to $100	35
$100.01 to $1,000	45

Bank C

Personal accounts:

6 cents for each check paid up to 100 during the month.
4 cents for each check paid over 100 during the month.
10 cents for each deposit made during the month.

A monthly charge of 50 cents is made for maintaining and analyzing the account and for preparing and mailing a statement.

A monthly of 12½ cents per $100 is made on average collected balances of $100 and over.

Business accounts:

6 cents for each check paid up to 500 during the month.
4 cents for each check paid over 500 during the month.
3 cents for each item deposited up to 500 during the month.
2 cents for each item deposited over 500 during the month.

A monthly charge of 50 cents is made for maintaining and analyzing the account and preparing and mailing a statement.

A monthly allowance is made based upon average funds in the account available for investment (average realized balance less required reserves) computed at an annual rate of 2.67 percent.

Rates for cashiers checks or drafts:	*Cents*
$10 or less	15
$10.01 to $50	20
$50.01 to $100	25
$100.01 to $1,000	30

AKRON

Bank A

Regular checking accounts:

6 cents for each check written during month.
4 cents for each check written after 100 checks in the month.
3 cents for each item deposited during the month.
2 cents for each item deposited after 100 items in the month.

Maintenance charge of 50 cents per month if balance is under $200 and if over $200 an allowance is made at the rate of 10 cents for each $100 of average balance.

Money order rates:	*Cents*
$10 and under	10
$10.01 to $50	15
$50.01 to $250	25

Charges for official checks:	*Cents*
Up to $50	10
$50.01 and over	25

No charge is made for an official check to an established depositor unless requests appear to be an abuse.

Bank B

Regular checking accounts:

6 cents for each check written up to 500 during the month.
4 cents for each check written over 500 during the month.
3 cents for each item deposited up to 500 during the month.
2 cents for each item deposited over 500 during the month.
Maintenance charge of 50 cents is made per month and on accounts with average collected balances of $100 or more, an allowance of 10 cents per month per $100 of collected balances will be made to reduce service charges.

Charges for official checks and New York drafts:	*Cents*
Up to $100	25
Each additional $100 up to $1,000	10
Each additional $1,000	10

No charge is made to an established depositor if number of checks requested is reasonable.

Bank C

Regular checking accounts:

6 cents for the first 100 checks paid each month.
4 cents for all checks paid over 100 each month.
3 cents for the first 100 checks deposited each month.
2 cents for all checks deposited over 100 each month.
Maintenance charge of 50 cents is made per month and on accounts with average collected balances of $100 or more, an allowance of 10 cents per month per $100 of collected balances will be made to reduce service charges.

Inactive accounts maintenance charges monthly:	*Cents*
Less than $100 balance	25
$100 to $199 balance	15
Over $200 balance	0

Charges for money orders and official checks:	*Cents*
Up to $10	10
$10 up to $50	15
$50 up to $100	20
Over $100	25
All drafts on correspondents	25

PITTSBURGH

Bank A

Regular checking accounts service charges computed as follows:

If the minimum balance in the account at any time during the month is—	*The charge will be—*
Under $100	75 cents plus 6 cents for each item.[1]
$100 to $149	57 cents plus 6 cents for each item.
$150 to $249	39 cents plus 6 cents for each item.
$250 to $349	21 cents plus 6 cents for each item.
$350 to $449	3 cents plus 6 cents for each item.
$450 to $549	6 cents for each item in excess of 3 free ones.
$550 to $649	6 cents for each item in excess of 6 free ones.
$650 to $749	6 cents for each item in excess of 9 free ones.
$750 to $849	6 cents for each item in excess of 12 free ones.
$850 to $949	6 cents for each item in excess of 15 free ones.
$950 to $1,049	6 cents for each item in excess of 18 free ones.

[1] Each check written and each check or $200 of cash deposited is considered an item.

Three additional free items for each $100 of minimum balance.
Any charge of 25 cents or less will not be made.

Charges for official checks and drafts:

For each check, draft, or money order for a customer, 20 cents.

For each check, draft, or money order for a noncustomer, 50 cents.

If the amount exceeds $250 an additional 20 cents is charged.

Credit allowance is computed at the rate of 2.5 percent per annum on the average loanable balance (after float and reserve).

Bank B

Regular checking accounts:

1. Each month an earning allowance is made of 18 cents for each $100 of the minimum balance in the account.

2. Activity charges made:

[In cents]

	Deposit items	Charge items
First 500 items	3	6
Next 500 items	2½	5
Over 1,000 items	2	4

3. Maintenance charge 50 cents monthly.

Charges for official checks and drafts: Certified checks, cashiers checks or drafts 25 cents each.

Bank C

Regular checking account charges and allowances computed as follows:

Earning credit:

1. Short analysis rate—18 cents per $100 on minimum balance—each calendar month.

2. Long analysis rate—18 cents per $100 on collected balance—each calendar month.

Extent of analysis:

1. Short analysis—accounts having less than 200 deposit items or less than 400 total items per calendar month:

(*a*) Earning credit: (1) 18 cents per $100 minimum balance each calendar month.

(*b*) Activity count: The schedule of charges for both debit and deposit items each 6 cents.

2. Long analysis—accounts with 200 or more deposited items or 400 or more total items per month.

(*a*) Earning credit: 18 cents on each $100 of average daily collected balance, after deducting float determined as follows:

(*b*) Float:

(1) Compute by uniformly using 2-day collection time.

(2) If not equitable for any account use actual collecting time.

(*c*) Activity count: Items deposited and debits to the account tabulated and priced separately, based upon the following two schedules:

Items deposited:

First 500 items, $0.03 each.

Next 500 items, $0.025 each.

Over 1,000 items, $0.02 each.

Debits to the account:

First 500 items, $0.06 each.

Next 500 items, $0.05 each.

Over 1,000 items, $0.04 each.

Charges for official checks and drafts are made at the rate of 20 cents for personal money orders and 25 cents for cashiers checks to noncustomers.

Bank D

Regular personal checking accounts:

If at least a $200 balance is kept, the personal checking account will cost nothing. There will be no service or maintenance charge.

If at least a $200 balance in any month is not kept, a single service charge of $2 will be made against the account.

Special personal checking accounts: Books of 20 checks will be sold for $2 each. No maintenance charge or service charge will be made. It will only be necessary to keep a balance sufficient to cover checks written.

Corporate checking accounts: The cost of items comprising the service charge is based on the following schedule:

First 50 items cost 4 cents each.
Next 50 items cost 3 cents each.
Next 100 items cost 2½ cents each.
Next 100 items cost 2 cents each.
Above 300 items cost 1¾ cents each.

A minimum charge of 25 cents will be made on any account showing a loss for the month. The following example shows the number of items that would be allowed for the lowest balance in the account during the calendar month.

Lowest balance during month	Minimum charge	Number of items allowed
Under $100	$1	18
$100	None	4
$200	None	8
$300	None	11
$400	None	15
$500	None	19
$1,000	None	38

Banks in Akron, Cleveland, and Pittsburgh, and all commercial banks in the larger cities generally offer special checking account facilities to the depositor who ordinarily writes 10 or less checks per month. Such accounts are usually referred to as Checkmasters Budget Checking Accounts, ThriftiChecks, Pay-as-you-go Checks, and other copyrighted names.

In the great majority of instances these checks are sold at a cost to the depositor of approximately 10 cents each. The rules and regulations governing such accounts do not require minimum balances or other charges unless the account experiences unusual activity occasioned by the making of more than a reasonable number of deposits.

SERVICE CHARGE SURVEY

OHIO BANKERS ASSOCIATION,
Columbus, Ohio, January 1962.

To OBA Member Banks:

Attached are the results of the recent service charge survey authorized by the OBA Bank Management Committee.

This is the first comprehensive survey of charges conducted in Ohio banks for many years.

The results provide a current checklist covering practically all miscellaneous services for which banks have established charges. So far as possible, we have tried to give a complete breakdown of charges in the various categories. In a few instances, the wide variance in fees has made it necessary to be somewhat general in this report.

If there are any particular questions in regard to any sections of the report, the worksheets used in the recapitulation of the survey will be held in the association office so answers to such questions will be available.

Of those banks reporting, nine banks indicated that they have no service charges on checking accounts although they do make charges for other services.

While this report includes the range of actual charges made by Ohio banks, your attention is directed to the fact that these rates indicate charges and not actual costs.

Any charges, to be realistic and fair to both the customer and the bank, should reflect costs determined by a cost-analysis study in your bank.

The committee appreciates the cooperation of the more than 440 banks which returned their completed questionnaire.

HOWARD B. STURGEON, *Associate Secretary.*

Regular Checking Accounts

FLAT SERVICE CHARGE

104 banks make a flat service charge.
Charges are made as follows:
- Monthly: 4, at $0.25; 2, at $0.35; 11, at $0.50; 2, at $0.75; 2, at $1; and 1, at $2.
- Quarterly: 4, at $1; 3, at $1.50; and 3, at $3.
- Semiannually: 1, at $0.50; 1, at $0.75; 6, at $1; 6, at $1.50; 11, at $2; and 9, at $3.
- Annually: 1, at $2; 2, at $3.

Miscellaneous flat service charges

3 banks charge semiannually per check written as follows:
- 1 to 30 checks, $1.50; 31 to 60 checks, $2.50; 61 to 100 checks, $3.50; 101 to 140 checks, $4.50; 141 to 180 checks, $5.50; over 180 checks, $0.02 each.
- 1 bank, $0.50 per month plus 3 cents a check.
- 1 bank, $0.50 per month plus 4 cents a check.
- 1 bank, $1 semiannually plus 2 cents a check.
- 1 bank, $0.75 per month if balance below $75.
- 1 bank, $0.75 per month if balance below $100.
- 1 bank, $0.50 per month if balance below $5,000.
- 1 bank, $0.50 per month if balance below $50.
- 1 bank, $0.75 per month if balance below $50.
- 1 bank charges $2 each 4 months.
- 1 bank charges $1 for each full statement.
- 1 bank charges $1 quarterly plus 2 cents a check for all over 50 checks.
- 1 bank charges $0.25 a month plus 2 cents a check for all over 12 checks.
- 20 banks did not furnish charges.

CHARGES MADE ON AN ANALYSIS BASIS

42 banks use average balances to determine charges.
295 banks use minimum balances to determine charges.
25 of the above 295 banks use average balances for their commercial checking accounts.
1 bank reported average balance used for accounts over $1,000.
1 bank reported average balance used for accounts over $4,000.
9 banks did not furnish charges.
23 banks make a maintenance charge of $0.25 per month; 30, at $0.35; 1, at $0.40; 1, at $0.45; 164, at $0.50; 1, at $0.54; 20, at $0.60; 38, at $0.75 and 32 make no charge.

Miscellaneous monthly maintenance charges

1 bank reported $0.50 monthly charge if balance below $20.
5 banks reported $0.50 monthly charge if balance below $50.
1 bank reported $0.50 monthly charge if balance below $100.
1 bank reported $0.50 monthly charge if balance below $400.
1 bank reported $0.65 monthly charge if balance below $200.
1 bank reported $0.50 monthly charge entitles depositor to 5 free checks.
1 bank reported $0.50 monthly charge entitles depositor to 16 free checks.

MINIMUM SERVICE CHARGE PER MONTH

192 banks reported no minimum monthly service charge.
Other banks reported charges as follows:

Number of banks	Minimum charge	Includes free checks	Free items deposited
4	$0.10	0	0
1	.11	0	0
4	.15	0	0
1	.16	0	0
1	.20	0	0
67	.25	0	0
7	.35	0	0
12	.50	0	0
2	.75	0	0
1	.10	1	0
1	.25	0	4
1	.25	1	0
2	.25	2	0
1	.25	3	0
3	.25	4	0
1	.25	5	10
1	.35	1	0
2	.35	3	0
1	.35	6	0
1	.50	1	0
1	.50	2	0
1	.50	3	0
7	.50	5	0
1	.50	7	0
2	.50	10	0
1	.50	16	0
1	.50	20	0
1	.50	(1)	----------
2	.50	(2)	----------
1	.50	(3)	----------
1	.50	(4)	----------
1	.50	(5)	----------

[1] If balance below $50.
[2] 2 free checks per $100 of balance.
[3] 5 free checks per $100 of balance.
[4] 7 free checks per $100 of balance.
[5] 1 free check per $10 of balance.

Miscellaneous minimum service charges per month

2 banks reported minimum charges as follows:

$0.50 per month of balance below $50 plus $0.03 a check. Higher balances earn credit as follows:

$100 to $250, 3 free checks.
$251 to $500, 5 free checks.
$501 to $750, 10 free checks.
$751 to $1,000, 15 free checks.
$1,001 to $1,500, 20 free checks.
$1,501 to $2,000, 25 free checks.
$2,001 to $2,500, 30 free checks.
$2,501 to $3,000, 35 free checks.
$3,501 to $4,001, 40 free checks.

Three banks reported:

Balance	Minimum charge per month	Items earned
Under $50	$0.50	1
$51 to $100	.50	3
$101 to $150	.50	5
$151 to $200	.50	7
$201 to $250	.50	9
$251 to $300	.50	11

All over, at $0.03 per item.
Two banks reported as above except minimum charge per month of $0.35.
One bank reported for personal accounts as follows:

Balance	Minimum charge per month	Items earned
$450 to $500	None	22
$400 to $450	None	19
$350 to $400	None	16
$300 to $350	None	13
$250 to $300	None	10
$200 to $250	$0.20	10
$150 to $200	.40	10
$100 to $150	.60	10
$50 to $100	.80	10
$0.01 to $50	1.00	10

One bank reported: $0.03 per check charge, with two free checks a month regardless of balance, plus two free checks a month for each $100 balance. If balance below $100, $0.50 per month.

ACTIVITY CHARGE FOR EACH CHECK PAID

Thirteen banks reported no activity charge, others reported as follows: 10 at $0.02 per check; 103 at $0.03; 2 at $0.03½; 62 at $0.04; 92 at $0.05; 18 at $0.06; and 2 at $0.07.

Miscellaneous activity charges for checks paid

Number of checks	*Charge per check*
3	$0.05 1st 500; $0.04 all over.
1	$0.05 1st 300; $0.04 all over.
2	$0.05 1st 100; $0.04 all over.
1	$0.05 1st 200; $0.02 all over.
1	$0.05 1st 200; $0.03 all over.
1	$0.05 1st 25; $0.04 all over.
3	$0.06 1st 100; $0.04 all over.
1	$0.06 1st 200; $0.04 all over.
2	$0.06 1st 500; $0.04 all over.
3	$0.04 1st 500; $0.02 all over.
1	$0.04 1st 200; $0.03 all over.
1	$0.04 1st 200; $0.02 all over.
1	$0.04 1st 100; $0.03 all over.
1	$0.03 1st 500; $0.02 all over.
1	$0.04 1st 50; $0.03½ next 50; $0.03 next 100; $0.02 all over 200.
1	$0.05 1st 100; $0.04 next 100; $0.02 all over 200.
1	$0.05 1st 100; $0.03 next 400; $0.02 all over 500.
1	$0.05 per check if minimum balance $500 or less.
1	$0.07 per check if minimum balance $500 or less.
1	$0.05 1st 500; $0.04 next 1,000; $0.03 all over.
7	Reported business accounts charged as follows: $0.05 1st 100; $0.04 next 100; $0.03 next 100; $0.02 all over 300.

ACTIVITY CHARGE FOR EACH CHECK DEPOSITED

One hundred thirty-four banks reported no activity charge; others reported as follows:

On U.S. and foreign checks

Of the banks, 2 charge $0.01 per check; 2 at $0.01½; 5 at $0.02; 4 at $0.02½; 59 at $0.03; 23 at $0.04; 31 at $0.05; and 3 at $0.06.

Charges only for foreign checks deposited

Of the banks, 4 charge $0.02; 1 at $0.02½; 22 at $0.03; 13 at $0.04; 9 at $0.05; and 1 at $0.06.

Miscellaneous activity charges for checks deposited

Number of banks	*Charge*
1	$0.01½ 1st 5,000; $0.01 all over.
4	$0.03 1st 100; $0.02 all over.
3	$0.03 1st 500; $0.02 all over.
1	$0.04 1st 100; $0.03 all over.
3	$0.04 1st 200; $0.02 all over.
4	$0.04 1st 500; $0.02 all over.
1	$0.04 1st 200; $0.03 next 300; $0.01 all over.
1	$0.05 1st 100; $0.03 next 400; $0.02 all over.
1	$0.04 1st 50; $0.03½ next 50; $0.03 next 100; $0.02 over 200.
1	$0.02½ per check accounts with balances over $1,000; $0.06 under $1,000.
1	$0.02 business accounts only.
1	$0.04 business accounts only.
1	No charge if balance above $200; $0.05 if below.
1	$0.05 if balance below $500; over $500, $0.05 1st 100 checks; $0.03 next 400; $0.02 all over.

EARNINGS CREDIT

Twelve banks reported no earnings credit given:
Other banks reported credits as follows:
Basis: Number of banks

Average balance	237
Low balance	40
Median	5

Earnings credit rate in cents per $100 of balance: 1 bank pays $0.03; 6 at $0.05; 1 at $0.06; 5 at $0.08; 1 at $0.09½; 140 at $0.10; 25 at $0.12; 8 at $0.12½; 1 at $0.13; 8 at $0.14; 10 at $0.15; 1 at $0.18; and 5 at $0.20.

Miscellaneous earnings credit

Number of banks:

1	1 free check for each $10 of balance.
5	2 free checks for each $100 of balance.
2	4 free checks for each $100 of balance.
1	5 free checks for each $100 of balance.
1	$0.01 credit for each $10 of balance.
6	Give earnings credit after deduction for float.

Several banks reported no allowance for credit for balance under $100; others $200, $300, $400, and $500.

SERVICE CHARGE WAIVED

One hundred and fifty-four banks waive monthly service charges as follows: 2 banks if charges are less than $0.05; 5 at $0.09; 61 at $0.10; 3 at $0.11; 2 at $0.13; 26 at $0.15; and 50 at $0.25; 1 bank makes no charge if fewer than 2 checks written; 1 if fewer than 3 checks; 1 if a $200 balance is maintained; and 1 if there is no account activity for the month.

SPECIAL STATEMENTS

Thirty-four banks reported charges for special statements: 1 bank charges $0.05; 18 at $0.25; 9 at $0.50; 5 at $1; and 1 at $1.25.

HIGH VOLUME CHECKS

Approximately 50 Ohio banks reported a special schedule of charges for activity and earnings credit.

In every case, banks have reduced the activity charge on high volume checks. The formulas used, which are too numerous to list, call for a basic charge per item up to a certain number, then a reduced item charge. Earnings credit in most cases on high volume accounts is based on average balance.

SPECIAL CHECKING ACCOUNTS

Fee for each check posted

Four banks reported at $0.02 each; 1 at $0.03; 3 at $0.05; 1 at $0.06⅔; 2 at $0.07½; 2 at $0.08; and 69 at $0.10.

Books of special checks are sold as follows

Of the banks, 1 sells 25 checks for $1; 3 sell 15 checks for $1; 2 sell 20 checks for $1.25; 13 sell 25 checks for $1.50; 3 sell 25 checks for $1.95; 4 sell 25 checks for $2; 1 sells 30 checks for $2; 22 sell 25 checks for $2.50; and 8 sell checks for printing cost only.

Special checking account statements

Twenty-four banks render statements monthly: 5 bimonthly; 81 quarterly; 3 semiannually; 14 when statement sheet is full; 11 on request; and 1 when 5 checks have been posted.

Monthly maintenance charges on special checking accounts

Eleven banks charge $0.25 per month; 2 at $0.35; 1 at $0.50; and 1 charges $2 each 6 months.

Miscellaneous charge on special checking accounts

Three banks reported charges $1 for NSF checks; 4 charge $1 for returned checks; 3 charge $1 for using wrong check; 8 banks reported charges for interim statements: 4 at $0.50; 2 at $0.25; and 2 at $0.20.

MISCELLANEOUS SERVICE CHARGES

CASH PAYROLLS AND LARGE CASH DEPOSITS

A wide variance of charges was reported by a few banks: 4 banks charge $0.10 per $1,000; 12 at $0.25; 4 at $0.75; and 1 at $2. Other banks report charges per hour from $0.25 to $3. Wrapped coin charges range from $0.006 to $0.02 a roll.

CERTIFYING CHECKS

Eighty-eight banks do not charge for certification; 21 banks reported charges of $0.10; 1 at $0.12; 16 at $0.15; 1 at $0.20; 123 at $0.25; 29 at $0.50; 1 at $0.75; and 3 at $1.

Miscellaneous charges for certification

2 banks charge $0.10 per $100.00.
2 banks charge $0.15 per $100.00.
2 banks charge $0.20 per $100.00.
1 bank charges $0.10 per $100.00 with $1.00 maximum.
1 bank charges $0.15 per $100.00 with $1.00 maximum.
1 bank charges $0.20 per $100.00 with $1.00 maximum.
1 bank charges $0.25 minimum with $1.00 maximum.
1 bank charges $1 per $100.

CHECKS DRAWN ON OTHER BANKS RETURNED UNPAID

184 banks do not charge.

1 bank reported charges of $0.15; 16 at $0.25; 14 at $0.50; 1 at $0.75; 17 at $1.00 and 2 at $2.

CLOSING CHECKING AND SAVINGS ACCOUNTS PREMATURELY

Checking accounts

A few banks reported as follows: 4 charge $0.25; 15 at $0.50; 1 at $0.60; 11 at $1; 3 at $2. Period allowed before charging from 30 days to 6 months. 204 banks reported no charge; others did not answer.

Savings accounts

14 banks charge $0.25; 5 at $0.35; 155 at $0.50; 2 at $0.75; 39 at $1 and 6 at $2. Period allowed before charging from 30 days to 6 months, with over 100 banks indicating 6 months. 133 banks reported no charges, others did not answer.

INSUFFICIENT FUNDS

Paying NSF checks

1 bank reported charges of $0.10; 43 at $0.25; 60 at $0.50; 98 at $1 and 7 at $2.

Returning NSF checks

39 banks reported charges of $0.25; 92 at $0.50; 4 at $0.75; 133 at $1; 1 at $1.25; 3 at $1.50; 37 at $2; and 1 at $2.50.

NIGHT DEPOSITORY

Refundable deposit charges reported by 32 banks range from $0.75 to $9 per bag with 10 banks reporting $5 and 6 banks $3.

Banks reporting fees on an annual basis are as follows: 3 banks at $3; 6 at $3.50; 2 at $4; 22 at $5; 15 at $6; 20 at $10; and 11 at $12.

18 banks reported charges on a per-drop basis varying from $0.08 to $0.25 each drop.

OFFICIAL CHECKS

A complete recap of fees charged by banks for issuing cashier's checks, drafts, money orders and other official checks is too extensive to be included in this report.

A general summary can be made as follows: Fees range from $0.10 per 100 and $0.10 for each $100 over this amount to $0.50 per $100 and $0.50 for each $100 over. Between these limits every schedule possible is charged; however, on careful analysis, the vast majority of Ohio banks reported a basic minimum fee of $0.15 for issuing an official check.

OVERDRAFTS

188 banks indicated no charge for overdrafts.

22 banks reported a charge of $0.25 per overdraft; 45 at $0.50; 3 at $0.75; 65 at $1; 1 at $1.50; 4 at $2; 5 banks indicated a charge of 6 percent of the overdraft amount: 4 banks charge $0.25 per day; and 6 at $0.50 per day.

STOP PAYMENTS

Original order

Charges reported on the original stop-payment order are as follows: 1 bank at $0.10; 31 at $0.25; 40 at $0.50; 28 at $1; 1 at $1.50; and 1 at $2. 1 bank reported a monthly charge of $0.25; 1 at $0.50 monthly charge; and 1 bank $1 a month.

Renewal order

17 banks charge $0.25 for renewal orders; 19 at $0.50 and 14 at $1 while 2 banks charge $0.50 a month and 1 bank $1 a month.

COLLECTION SERVICES

Incoming and outgoing notes, drafts, etc.

As with official checks, banks reported a wide range of charges for collection of notes, drafts, etc., and a complete tabulation of all replies is impracticable.

However, a vast majority (310) of the banks reported a basic fee of 1/10 of 1 percent on the amount of the transaction. In these 310 banks which reported this basic fee, there is little uniformity in the minimum and maximum fees charged. The minimum fees range from $0.10 to $1; and the maximum fees from $0.50 to 1/10 of 1 percent. 48 banks reported no charge for this service.

UNITED STATES AND OTHER BOND COUPONS

19 banks reported charging $0.03 per coupon collected; 3 at $0.04; 72 at $0.05; 21 at $0.10; 15 at $0.25; and 3 at $0.50.

Miscellaneous charges for bond coupons

8 banks charge $0.15 per $100 of coupons.
4 banks charge $0.50 per $100 of coupons.
3 banks charge $0.15 per $1,000 of coupons.
5 banks charge $0.50 per $1,000 of coupons.
10 banks charge $1 per $1,000 of coupons.
32 banks charge 1/10 of 1 percent of the amount.
5 banks charge $0.10 per envelope.
3 banks charge $0.15 per envelope.
14 banks charge $0.25 per envelope.

RENT OR MORTGAGE PAYMENTS

8 banks charge $0.50 per payment; 2 at $0.75; 9 at $1; 2 at $1.50 and 1 at $2.

Miscellaneous charges for rent or mortgage payments

1 bank charges $0.35 minimum to $1 maximum.
1 bank charges $0.50 minimum to $1 maximum.
1 bank charges $1 minimum to $2 maximum.
1 bank charges 1/10 of 1 percent.

UTILITY COMPANY PAYMENTS

1 bank receives $0.02½ per payment; 2 at $0.03; 1 at $0.04¼; 55 at $0.05; 5 at $0.06; 18 at $0.10.

Miscellaneous fees on utility company payments

1 bank receives $0.15 per $100.
1 bank receives $0.25 per $100.
1 bank receives $25 per year.
1 bank receives $14 per month.
3 banks receive $25 per month.
1 bank receives $0.25 for 4 payments.
1 bank receives 2 percent of the payment.
1 bank receives $1 per $1,000.

TRANSFERRING FUNDS BY WIRE

8 banks reported charging for this service per transfer as follows: 1 at $0.30; 1 at $0.35; 1 at $0.40; 3 at $1; 1 at $1.25 and 1 at $1.50.

UNCOLLECTED FUNDS

Only 4 banks indicated fees for paying checks on uncollected funds.
One bank reported a $0.50 per item charge; 1 at $1 and 2 at $2.

ACCOUNT RECONCILEMENT

Punched card checks

1 bank charges $0.01; 3 at $0.01½ and 1 at $0.05.

Paper checks

1 bank charges $0.01; 1 at $0.01½ and 3 at $0.02½.

ESCROW SERVICES

Minimum charge for escrow services: 1 bank reported $5; 1 at $20; 2 at $25; 1at $40; and 2 at $50.

LOCK BOX

Simple photostat plans

3 banks charge $0.10; 2 at $0.15; and 1 at 1½ percent.

LATE PAYMENTS ON INSTALLMENT LOANS

Charges based on percentage and/or maximum charge

2 banks charge 5 percent with a $1 maximum late payment fee.
84 banks charge 5 percent with a $3 maximum late payment fee.
5 banks charge 5 percent with a $5 maximum late payment fee.
6 banks charge 6 percent with a $3 maximum late payment fee.
2 banks charge 8 percent with a $2.50 maximum late payment fee.
12 banks charge 5 percent no maximum charge.
7 banks charge 6 percent no maximum charge.
2 banks charge .25 as a late payment fee.
3 banks charge $1 as a late payment fee.
12 banks charge $3 as a late payment fee.
2 banks charge $5 as a late payment fee.
1 bank charges $0.50 per day.
1 bank charges $1 for each 5 days of delinquency.

Minimum service charge on short-term loans

Number of banks	Minimum charge	Number of banks	Minimum charge
3	$0.25	30	$5.00
22	.50	1	$6.00
5	.75	1	$7.00
84	1.00	3	$7.50
13	1.50	2	$10.00
64	2.00	1	$11.00
17	2.50	1	$15.00
49	3.00	1 (percent)	7
6	4.00		

SAFE DEPOSIT BOXES

Six Ohio banks reported having no safe deposit boxes for rent; 393 banks do not require a key deposit; 8 banks require deposits of from $1 to $3. If lost, one bank charges $0.50; one at $1; and one at $2.

Annual rentals charged by Ohio banks vary more than charges for any other service. Rents for the smallest boxes (1½ by 4½ inches and 2½ by 5 inches) range from $1.50 to $6. The average charge is $3.25. From the smallest to largest boxes, rentals range up to $200 for a 24- by 24-inch chest. The average charge for the largest boxes is $12.

Although it would be very difficult as well as of doubtful value to list every rental reported, it would seem from a careful study of the questionnaire that a typical range of $3 to $15 is the prevailing charge in Ohio banks.

BANK MANAGEMENT COMMITTEE,
OHIO BANKERS ASSOCIATION.
HOWARD B. STURGEON,
Associate Secretary.

Mr. VANIK. I have one further question on the economic reports of the bank, which I appreciate very much.

Mr. HICKMAN. Thank you.

Mr. VANIK. And I think this is a very good service.

But it seems to be primarily oriented toward the business community. And I was wondering why this economic report, if it is going to be truly that, and if it is going to be a fully useful service, why it shouldn't also include some of the other information. Why shouldn't it develop into more of a community service, and tell us more about the plant migrations, the countless numbers of people that are being thrown out of employment by automative processes in the community, the concentration of unemployment in the Federal Reserve district. Information could usefully indicate whether or not it is in the labor market area as constituted, or whether it is in the central urban city. I feel that if your economic report could be broadened in this respect, it would have wider community usage, and guide more people than merely the business community. I would like to have it guide the manpower agencies, the retraining agencies, and some of the other forces that are concerned with the problems of the unemployed and the undertrained people, and the displaced.

Mr. HICKMAN. We do report in Cleveland weekly, in press releases weekly, the unemployment statistics, the employment figures.

Mr. VANIK. All you do is simply take a total given to you by the local labor office. But I would like a guide——

Mr. HICKMAN. Then we have a survey—we have just put out—based on Government records, it is true, analyzing developments in the different regions throughout the area, which has been very helpful, I think, in this type of planning.

Mr. VANIK. Yes; it has.

Mr. HICKMAN. We put out agricultural reports biweekly. And we try to cover as broad a range as we can. But I must say that I am sure we don't cover everything.

Naturally, we try to concentrate on the things that are of some major import in this policymaking process that we have a small part in.

Mr. VANIK. Well, I want to say that I consider this function a very important and useful service by the bank. I use it, I refer to it. It tells me in some way why you should belong and participate in some of the organizations that you do.

I am asking that you widen the scope of that, so that it has more community usefulness. Thank you.

The CHAIRMAN. For the benefit of the members of the committee, we expect to have, of course, all 12 of the Presidents of the Federal Reserve banks, Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Denver, St. Louis, Minneapolis, Dallas, and San Francisco.

This gentleman, the President of the Federal Reserve Bank of Cleveland, happened to be first.

The members of the staff called the different Presidents of the Federal Reserve banks, and tried to determine from them when it would be most convenient to appear. And we have arranged their appearance in the order of their request as much as possible.

Now, after all the members of the committee have been recognized for 10 minutes, then we will start back, and the members will not have a limit on their time, because this is very important.

The 12 Presidents of the Federal Reserve banks—I think it is very important that we interrogate each one of them as long as we should in order to get the information that will be helpful to us in determining what has happened to the Federal Reserve System in the last 50 years, and also to determine what should be done with the bills that are now pending before this committee.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. Am I correct that the volume of checks has been increasing constantly in recent years?

Mr. HICKMAN. Yes, it has; roughly at the rate of 5 percent per annum.

Mr. HARVEY. How long has that increase been taking place?

Mr. HICKMAN. We have trend lines going back 30 or 40 years. I don't have the full sweep of it. It has been going on certainly since the establishment of the Federal Reserve System.

The Federal Reserve System has had a great deal to do with the encouragement of the use of checks.

Mr. HARVEY. So, the fact that the commercial banks have not raised check charges indicates that at least the cost of this increased volume is not being passed on to the depositor; is that correct?

Mr. HICKMAN. That is correct; yes.

Mr. HARVEY. I have no further questions.

The CHAIRMAN. Senator Pepper?

Mr. PEPPER. Thank you, Mr. Chairman.

Mr. Hickman, how many stockholders do you have in your bank?

Mr. HICKMAN. That is the number of member banks—513.

Mr. PEPPER. Now, our information is that you send out something over 8,000 copies of your 1962 annual report at a cost of something over $5,000.

Mr. HICKMAN. That is right.

Mr. PEPPER. Was there any cheaper way in your opinion whereby you could have disseminated the same data to your stockholders?

Mr. HICKMAN. Well, the banks in the district get this truncated statement here, the actual financial statement, which contains the balance sheet and the income statement of the bank.

The annual report itself contains a good deal more than that. It contains the economic review of the year, the situation in the major industries, the major events, a log of the year, the effects on monetary policy, and so forth, which is designed for the general use of the people in the district.

I have a copy of the 1963 annual report here, sir. I don't have a 1962 report, but I think this would give you a little idea, if you look at it. It is an attractive document. And we are very proud of it. I think it is a good way of getting information across about what we do, what we are interested in, what we try to take account of.

Mr. PEPPER. May I ask you to define in your own words, if you will, what is the function of the Open Market Committee—what is the objective of its function?

Mr. HICKMAN. Well, as I understand it the principal objective of the Federal Open Market Committee is to review the economic situation and financial situation, the balance-of-payments position, and so forth, and in the light of that, to make periodic—that is, every 2 or 3 weeks—adjustments in the volume of bank credit, marginal adjustments in the volume of bank credit, appropriate to those emerging trends in economic and financial conditions.

Mr. PEPPER. Are they primarily concerned with the purchase and sale of Government bonds?

Mr. HICKMAN. U.S. Government securities—bills, notes, and bonds. That is correct.

Mr. PEPPER. Now, is the objective of that function to maintain a stable market in Government bonds or to support the value or the market of Government bonds at the face value of the bonds?

Mr. HICKMAN. Well, the purpose of it is, as I have said, to provide the proper amount of bank credit.

Mr. PEPPER. Beg pardon?

Mr. HICKMAN. The function of the committee is to provide the appropriate amount of bank credit, so that the economy can grow at a sustainable rate.

If the economy is lagging behind, of course, you would have a decline usually in bond yields, a rise in bond prices, because there would not be much demand for credit.

On the other hand, if you were to have exuberance in the economy, rising prices, an outflow of gold and that sort of thing, you would have rising bond yields and falling bond prices.

Mr. PEPPER. Is the function of the Open Market Committee to maintain a sort of support price program—in which you consider bonds as a commodity in the marketplace?

Mr. HICKMAN. They are a type of intangible asset traded in the marketplace. But we do not attempt to peg the price of bonds, although that was, as you know, the policy of the system during the war and the early postwar years, up to early 1951.

Mr. PEPPER. Well, I remember, Mr. Hickman, during World War I the great patriotic appeal which was made to the people of our country to buy bonds, the little people as well as the large people, financially. And a lot of people took their savings and bought Government bonds, feeling that they were making a patriotic contribution toward the waging of the war.

Mr. HICKMAN. That is right.

Mr. PEPPER. A little while later the value of those bonds declined very severely, and those people who bought those bonds for a patriotic purpose lost a great deal of money, having put their faith in their country.

Now, is that, you think, the way it should be? And does the Open Market Committee tend to prevent the recurrence or the happening of that sort of thing?

Mr. HICKMAN. Well, I think that the nonmarketable bond that was used in World War II was an excellent device for avoiding a repetition of that most unfortunate experience—the dumping of bonds in the early postwar years after World War I.

Mr. PEPPER. That did not happen with respect to World War II bonds?

Mr. HICKMAN. Well, to some extent it did, although quite a few of those were nonnegotiable, nonmarketable—the 2¾s, I believe, were not marketable instruments. Of course, all the E-bonds were the same general type.

Mr. PEPPER. So——

Mr. HICKMAN. The smaller investors held those. The larger investors, the large life insurance companies and the long-term investors in marketable bonds I think had some idea of what they were up against.

Mr. PEPPER. Well, at what price is the purpose of the Open Market Committee to maintain the Government bond market?

Mr. HICKMAN. We have no price objectives on Government bonds.

Mr. PEPPER. Well, what is the principle that governs your decision?

Mr. HICKMAN. Our decisions are governed by an attempt to provide the appropriate amount of bank credit, so that we will have a sustainable growth in our economy, maximum employment, maximum purchasing power, stability in the foreign exchanges, and so forth.

Mr. PEPPER. Well, is it the functioning of the Open Market Committee which determines the bond market for Government bonds in the United States?

Mr. HICKMAN. Well, to some extent we have something to do with it. There is no doubt about that—because we are a buyer and seller of Government bonds in large amounts?

Mr. PEPPER. Actually, I had understood that what you do is for the purpose of stabilizing the bond market or giving it value, and I assumed therefore that what you did determined what the value of the Government bond market was, or the Government bonds of the country, at different times. And I was trying to determine what guides you, in making the decision as to—at what point you will fix the value of a Government bond.

Mr. HICKMAN. That is not our primary objective, sir. Our primary objective is to provide the appropriate amount of bank credit so as to finance a sustainable expansion in our economy.

Mr. PEPPER. Well, then, so far as the Open Market Committee is concerned, you are not an instrumentality for maintaining a minimum value or stable value for the U.S. bonds?

Mr. HICKMAN. Ordinarily we are not. There have been periods when the objective of the System was to peg the Government bond market. That was in the period from about 1942, as I recollect, through 1951.

Mr. PEPPER. That was at one time during that period the policy of the Open Market Committee?

Mr. HICKMAN. That is correct. And during that period, of course, after the war, we had a very great inflation. From the end of the war, 1947 to 1951, bonds were sold to the Federal Reserve System in very large volume. And this became part of the monetary reserves of the banking system. And the banks loaned the money out, inflated the money supply, and this caused prices to rise. Actually, wholesale prices in that period went up about 70 percent, or something like that.

Mr. PEPPER. So you no longer peg the bond market as you did up to 1951?

Mr. HICKMAN. That is correct.

Mr. PEPPER. And the effect that you have now by your functioning upon the bond market is an incidental effect.

Mr. HICKMAN. That is correct.

Mr. PEPPER. You are primarily concerned with——

Mr. HICKMAN. With the Employment Act of 1946.

Mr. PEPPER. With the health of the economy.

Mr. HICKMAN. According to the Employment Act of 1946—we try to do what we can in this area to promote the objectives of national economic policy as outlined in the Employment Act.

Mr. PEPPER. I am afraid my time is up. Thank you very much.

The CHAIRMAN. Mr. Bolton?

Mr. BOLTON. Thank you, sir.

I would just like to tell Mr. Hickman I am sorry that my plane was late getting back from Ohio and I was not here to hear the beginning of his testimony. I have no questions at this time.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Thak you, Mr Chairman.

Mr. Hickman, last summer Chairman Martin told us that a marked deterioration of credit had taken place in the financing of the construction of multifamily apartment projects, shopping centers, motels, and similar types of commercial establishments. May I assume you would agree with this observation?

Mr. HICKMAN. I think that a deterioration occurred.

Mr. MINISH. It did occur.

Mr. HICKMAN. It did occur.

Mr. MINISH. Don't you think it would have an effect on the economy by throwing a lot of people out of work?

Mr. HICKMAN. If it had been allowed to continue unabated, I think it would have culminated in unsound credit conditions, bankruptcies, and unemployment.

I think that fortunately the rate at which the credit supply was expanding has decreased of late, and as a result there has been less of this deterioration.

And I hope, with the "salad oil" scandal and the rest of it and the warning signals flown as a result of that, that we will perhaps have improved credit standards.

Mr. MINISH. The chairman of our committee, Mr. Patman, has requested of Chairman Martin the minutes of the Open Market Committee for the years of 1960, 1961, 1962, and 1963, turned over to the committee. How do you fell about that?

Mr. HICKMAN. Well, I am not on the Open Market Committee, you understand, so I have no——

Mr. MINISH. Aren't you an alternate member?

Mr. HICKMAN. I am an alternate member. But I don't vote on this.

Mr. MINISH. Do you have any feeling on it at all?

Mr. HICKMAN. Yes, I have some feelings on it. I can tell you what my feelings are at the moment. I have not had a chance to study this thing in detail. I have read these minutes only since about 1960. I don't recall what is in them. But the minutes do contain a great deal, particularly of late, having to do with our relations in the swap transactions with foreign countries, and the problems that they are having—just as we are having—in sustaining the value of their currencies internationally. This is confidential information; and it would be damaging to us, if it became public.

So I should think that, subject to perhaps the deletion of this material, it would be appropriate for people to have it—except, perhaps, the minutes for 1962 and 1963.

I think when you go back to 1960 and 1961, then it might be possible, after this material is deleted, to have these documents distributed. Naturally I think they should be open to everybody, not just this committee.

Mr. MINISH. Why are you against the 1962 and 1963?

Mr. HICKMAN. I am afraid that the thrust of monetary policy would become apparent to everyone in the market, and this might have an adverse effect on our currency, on the bond market, and so forth. Or it might have a favorable effect. It might cause bond prices to rise. It might be used by speculators in all sorts of ways. But I would like to study this whole matter before I make a final conclusion on it, because I really haven't had a chance to examine these records from this point of view, in their entirety.

Mr. MINISH. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Brock?

Mr. BROCK. Thank you, Mr. Chairman.

Mr. Hickman, I think Mr. Pepper raised the point of the previous actions of the Open Market Committee in pegging the price of Government bonds.

Now, the market as established today—has not the price of Government bonds been dependent completely upon loan demand in this country?

Mr. HICKMAN. Supply and demand.

Mr. BROCK. It is supply and demand. And as your demand for loans increases, it does have a direct relationship to the yield and the price of the bond.

Mr. HICKMAN. That is right.

Mr. BROCK. If the Open Market Committee were to try to peg the bond market at any particular level for some particular reason, monetary policy to protect the Government debt, or whatever purpose it had, what would be the effect if we attempted to peg the market—how would it affect our actions in sustaining the economy, as you put the goal?

Mr. HICKMAN. Well, if you would attempt to hold yields at some given level below the natural market level, the holders of Government bonds would sell the bonds to the Federal Reserve, the pegging authority. This would, of course, create reserves.

Mr. BROCK. But could it not get into a situation whereby attempting to control the bond market you might be doing the exact opposite to the economy that you were trying to achieve?

Mr. HICKMAN. That is quite correct, sir. It might be. It would depend upon the circumstances, of course.

Mr. BROCK. Wouldn't it quite often be true?

Mr. HICKMAN. Quite often it would be true. I think the ambient conditions would govern whether or not the economy would move in the proper direction. If we had inflationary tendencies latent in the economy, and if we would peg bond prices, this would result in a sharp runup in bank reserves. Using an expansion ratio of 8 to 1, this would result in a large increase in demand deposits, and money in circulation; it would have an adverse effect, of course, on the price level and cause price inflation in the country.

This would, in turn, cause an adverse flow of gold, put pressure on the foreign exchanges, and thus damage the country, under those circumstances.

Mr. BROCK. That is the point. I think it has been suggested by some that we are not being fair to the average American about charging too much interest. And if we try to put a ceiling on interest, would we not have quite a tendency to run up prices, and in effect vitiate his purchasing power, in perhaps even a more destructive manner than by charging higher interest.

Mr. HICKMAN. Yes; I think that is correct, Mr. Brock. You can control the Government bond market, and lose control of the price level, or you can let the Government bond market fluctuate in response to supply and demand conditions, and hope to have some measure of control over the price level. And that is roughly what we try to do, while considering at the same time employment and growth in real gross national product, and so forth—doing what we can to encourage growth in those areas.

Mr. BROCK. Thank you very much.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Hickman, I presume that you are actually paid out of the income of the bank, just as it takes care of all of the rest of its costs, is that right?

Mr. HICKMAN. That is correct; yes. I am paid out of the income of the bank. And, of course, the officers' salaries of the bank are approved every year by the board of directors, and then by the Board of Governors.

Mr. HANNA. The Board of Governors——

Mr. HICKMAN. The Federal authority in Washington. So, while we are paid out of our income, the level of spending in this area, as well as in others, is controlled by the Government.

Mr. HANNA. In that framework of reference, do you consider that you are in a sense a Government or civil employee, or an employee of private enterprise activity?

Mr. HICKMAN. Well, I would say that I am half one and half the other. A Federal Reserve bank is a quasi-governmental organization. It is controlled by the Government, and the capital is supplied by the banking System. The directors are part Government directors, part bank directors, part businessmen. And so you have this mixture of the public and private. And I, as an officer of the bank, feel that I am responsible first to the directors; but I hold my job, of course, with the consent of the governing body in Washington.

Mr. HANNA. Now, in that regard, it is fairly clear from your testimony that you are fully aware, as I suppose most well-informed people are today, that the decisions you make in the office that you hold affect not only the private sectors of our economy, but the public as well.

That is a fair statement; is it not?

Mr. HICKMAN. Yes, that is correct.

Mr. HANNA. Now——

Mr. HICKMAN. Of course, I think that all of us are part of the public, the economy, in a very broad sense. There is no such thing as public and private really in this general sense. We are all part of this great country. We profit as the country profits, and we suffer as the country suffers. We are all interested in both the Nation and the individual.

Mr. HANNA. Of course, that only takes meaning when you get down to particulars.

Mr. HICKMAN. That is right.

Mr. HANNA. Now, in the conclusions that are made now in the functions of the Federal Reserve System, in which you participate, in what way does the public condition and the information about the public agencies and their particular concerns get to you when you make these decisions?

Now, as I understand it, each one of the Presidents of a Federal Reserve bank has an area in which he, as you told us, draws his material from the industries and commerce in the area. And he takes that information to the large body.

Do you have any avenues from which you draw information from public bodies throughout the United States and here in Washington, in a like manner?

Mr. HICKMAN. Oh, yes; we do, sir.

Mr. HANNA. Are you——

Mr. HICKMAN. The Federal Reserve Board itself, of course, has its own production figures. The Department of Commerce has the gross national product figures. The Department of Labor has the figures on prices. And so it goes. And we use all this. And then we use local area data supplied by Government agencies frequently—as well as data supplied by business enterprise, by consumer surveys, by department stores, and so forth.

Mr. HANNA. Now, in talking about particular decisions that you make, do you feel that you—any particular primary allegiance either to the member bank stockholders or to the directors of your particular bank, or to the Board of Governors? Where do you feel—first of all, do you feel that you have a primary allegiance?

Mr. HICKMAN. I think our primary allegiance is to the people as a whole, to the Nation. That is our primary allegiance.

Mr. BROCK. Will the gentleman yield just at that point?

Mr. HANNA. Yes; I would be glad to, Mr. Brock.

Mr. BROCK. Mr. Hickman, the question has been raised about this allegiance—perhaps because the banks contribute to the funds of the Federal Reserve, and, therefore, your salary comes from the banks, so that there perhaps should be some form of allegiance to the member banks.

Is it not true that in a practical sense, the large banks have to belong to the Federal Reserve, they have no real alternative?

Mr. HICKMAN. That is correct.

Mr. BROCK. And they have to contribute these funds. It is in no sense any form of control, nor could it be. Isn't that pretty well true?

Mr. HICKMAN. Well, there is no control whatsoever as far as banker domination. As I tried to indicate in my statement earlier, I was selected by a committee, containing no bankers. And these people happened to be looking around for someone with an economic background, financial background, and some practical experience. And they came to the Board of Governors in this particular case, were referred by the Board to the research staff, who mentioned my name. I knew only one banker in the whole Fourth Federal Reserve District before that time, and he happened to be a brother of a former President of the Federal Reserve Bank of New York, Mr. Harrison, Ray Harrison.

Mr. HANNA. To clarify the position of at least one member of this committee, I am laboring under no illusion that there is pressure coming from the banks to the Federal Reserve. If I had any inclination or feeling, it would be to entertain the possibility that there is a substantial amount of pressure from the Federal Reserve to the banks.

So I would look at your function in that relationship, rather than the one indicated.

Mr. HICKMAN. That is in general the proper balance to it. I might add one other factor. Our funds, of course, do not come from the banks. Our capital initially came from the banks. But our funds come primarily from our decisions to hold Government securities and the amounts that we hold. And this is completely unrelated to anything that a private banker might——

Mr. HANNA. I think that is a fair clarification. Because the money doesn't go from the banks to the Federal Reserve.

Mr. BROCK. I understand that.

Mr. HANNA. Most of the flow is the other way, as far as monetary advantage.

In regard to the basic determination here as to whether there should be an increased responsibility to the Government, are you satisfied that there is a sufficient responsibility to the Government and its policies at the present time with regard to the Federal Reserve System?

Mr. HICKMAN. I certainly am. My qualifications were examined very carefully by the Board in Washington. And, of course, as a members to be of the Federal Open Market Committee, I am sworn to uphold the laws of the country, and so forth. And I consider myself a public official, when I take on public responsibilites.

Mr. HANNA. I gather from your statement that you more or less hinge that on the fact of your relationship with the Board here in Washington—that that relationship is——

Mr. HICKMAN. Well, the Federal Reserve Act itself, which you gentlemen have created and written, give me this quasi-public, quasi-private set of responsibilities.

Mr. HANNA. And you trace your relationship with the governmental function through the Federal Reserve Board here in Washington, and the act setting them up, as an act of this Congress?

Mr. HICKMAN. And the Federal Open Market Committee, which is also set up by the act.

Mr. HANNA. You indicated a couple of things I would like to clarify.

First of all, we have been talking about these dealers, the 19. I think it would be helpful if you could give us, or put in the record, how many such dealers actually are there. I mean, these 19 represent 19 and what? You said I think that you don't have to deal with these 19, which assumes you could deal with others. How many others are there? Do you have any idea?

Mr. HICKMAN. Well, I think that any brokerage firm in the country—any brokerage firm could take an order for Government bonds.

Mr. HANNA. Let's talk about particulars. How many are actually in the business?

Mr. HICKMAN. Making the market?

Mr. HANNA. Yes.

Mr. HICKMAN. I think it is either 19 or 20. And I will be glad to put the proper number in the record.

Mr. HANNA. I see. I think it is 19 that we have really been talking about.

Mr. HICKMAN. It used to be 16. I didn't know that it had been increased by three.

Mr. HANNA. Who increases the number, when it increases? How does this increase come about? Somebody take the initiative?

Mr. HICKMAN. It happens in response to profit opportunities in this area. When profit opportunities improve, people seeking profits put capital up to engage in an enterprise. And they go into it. They put up an adequate amount of capital, and have the proper knowledge and know-how to trade in these securities.

Mr. HANNA. Does that mean that standards are set, and as soon as they qualify for the standards, they are in business?

Mr. HICKMAN. So far as I know—as long as they have the know-how and sufficient capital to support their operations, they are free to compete. It is a completely open kind of thing. There are no entry controls on it.

Mr. HANNA. I think, Mr. Chairman, it would be helpful if we had those standards—if there are actual open fixed standards by which anybody can qualify to get into this business—I think we can probably determine what kind of screening process there is, if we know what those standards or qualifications are.

The CHAIRMAN. If you will pardon me, I think Mr. Martin could give us the whole information. We have gone into this at one time in the Joint Economic Committee. And I don't think we had any problem. But I am interested in you placing in the record, Mr. Hickman, the number of dealers that you do business with that are not the recognized dealers.

You might just insert all the dealers that you do business with.

Mr. HICKMAN. There are four, and they are recognized dealers.

The CHAIRMAN. Put their names in the record. Will you do that, please?

Mr. HICKMAN. I would be glad to. I think I can supply it now pretty well.

The CHAIRMAN. That is all right. Just put it in the record.

Mr. HICKMAN. First Boston Corp., Blyth & Co., Inc., Solomon Bros. & Hutzler, and C. J. Devine & Co.

The CHAIRMAN. Mr. Taft?

Mr. TAFT. Mr. Hickman, are you familiar with the discussions that have gone on in this committee about legislation pending relating to changing the procedures for auditing a Federal Reserve bank?

Mr. HICKMAN. Yes, Mr. Taft; I am.

Mr. TAFT. Do you have an opinion on that legislation, or the desirability of it?

Mr. HICKMAN. Well, I have rather mixed emotions about it. I think that as president of a bank I welcome an audit. We want to have our bonds counted and our money counted, and so forth and so on. And we have that in our organization now.

Now, I think that the GAO type of audit, on top of that, would certainly do no harm. It seems to me that these people are public spirited people, they are competent people, and if they don't know the ins and outs of banking, and so forth, I think they could quickly learn.

So that if it were a pure and simple audit, verifying our assets and determining whether our transactions conformed with the standards as set up by the Federal Reserve Board, and the standards set up by our directors, this would be a very appropriate thing.

My doubts about the procedure would be that this might be an entering wedge for comparing what we do with some other set of standards, such, for example, as are used in the standard Government bureau.

Now, I think that it would be very difficult for us to operate under those standards. We are a different kind of an animal. We are quasi-public, quasi-private institutions. We have standards that take on part of the measures appropriate to a Government agency and others that are appropriate to a business enterprise.

So it is the possible attempt of the GAO to alter the standards that would give me pause.

And, of course, in addition to that, I think we spend some $2 million on our present continuous audit. As you know, we have a continuous audit. In addition, we report quarterly to the Board of Governors our expenses, broken down functionally and by type. The Board also puts in its examiners once a year. The general audit function alone costs in the neighborhood of $2 million.

And, of course, if you pile the GAO audit on top of that, it would just be additional expense.

I have been thinking about a possible alternative. I know you gentlemen are searching for the appropriate thing. My idea would be to have certified public accountants come in and conduct annual audits for this committee. This might be a way of maintaining the quasi-independence of the system from the body politic.

Mr. Taft. Isn't this already done?

Mr. Hickman. No, it is not, sir. It is done for the Board. But I am talking about the individual banks. The Board is examined by Haskins and Sells, I believe, at the present time. But the banks are audited by their own general auditors, who, for example, in the case of the Federal Reserve Bank of Cleveland, report not to me, but to our Board of Directors, independently of me, every month, and then they report any exceptions to the Board of Governors. In addition, the Board of Governors annually sends in its own staff of examiners, and the Board examiners are accompanied periodically by certified public accountants who observe the audit procedures, and so forth, to see whether they are appropriate.

So we have a sufficiency of audits. One more would not do any harm, provided it didn't alter in any way the standards of the system.

Mr. Taft. Thank you very much.

The Chairman. Mr. Hickman, I wanted to ask you a few questions. I want to discuss with you the price support of Government bonds and your statement that the Federal Reserve banks get their capital from the member banks, and whether or not you get your pay from the member banks, or if the member banks pay anything at all to the Federal Reserve System—if they are not, on the contrary, the beneficiaries of the System. And also about your expenditures. You know the Government of the United States is pretty careful about agencies and representatives and employees of the Government paying out Government money.

If I understand correctly, the source of 99 percent of the income of the Federal Reserve System comes from interest on Government bonds.

Is that about your information?

Mr. Hickman. That is correct.

The Chairman. In other words, you make probably 1 percent in carrying out the Federal Reserve Act as it was originally intended. And the Open Market Committee has the exclusive power to deal in

Government bonds. You deal in them only with the permission of the Open Market Committee.

Now, the Federal Open Market Committee has purchased $33 billion worth of Government bonds, which they have in a little vault over in the New York Federal Reserve Bank. They purchased those bonds with Government credit. They paid not a penny for them, nothing except just a flick of the pen that created the money.

They buy those bonds—which, of course, are secured by the property of all the people, especially their incomes, and guaranteed by the taxing power that they will be paid.

But you pay not a penny for those bonds.

I was over there here awhile back, and we went back where the bonds are normally held, and I said, "I want to see your whole portfolio of U.S. Government bonds."

They said, "It is there"—and pointed to a little stack about the size of this book here, 5 or 6 inches high.

They said, "Reach up there and get one."

I reached up and got one, and it was $500 million.

So it doesn't take many $500 million bonds to mount up to $33 billion.

The point is that the Open Market Committee clips those coupons, they collect the money from the Treasury, which is paid by the taxpayers of the United States, and the Open Market Committee takes that billion dollars a year, which is interest on the $33 billion, and they distribute it to the 12 Federal Reserve banks in proportion to their size, or some formula.

That is correct; is it not?

Mr. HICKMAN. That is correct. And we also turn around and pay it back to the Treasury again.

The CHAIRMAN. Well, let's get to that.

Now, last year the Federal Reserve collected—1962, 1963, about the same—over a billion dollars. Now, in 1962 your bank only earned $215,000 in discounts and advances. That is about the only thing your bank does to earn money; is it not, except get this money from the Open Market Committee?

Mr. HICKMAN. Well, of course we have the liabilities, you understand. We pay for U.S. obligations by setting up claims on our bank. This is the credit of the Federal Reserve Bank of Cleveland.

We owe this money, we owe it to the member banks.

The CHAIRMAN. You owe what?

Mr. HICKMAN. Deposit balances, their reserves——

The CHAIRMAN. I am not talking about the reserves.

Mr. HICKMAN. That is what we create when we buy the Government bonds.

The CHAIRMAN. I am talking about your earning power. The only thing you have to earn money on is discounts and advances—except a few minor items.

Mr. HICKMAN. That is correct, ouside of our earnings on U.S. obligations.

The CHAIRMAN. And you earn about $300,000 a year on that. But your bank spends $15 million a year. So where do you get that other money?

The point is it comes from the Open Market Committee in New York, when they clip coupons, they get a billion dollars, they send your bank about—let's see, last year you were listed as earnings from payments, about $73 million. You got that just like a farmer gets a peacheck—it just came to you from the New York Federal Reserve Bank. Now, you didn't do anything to earn that money, did you? What did you do to earn that $73 million?

Mr. HICKMAN. What did I personally do to earn it?

The CHAIRMAN. Yes—or your bank.

Mr. HICKMAN. I am afraid I did very little personally.

The CHAIRMAN. Or your bank.

You see, it came to your bank. It is not you personally.

What did your bank do?

Mr. HICKMAN. The bank, just as a commercial bank——

The CHAIRMAN. What is that?

Mr. HICKMAN. The commercial bank lends money or buys Government bonds.

The CHAIRMAN. I am not talking about that, my dear sir.

Let's get down to definitions. When the Open Market Committee—which has all the discretion in buying and selling Government bonds—when they buy enough bonds to collect a billion dollars' interest a year, and then they send you your part at the end of the year, 99 percent of what you class as earnings—what have you done in Cleveland to earn that money?

Mr. HICKMAN. Well, we have assumed the liabilities.

The CHAIRMAN. Where are the liabilities?

Mr. HICKMAN. The liabilities are on the balance sheet.

The CHAIRMAN. Well, you are not answering my question.

Mr. HICKMAN. $4,600 million worth of liabilities here.

The CHAIRMAN. I know.

But you——

Mr. HICKMAN. We assumed the liabilities.

The CHAIRMAN. You have to pay a large part of this money into the Treasury.

Now, under this system, this billion dollars is collected from the taxpayers, distributed to the 12 Federal Reserve banks, in proportion to their size—I assume that is the formula, that is the way that is indicated—and then you spend the money that you want to spend, usually about $200 million a year, and then you turn the rest of it over to the Treasury, do you not?

Mr. HICKMAN. Our net expenditures were not $200 million, but were $15 million.

The CHAIRMAN. Well, I am talking about the System as a whole.

Mr. HICKMAN. The System as a whole—yes.

The CHAIRMAN. Anyway, you agree that what the Federal Reserve doesn't spend out of that billion dollars, goes back into the Treasury.

Mr. HICKMAN. Yes.

The CHAIRMAN. That is correct, is it not?

Mr. HICKMAN. That is correct most of the time.

The CHAIRMAN. In other words, the money you spend is Government money. If you did not spend it, it would go into the Treasury, would it not?

Mr. HICKMAN. That is correct.

The CHAIRMAN. All right.

Now, then, that being true, you should be careful about those expenditures, should you not?

Mr. HICKMAN. I think we are most careful, sir. I think we get full value for every dollar we spend.

The CHAIRMAN. You don't do anything with the money that a postmaster would not do with the stamp money.

Mr. HICKMAN. I think we do a better job on personnel matters in Cleveland than the postmaster does. And we have figures to show it. I would like to get them into the record here, to show you that we are paying for the same jobs 4½ percent less on the average, we are paying much less in the way of pensions. We have 40 percent less vacations.

In other words, we are doing a more efficient job than the Government agencies operating in Cleveland.

The CHAIRMAN. In other words, you are not wasteful, you are not extravagant.

Mr. HICKMAN. That is correct.

The CHAIRMAN. And you are less wasteful and less extravagant than any of the other Government agencies, is that correct?

Mr. HICKMAN. I think we get a lot more out of the dollar than the Government agencies do in Cleveland. And I have something here, Mr. Chairman—it is only a page and a-half—that I would like to get into the record on this matter of expenditures in general.

The CHAIRMAN. Well, let me ask you some questions first.

You want to read it now? I would not deny you that privilege.

Mr. HICKMAN. No; just so I can get it in at some point.

The CHAIRMAN. It will be put in the record if we don't get to it.

Mr. WIDNALL. Mr. Chairman, could we have the benefit of it now?

The CHAIRMAN. Certainly you may.

Mr. Widnall would like you to read it. Go ahead and read it.

Because here is the point I am making, Mr. Hickman, the Government has turned over money to your System without cost to the System at all. And then you pay what you want for expenses, and all kinds of salaries, everything. And then the balance goes over to the Treasury.

If we were to adopt that theory, say, for other employees, like, we will say, Members of Congress, 535 Members of the House and Senate, the Government could allow each Member of Congress to have, say, $5 million in bonds, the same way, he would get $200,000 a year interest on those bonds. And he would spend what he needed for his salary and his office staff and everything else, and then turn the rest of it over to the Treasury. That is a comparable situation—whether you agree to it or not.

So go ahead and read your statement.

Mr. HANNA. Mr. Chairman, if they are underpaying their help worse than the Post Office, I think we ought to get it into the record.

Mr. HICKMAN. Well, I have something here, Mr. Hanna, on that. Maybe we are paying them too little.

The CHAIRMAN. That won't take you long, will it, Mr. Hickman?

Mr. HICKMAN. It is a little over a page and a half, sir.

The CHAIRMAN. You think it is important that we hear it here?

Mr. HICKMAN. I would like to have it in.

The CHAIRMAN. Go ahead and read it, because I have a number of questions.

Mr. HICKMAN. You asked me earlier what I have been doing, and this is one of the things I have been doing.

Mr. Hoy has copies of this, I believe, sufficient for most of the committee members. It contains a few simple charts.

I would like you to look at those before I start this.

I will begin to read this, if I may.

The paper is entitled, "Employee Compensation—Salary and Nonsalary."

In reviewing the program of salary and nonsalary benefits at the Federal Reserve Bank of Cleveland, I have reached the conclusion that the bank has done an effective job. On the whole, it has conducted a well-thought-out program which has achieved good results in terms of a low rate of turnover, at a cost which is in line with costs incurred by other organizations, including the Federal Establishment.

Nonsalary benefits are an integral part of the personnel program of the bank aimed at enabling the bank to attract and keep qualified workers in a highly competitive market. In order to promote a high esprit de corps, efficient and productive operations, and a low turnover, the bank tries to be selective in its employment, thorough in its training, fair in its rewards, and to create the feeling that this is a good place to work. The expenditures for nonsalary benefits supplement a salary scale which is conservative but competitive in the local market. Chart 1 shows that the scale of salaries at the Federal Reserve Bank of Cleveland ranges slightly below the average of salaries paid for comparable jobs by employers participating in this bank's annual salary survey.

The salary grade classification of jobs at the bank differs from that utilized by the civil service. Consequently, any comparison with Federal agency jobs must be made using job descriptions rather than job grade classifications. Our comparisons (chart 2), indicate that, except for those jobs in the lower and higher grades where our salaries are substantially under Government levels, average salaries paid for comparable jobs appear to be consistent with each other.

A list of the benefits provided by the bank and of their cost is shown in table A. These benefits include such items as retirement and social security, sick leave, paid vacations, paid holidays, share of the cost of operating the cafeteria, hospitalization and medical expenses, educational opportunities, and a limited number of recreational activities referred to as "employee relations." You will observe that the total expenditures for employee relations account for less than 0.8 percent of the total cost of all benefits for the bank and is 0.2 percent of our payroll. This item includes recreational activities such as sports, and social activities such as our annual dinner dance. The employees contribute or pay for part of the cost of some of these benefits; for others, the bank pays the entire cost. In establishing these benefits, the bank is influenced to a great extent by community practices. The amounts shown in the table are the costs borne by the bank.

While we have not seen actual figures for U.S. Government employees in the form in which figures for this bank are presented in table A, we do know that in some areas the Federal establishment has more generous provisions than we do. For example, vacations in 1963 averaged more than 40 percent longer than at our bank. (The comparison in annual leave policy of the Federal Reserve Bank of

Cleveland with the U.S. civil service is shown in table B.) Moreover, it appears that retirement benefits furnished to Government employees are substantially more costly. Judging from the contributions which the Board of Governors has to make in order to finance benefits which are equivalent to those provided by the civil service retirement system on a fully funded basis (more than 16 percent of payroll), it would appear that the true cost of such benefits to the Federal Government for its employees would be substantially greater than the combined cost of the retirement system benefits and social security for a Federal Reserve Bank (approximately 12 percent of payroll). These items, retirement, social security, and vacations, account for more than half of our total benefit costs.

It has been clearly demonstrated in study after study that turnover is one of the costliest problems with which any organization has to deal. Our bank has done a good job in keeping this turnover down. Turnover at the Cleveland Federal Reserve has generally been lower than in other banks in the same labor area. In recent years, our turnover has ranged between 15 and 16 percent. Turnover at other banks in Cleveland has ranged between 15 and 26 percent in the same period. For the Nation as a whole, turnover in banks has been estimated to average 30 percent or more. (From a report on a survey conducted in 1963 by a committee of the Minneapolis-St. Paul chapter of National Office Management Association and published in the August 1963 issue of Advanced Management—Office Executive.) It is my hope and my intention to keep our turnover low.

Various types of nonsalary benefits have been tried by the bank's management over the years, and those now provided are judged to be most effective and worthwhile in supporting worker morale and in improving working relations and efficency. Having only recently become chief executive officer, I have not had time to review and form my own opinion on all of them. Whatever my final decision, it will be based on my judgment as to what is most worthwhile in achieving the results that we want—a spirit of loyalty and pride in the organization and willingness to work for the constant improvement of our operations and performance. We shall go after results rather than form, precedent, or appearance. We seek a staff of competent, satisfied workers, and a low rate of turnover. All this, I believe we have.

Mr. WIDNALL. Mr. Chairman, at this point I suggest the rest of it be submitted for the record.

The CHAIRMAN. Without objection, it is so ordered.

(The charts referred to follow:)

Explanation of Charts

CHART 1

Over 8,400 rates on 53 clerical, maintenance, supervisory, and personnel jobs were obtained from 38 companies in the Cleveland area as of March 1, 1963. These 38 companies represented banks, utilities, government agencies, and industry.

To determine a line of best fit, a second degree curve was established by using the method of least squares. This curve is depicted on chart 1 by means of a solid line. The dotted line represents the midpoints of the Federal Reserve Bank of Cleveland structure.

As of January 1, 1963, the average salaries paid in the 16 grades were 3 percent below the midpoints. As of January 1, 1964, average salaries paid were 2 percent below midpoints.

In order to avoid confusion with civil service salary grades, letters were used to denote the 16 salary grades of this bank (A=1, B=2, etc.)

CHART 1

Federal Reserve Bank of Cleveland
January 28, 1964

Comparison Between Bank Salary Structure and Average Rates
Reported by 38 Cleveland Companies - 1963

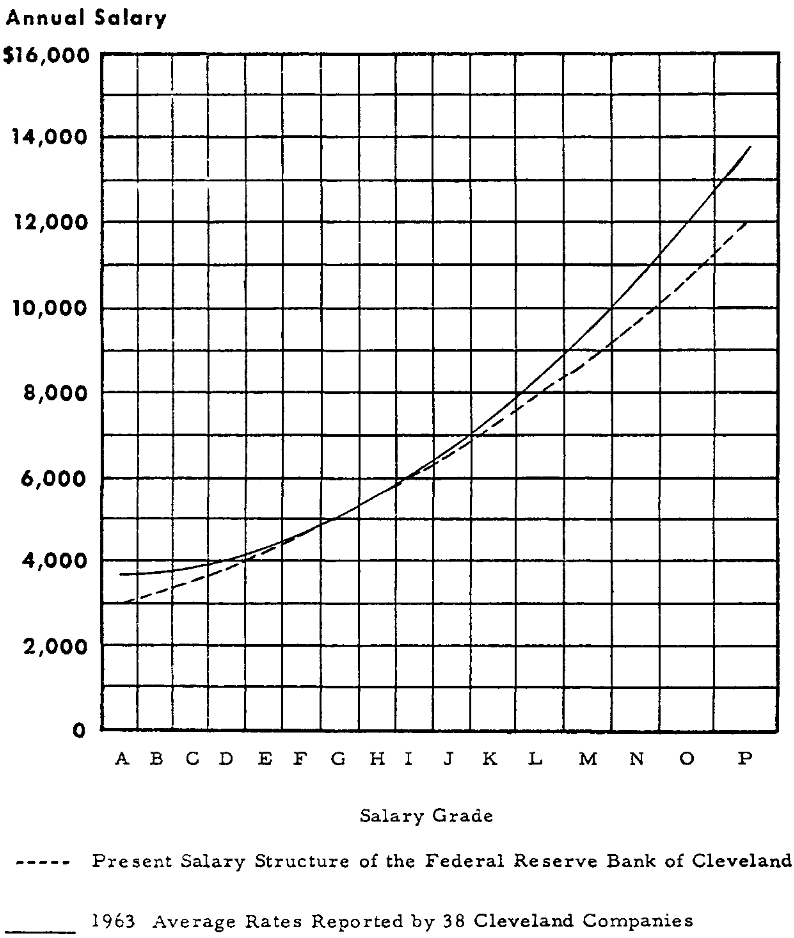


CHART 2

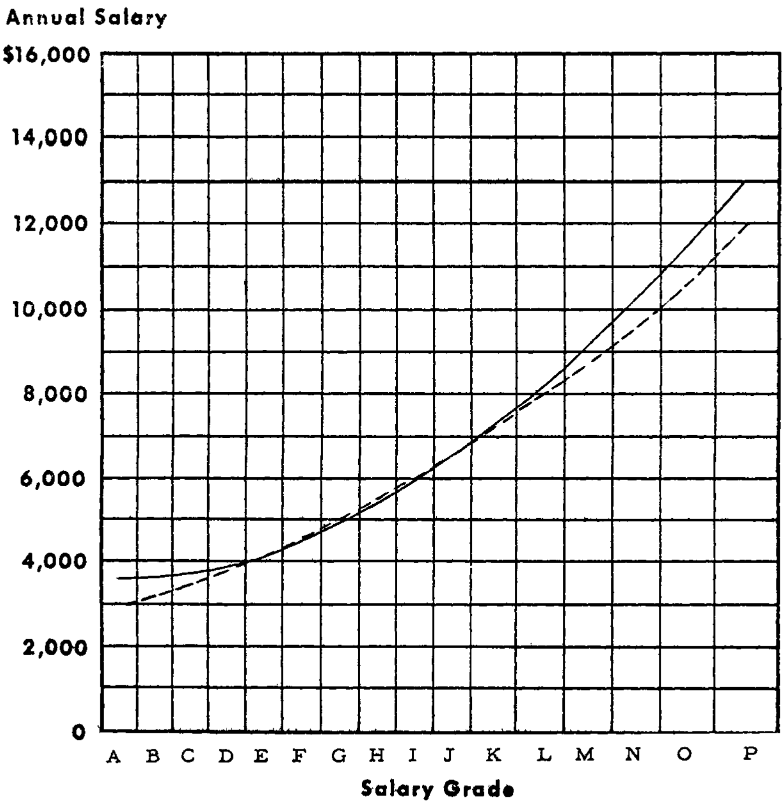
As in chart 1 the dotted line represents the midpoints of the Federal Reserve Bank of Cleveland salary structure. The solid line is based on actual salaries paid to about 850 Federal employees in the Cleveland area. Instead of using the method of least squares for computing the salary curve, a line of best fit was established by plotting the average rates reported for the 850 workers and then drawing the curve freehand.

It is estimated that for the reported jobs, average salaries paid by the Federal Reserve Bank of Cleveland were about 4.5 percent below the average salaries paid by Government agencies for the same jobs.

CHART 2

Federal Reserve Bank of Cleveland
January 28, 1964

Comparison Between Bank Salary Structure and Average Rates
Reported by Federal Agencies in Cleveland - 1963



----- Present Salary Structure of the Federal Reserve Bank of Cleveland

——— United States Government Agencies (Cleveland)

TABLE A.—*Federal Reserve Bank of Cleveland, supplementary benefits—Salary and nonsalary, 1962*

Type of benefit	Bank cost	Percent of payroll	Percentage of distribution
Cafeteria	$96, 355	1. 1	3. 9
Education	32, 659	. 4	1. 3
Employee relations	19, 458	. 2	. 8
Group life insurance	49, 006	. 6	2. 0
Holidays	326, 162	3. 8	13. 3
Hospitalization and medical services	171, 090	2. 0	7. 0
Retirement	752, 298	8. 8	30. 7
Sick and special leaves with pay	158, 651	1. 9	6. 5
Social security	217, 786	2. 6	8. 9
Unemployment insurance	205, 185	2. 4	8. 4
Vacations	422, 645	4. 9	17. 2
Total	2, 451, 295	28. 7	100. 0

TABLE B.—*Comparison of annual leave policies for 1964—U.S. civil service and Federal Reserve Bank of Cleveland*

Length of service	Federal Reserve Bank of Cleveland	U.S. civil service
	Days	*Days*
Less than 3 years' service	10	13
From 3 to 10 years' service	10	20
From 10 to 15 years' service	15	20
From 15 to 25 years' service	15	26
25 years' service and over	20	26

NOTE.—Average vacation computed for Federal Reserve Board, 1963, 14.8 days; average vacation estimated for civil service,[1] 21.0 days.

[1] Source: U.S. Civil Service Office, Cleveland, Ohio.

The CHAIRMAN. Now, Mr. Hickman, here is a list of several types of items, some of which could put a postmaster in jail for a long, long time if he paid for them with Government funds.

The fact remains that these expenses were paid with Government funds, and that neither the bank's internal auditors stopped the payment, nor that the Board examiners even commented on them.

This seems to me to be adequate proof for the need of the GAO to see what the taxpayers' money is used for in the Federal Reserve System.

It starts off here, the first page, an annual dinner dance, 10-piece orchestra, 1 comedian, $125; 620 dinners, $4,325; orchestra, $435; centerpieces, flowers, $261; invocation, $25. Door prizes and wraps insurance, $150. Total, $5,406.

Then you have lots of retirement dinners—four retirement dinners, entrance fees to baseball leagues, fees for men and women's bowling leagues, tickets to bowling banquets, trustees dinners, and bowling banquet, Cleveland Athletic Club, 32 dinners, retirement, $32 for Corona cigars.

Mr. WIDNALL. Mr. Chairman?

The CHAIRMAN. Silver trays.

If it is all right, I will put this in the record. Some of it, I think would be legitimate. But some of it I don't see how you can afford to spend public money for.

I will call your attention to one or two more.

On page 2 there is the officers' dining room. That is the amount stated. Annual dinner dance, another annual dinner dance, $4,432, including orchestra, and all the things that go with it, including liability insurance, dinners, and punch, and gratuities—$438.24. And different dinners, 25-year parties, a thousand dollars, children's Christmas party.

I am certainly not against a children's Christmas party. A lot of things in here I am not against.

Flowers for sick or deceased employees and relatives, birthday lunches, retirements, ping pong balls and paddles, softball games, women's fashion magazine, sterling silver trays, smorgasbord party—that is $1,800—smorgasbord party.

So I just suggest that I place all this in the record at this point.

Is there any objection?

Mr. BOLTON. Mr. Chairman, would you yield for a question?

The CHAIRMAN. I yield for a question.

Mr. BOLTON. Doesn't this exactly bring out, I think, your point, and also the point of some of the other members of the committee, regarding whether or not there should be a GAO audit; namely, that the reason you have brought up these figures is because you feel that the policy management of the bank itself has been misdirected? In other words, the real reason that you want a GAO audit is to look into the policy of the operation of the System as contrasted to checking the accuracy of the figures.

The CHAIRMAN. I cited these cases as exhibits demonstrating that money has been loosely spent, and extravagantly spent. And I would not say corruptly, because I don't believe they had any corruption in mind. I certainly would not accuse them.

Mr. HANNA. Not in bowling or children's parties.

The CHAIRMAN. Let me add two or three more here, and then I will yield.

Now, you take care of the $4,000 item, graduate study allowance for students at the University of Kentucky. I cannot conceive of paying students at the University of Kentucky $4,000, or $3,500, at the Ohio State University. And items like that.

Tuition refunds for satisfactorily completed courses. Tuition and dormitory fees for employees at the University of Wisconsin Graduate School of Banking. Fees for the attendance of three employees at a graduate school of banking. Five-day executive action course—$750. And then tuition reimbursement to bank employees, $3,067.

Some of the courses were Western civilization, metropolitan politics, and ethics. Problems in sales management, introduction to philosophy, English Renaissance $427 to employees attending a graduate school of banking at the University of Wisconsin. $210, tuition, materials, of an employee at a conference on employment interviewing;

$3,856, partial contribution to Cleveland Chapter of American Institute of Banking.

I cannot conceive of how you could spend $3,856.11 of the people's money for any such purpose as that. Maybe you know of some reason.

$330 for the Ohio School of Banking. $720, Stonier Graduate School of Banking. $1,125 tuition refunds to employees. Courses completed: Shakespeare, public opinion, sociology of occupation, history of economic growth.

We could use some of that latter.

$1,500 annual dues for the American Bankers Association.

Why should you spend public money to join the American Bankers Association? Now, that is a private concern.

And $5,000, contributions to Cleveland Chapter of American Institute of Banking. And $330 to the Robert Morris Associates—that is another banking group. $317 annual dinner of group 9, Ohio Bankers Association. $350 subscription to National Industrial Conference Board. $350 annual dues to the American Management Association for the first vice president. Purchasing association, national office of management, subscription to National Industrial Conference Board, $350. Cleveland Association of Credit Management.

Why do you want to pay a hundred dollars to join that?

$350 membership of one of the officers in the American Management Association of 1962. And a purchasing agents' group. The annual dues of the Cleveland Farmers Club. You only paid $50 in that, I notice.

Paid to Cleveland's Clearinghouse Association its proportionate share of the costs of educational program of the Cleveland Chapter, American Institute of Banking—now, this is a staggering figure for that purpose—$5,018.50; and $5,190.96 paid to the Cleveland Clearinghouse Association. Annual dues for the Cleveland Association of Credit Management. For the Cleveland, Ohio, City Directory, $465. The bank states it is used to identify persons they wish to contact. Annual subscription of the Labor Law Reports, $195. $220, Installment Credit Guide. $300, Federal and State Tax Services. $395, Congressional Legislative Reporting Service.

Now here are luncheons, $1,143. Tickets to annual dinners, 75 lunches for schoolteachers at $4 each, $300. $759 for officers dining room. $114, dinner for directors. $546 to the Annual American Institute of Banking Banquet. And many items like that.

$705, free meals in officers dining room during May 1963—$705 a month.

Golf and dinner party at Cleveland conference. $526.50, tickets to annual AIB banquet. $297, dinners at Mount Vernon Country Club for bank directors. $619, open house—pastry, punch, coffee, punch cups, cocktail napkins, yellow plastic spoons, and so forth—$619.

Lunches for high school students, $180. $369, dinners to—at the Elyria Country Club for bank directors. $320, Union Country Club. $483, roundtable dinner. $387, bank directors industrial roundtable. $549, meeting of the industrial directors. $1,048 paid to the Portage Country Club, Akron, Ohio, for expenses of a dinner meeting of the bank directors and leading bankers and industrialists in the Akron area. $245, luncheon meeting at Akron.

$305, lunches for high school and college students, January 1962.

Mr. HANNA. Mr. Chairman, I don't want to interrupt your recitation of those things, but it did strike me suddenly that the chairman here is allying himself in some ways with the position that I thought I saw the Republicans taking about backdoor spending. It is true it is a rather sophisticated approach, which is probably developed uniquely by them.

But it is, after all, a taking of the Government's money for carrying on an activity, and then after the fact making arrangements with the Treasury, is it not?

The CHAIRMAN. Well, there are no arrangements made. That is the part that is difficult to understand.

You see, in 1957 I brought out some figures on the banks, and then I hadn't gone into it since that time.

But last time when we started last year, we took the audits, and none of it was in the audits—not a bit of this in the audits at all.

Mr. HICKMAN. It should not be. The auditors criticize items that are unauthorized. These are all authorized.

The CHAIRMAN. I know they are authorized. That is the point I want to make.

Mr. HICKMAN. We have the authorizations right here, which I would like to get in the record, if I may.

The CHAIRMAN. My contest is, or my point is, that your Board of Directors would authorize the expenditure of U.S. Government funds for things like this.

Now the Federal Reserve System in 50 years has never been audited by the U.S. Government. The Federal Reserve System, in 50 years, has never been audited by any independent auditors selected by anybody except themselves, which was a self-audit.

Therefore, we ought to look into these practices occasionally. And when I attempted to go into it last year, I learned that none of this kind of expense was reported to the Board of Governors. I ran into a dead end. Our investigative staff said it was just not reported.

Then I asked for the working papers of the Federal Reserve Board examiners. I got the working papers of the examiners, and there was no mention of this type of expenditure on their working papers.

And we had to send two investigators to three banks to actually get the information from the banks' files.

So this kind of spending certainly hasn't been brought out to the public view. It has not been approved by anyone connected with the Government.

If the money hadn't been spent this way, just like the stamp money of the postmasters, it would go over into the Treasury. That is the point I am making. It is back-door financing really at its worst.

You see, no congressional committee ever looks at it, no independent auditor ever looks at it. Nobody is looking over their shoulders. They just take a billion dollars of the Government's money every year, and spend as much of it as they want to. And then turn the rest of it over to the Treasury.

Mr. BOLTON. Mr. Chairman—just as a comment—I take it then you would be in favor of my bill to see to it that all the committees of Congress and the Capitol Architect's Office are also audited by the GAO.

The CHAIRMAN. Well, I am in favor of audits, myself. In fact, I don't think the Federal Reserve should resist audits, but they have.

Mr. WIDNALL. Mr. Chairman, as you were reading that list, and came to the Corona Corona item, I couldn't help but think of our own committee trip to the Federal Reserve in New York, where as I recall all the smokers on the committee were perfectly willing to take those Corona Coronas. And I think that many, many times—if this is guilt of some kind, we are certainly guilty of guilt by association, because we have been perfectly willing to participate in the dinners ourselves.

The CHAIRMAN. Well, that was a very small item.

Mr. WIDNALL. Some of these small items that you are talking about, we ought to be just as zealous about on Capitol Hill. We are still obtaining 75-cent haircuts at the expense of the taxpayers.

The CHAIRMAN. I didn't get any Corona cigar. I don't smoke cigars. I am not accusing anybody else who did. If they want to take a cigar anybody offers them, it is perfectly all right—anything up to a 12-pound ham, I believe. I think that was decided one time years ago—somebody asked what size it should be, and somebody said a 12-pound ham.

Now, here is something else. Standard Government travel regulations allow up to $16 per day for meals and lodgings for Government employees. This amount is regularly exceeded by employees of the Bank. The examples are at New York, 3 days, $26. Pennsylvania, $26. A whole page full here of examples, all of them way above, from $8 to $10 more than the Government allowance. And this is Government money.

So the question is, it is not understandable to me why the Board and the President would approve things like that.

Now, would you like to make a comment on this, Mr. Hickman?

Without objection, I will put this in the record at this point—the whole thing.

(The information referred to follows:)

CLEVELAND

Employee parties, etc.

	$5,406.40	Annual Dinner Dance:	
80341		10 piece orchestra	$435.00
80342		1 comedian	125.00
80522		630 dinners	4,325.40
80523		65 flower centerpieces	261.00
80525		1 invocation	25.00
80525		Liability insurance	24.27
80664–80667		Door prizes and wrapping	150.34
81095		Singers	60.00
			5,406.01
		115 guests paid	708.40
		515 employees free	4,697.61
82037	210.00	Retirement dinner, 42 attended.	
82133	185.87	Retirement reception.	
80028	106.92	24 retirement book covers, gold stamped.	
81038	119.00	Retirement dinner, 34 attended.	
81677	61.00	Entrance fee, AIB baseball league.	
82026	425.00	Fees for men's and women's bowling leagues.	

Employee parties, etc.—Continued

82427	$37.35	15 baseballs.	
81499	126.00	21 tickets for bowling banquet.	
81701	120.76	Trustees dinner, 14 persons.	
82265	462.59	Annual bowling banquet at Cleveland Athletic Club, 78 persons attended.	
75102	32.00	100 Corona Corona cigars.	
81621	490.10	32 dinners at retirement party for W. D. Fulton at Union Club. In conjunction with the joint board of directors' meeting.	
82290	32.00	100 Corona Corona cigars.	
80082	86.30	Engraving on 6 silver trays for retiring directors.	
80458	465.50	Seven 14-inch sterling silver trays.	
	4,432.66	Annual dinner dance on Jan. 27, 1962:	
75055		Orchestra	400.00
75056		Dancers	150.00
75054		Dinner music	150.00
75057		Door prizes and favors	146.28
75058		Liability insurance	25.54
75232		52 bouquets table flowers	26.00
		225 boutonnieres	33.75
		350 corsages	105.00
75490		Lighting equipment	36.05
		520 dinners	2,831.80
		20 gallons punch	90.00
		Gratuities (15 percent)	438.24
			4,432.66
76217	140.53	Dinners for trustees of the Federal Reserve Club of Cleveland.	
79543	26.00	24 ping-pong balls and 12 ping-pong paddles.	
79036	1,009.22	Annual 25-year party, Cleveland Athletic Club:	
		Orchestra	$125.00
		Barbershop quartet	25.00
		Songbooks	5.00
		Insurance	24.27
79160		Dinners (120)	769.95
		Flowers	60.00
		Total	1,009.22
79984	558.11	Children's Christmas party.	
77511	151.71	Flowers for sick or deceased employees and relatives.	
78841	115.23	Birthday lunches, September-October 1962.	
79286			
79968	129.50	Retirement dinner for Mr. Flinkers, 37 people at $3.50.	
77618	21.54	36 ping-pong balls and 6 ping-pong paddles.	
78119	52.96	Dinners for 7 employees and families.	
78308	90.00	15 tickets for AIB softball banquet.	
78590	13.00	Subscription to Vogue (the women's fashion magazine).	
77713	35.00	10 luncheon tickets sponsored by $110,000 Cleveland Open Golf Tournament, et al.	
79843	350.65	Annual retirement dinner for directors at Union Club, 14 directors and 10 officers attended.	
79700	465.50	7 sterling silver trays.	
78325	1,816.22	411 employees at smorgasbord party.	
76667	411.54	74 dinners at the Cleveland Athletic Club (bowling banquet).	
74781	384.08	Flowers for sick and deceased employees.	
75291	---------		
76099	---------		
74743	85.52	Birthday lunches for employees during December 1961.	
75553	85.00	Retirement dinner for Mr. Johnson.	

Employee parties, etc.—Continued

2008	$66.00	Umpires and scorers' fees for AIB softball games.
2002	---------	
2051	---------	
2045	---------	
2024	---------	
2015	---------	
79969–78971	1,004.15	(less $438 paid by participants), annual golf tournament. There were 73 participants.

Tuition payments

Various	4,000.00	Annual graduate study allowance for students at University of Kentucky. Yearly allowance.
Various	3,500.00	Annual graduate study allowance for student at Ohio State University. Yearly allowance.
74631	105.10	2 additional black and white sound prints of the film "A Day at Federal Reserve Bank of Cleveland."
77759	300.00	2 registration fees for clinic, Principles, Techniques and Skills in Manuals Writing.
78491	150.00	Registration fee seminar, "Data Processing for Personnel Department."
2122	200.00	Fee for attendance at confrence held by Personnel Research and Development Corp. at Oberlin, Ohio, Sept. 23–28, 1962.
79099	360.00	3 registration fees for a 40-hour systems and procedures training course.
Various	990.00	Tuition refunds for satisfactorily completed courses by employees. Some of the courses were: Public Speaking. English Literature. Introduction to Art History. Shakespeare I. Philosophy of Religion.
81139	990.00	Tuition and dormitory fees for 2 employees at University of Wisconsin Graduate School of Banking.
81103	750.00	Fee for 5-day Executive Action Course at American Management Association in New York.
82536	250.00	5-day course by American Management Association on "How To Write Shorter and Better Reports."
74655 75425	1,090.00	Fees for attendance of 3 employees at the Stonier Graduate School of Banking.
75342	250.00	Fees for attendance of 1 employee at the NABAC School for Bank Audit and Control.
75152 75177 75209 75298 77263 77334 Various	3,067.00	Tuition reimbursement to bank employees. Some of the courses were: Western Civilization I. Metropolitan Politics and Ethics. Problems in Sales Management. Introduction to Philosophy. English Renaissance. Calculus II.
76100	427.00	Fees for attendance of 2 employees at the graduate school of banking at the University of Wisconsin.
76106	210.00	Cost of tuition and materials of an employee at a conference on employment interviewing.
76977	50.00	2 employees membership in the Cleveland Chapter of the Systems and Procedure Association.
76153 76318	74.00	Registrations at the International Association of Personnel Women Conference.
77594	3,856.11	Partial contribution to Cleveland Chapter of American Institute of Banking.
80351	330.00	Registration fees (3) at Ohio School of Banking.
80103	100.00	Registration fee, Personnel Techniques Seminar, University of Michigan.
80554	720.00	Registration fees (2) Stonier Graduate School of Banking.

Tuition payments—Continued

80777 80828	$740.00	Registration fees (2) Stonier Graduate School of Banking.
Various	1,125.00	Tuition refunds to employees. Among courses completed were: Shakespeare II. Public Opinion. Sociology of Occupation. History of Economic Thought.

Dues, etc.

77712	1,600.00	Annual dues for American Bankers Association.
77529	100.00	Membership dues, Financial Public Relations Association.
70563 81428	5,018.50	Contribution to Cleveland Chapter of American Institute of Banking.
77920	561.00	Membership dues, NABAC.
78384	310.00	Paid to Robert Morris Associates.
79098	250.00	Subscription to Real Property Inventory of Metropolitan Cleveland.
75193	350.00	Subscription to National Industrial Conference Board.
77545	75.00	Subscription to National Bureau of Economic Research, Inc.
79841	35.00	Dues for counsel in Ohio State Bar Association.
80004	350.00	Annual dues in American Management Association for 1st Vice President. Bank's membership.
80011	35.00	Annual dues in Purchasing Association of Cleveland.
80214	105.00	Dues, 1963, National Office Management Association.
80489	350.00	Subscription to National Industrial Conference Board.
80845	50.00	Dues, Cleveland Farmers' Club.
81840	100.00	Dues, Cleveland Association of Credit Management.
82366	50.00	Dues, Systems and Procedures Association of America.
74601	350.00	Membership of 1 of officers in American Management Associtation for 1962. Bank's membership.
74604	35.00	Membership dues of employee in Purchasing Agents' Association of Cleveland, Inc.
74638	360.00	Membership dues of 6 employees in Cleveland Chamber of Commerce, 1962.
75358	50.00	Annual dues of the Cleveland Farmers' Club.
75669	5,190.96	Paid to Cleveland Clearing House Association as proportionate share of the cost of the educational program of the Cleveland Chapter, American Institute of Banking.
76570	100.00	Annual dues for the Cleveland Association of Credit Management.
80676	---------	Subscription to a news clipping service at 10 cents per clipping. The charge for January 1963 was $201.80. News clippings are of particular interest to officers and bank examiners of the Cleveland Federal Reserve Bank who frequently correspond or visit with bankers throughout the State.
81926	465.00	For the Cleveland, Ohio, City Directory. The bank states that it is used to identify persons who may wish to contact the bank for information and to locate addresses for mailing purposes.
77909	195.00	Annual subscription 1962–63, Labor Law Reports published by Commerce Clearing House, Inc.
78058	220.00	Subscription to Installment Credit Guide, Sept. 1, 1962, to Sept. 1, 1964, published by Commerce Clearing House, Inc.
79666	300.00	Subscriptions to Federal and State tax services for 1 year, published by Commerce Clearing House.
77708	120.00	24 subscriptions to Standard & Poor's Corp. Bond Guide for 1 year.
79158	120.00	Annual subscription to Real Estate Analyst Service.
79166	395.00	Congressional Legislative Reporting Service for the 1963 regular session of the 88th Cong.
79665	1,143.94	Dinner and luncheon for bank officers, directors and employees at the Athletic Club in Columbus, Ohio. Columbus industrialists and bankers were guests.

Luncheons, etc.

78600 78601	$367. 50	Dinner meeting of Group Nine, Ohio Bankers Association; 29 employees of the bank attended.
79630	300. 00	75 lunches for schoolteachers at $4 each.
80211	76. 00	NABAC, Cleveland Conference Dinner meeting, 16 bank employees.
80557	759. 00	January 1963 charges for officers dining room: 379 staff lunches at $1 ---- $379. 00 190 guest lunches at $2 ---- 380. 00 759. 00 Paid by officers ---- 389. 00 Cost to bank ---- 370. 00
81376	840. 00	March 1963 charges for officers dining room: 344 staff lunches at $1 ---- $344. 00 248 guest lunches at $2 ---- 496. 00 Total ---- 840. 00 Paid by officers ---- 350. 00 Cost to bank ---- 490. 00
75074	25. 00	4 dinner reservations for a dinner meeting of Robert Morris Associates.
75677	114. 58	Dinner meeting of 7 directors and 4 officers at the Union Club.
75585	546. 00	84 tickets to the annual American Institute of Banking banquet. 7 officers and 75 other employees attended.
81038	293. 23	Lunches for high school and college student visitors during February 1963.
81751	237. 80	Bank directors-industrialists dinner meeting.
81752	444. 00	Bank directors-industrialists dinner meeting.
81434	312. 19	Lunches for high school student visitors during March 1963.
81849	233. 75	Bank directors-industrialists dinner meeting at Coshocton Town and Country Club, Coshocton, Ohio.
81853	385. 00	Bank directors-industrialists dinner meeting at Salem Golf Club, Salem, Ohio.
82094	420. 00	Bank directors-industrialists dinner meeting at Westbrook Country Club, Mansfield, Ohio.
82037	120. 00	Teacher tour dinners at $2.50 each, during April and May.
82369	386. 25	Meals in officers dining room during May 1963.
74911	95. 00	19 tickets to a Cleveland Chamber of Commerce luncheon.
74913	53. 00	13 tickets for employees to a dinner sponsored by the Cleveland Conference of NABAC.
82146	79. 00	Golf and dinner party NABAC Cleveland conference.
82504	43. 75	Annual meeting and Spring Golf party at Elyria Country Club of Robert Morris Associates. 5 reservations.
82637	18. 00	4 luncheon reservations, Cleveland Chamber of Commerce.
80953	526. 50	81 tickets at $6.50 for annual AIB banquet.
81087	58. 00	Dinner meeting NABAC, Cleveland conference, 12 employees attended.
76452	297. 66	66 dinners at Mount Vernon Country Club for bank directors, Industrialists Round Table, Mount Vernon, Ohio.
76514	438. 75	Lunches for visiting high school students.
77139	619. 41	Open house, June 6, 7, 1962: Pastry (4,826 pieces) ---- $386. 08 Punch (51 gallons) ---- 51. 00 Coffee (100 gallons) ---- 70. 00 Punch cups (1,800) ---- 13. 36 Cocktail napkins (3,200) ---- 7. 04 Yellow plastic spoons (1,400) ---- 5. 25 Wax paper (3 packages) ---- . 90 Labor ---- 85. 78 Total ---- 619. 41
78415	66. 50	14 dinners, Cleveland chapter NABAC.
78873	23. 75	5 dinners, Cleveland chapter NABAC.

Luncheons, etc.—Continued

79423	$73.25	15 dinners, Cleveland chapter NABAC.
74642	180.00	Lunches for high school students, cub scouts, and mothers, December 1961.
76675	369.37	68 dinners at the Elyria Country Club for bank directors and industrialists roundtable meeting, Elyria, Ohio.
76830	320.74	56 dinners at the Union Country Club of New Philadelphia, Ohio, for a meeting of the bank directors-industrialists roundtable, New Philadelphia, Ohio.
76831	483.75	Bank directors-industrialists roundtable dinner meeting for 75 at the Wooster Country Club, Wooster, Ohio.
76438	387.20	88 dinners at a meeting of the bank directors-industrialists roundtable at the East Liverpool Country Club.
76450	549.03	80 dinners at a meeting of the bank directors-industrialists roundtable at the Fort Steuben Hotel.
75756	63.00	Tickets so that 18 officers could attend a luncheon sponsored by the Cleveland Chamber of Commerce and American Industrial Development Committee, Inc.
76720	1,048.45	Paid to the Portage Country Club, Akron, Ohio, for expenses of a dinner meeting of the bank's directors and leading bankers and industrialists in the Akron area.
76738	245.89	Luncheons and meeting rooms for joint board meeting at Akron, Ohio.
76938	79.00	Golf and dinner party sponsored by NABAC, Cleveland conference. 12 employees and 1 guest of the bank attended.
74622	82.50	3 registrations at the Northern Ohio Personnel and Executive Conference.
75081	305.00	Lunches for high school and college student guests in January 1962.

Travel

Standard Government travel regulations allow up to $16 per day for meals and lodging to Government employees. This amount is regularly exceeded by employees of the bank. Examples are:

Voucher	
1803	At New York, N.Y., for 3 days, about $26 per day.
1912	A day at Skytop, Pa., about $26.
1949	3 days at Atlantic City, N.J., about $30 per day.
1961	A day in Washington, D.C., at $49.10. Includes suite for conference president's meeting room.
1984	3 days at Atlantic City, N.J., at about $19 per day.
1989	A day in New York, N.Y., for $23.35.
1837	2 days in Chicago, Ill., at about $22 per day.
1934	2 days in Washington, D.C., at about $22 per day.
75271, 75270	4 days in New York, N.Y., at about $19 per day.
75648	3 days in Pittsburgh, Pa., at about $19 per day.
77254	4 days in Washington, D.C., at about $21 per day.
1789	4 days in New York, N.Y., at about $23 per day. The total includes 2 dinners for guests.
1790	2 days in New York, N.Y., at about $23 per day.
1795	A day in Washington, D.C., at $24.15.
2040	A day in New York, N.Y., for $20.85.
2093	3 days in Washington, D.C., at about $28 per day. Includes suite for conference president's meeting room.
2208	2 days in Washington, D.C., at about $22 per day.
76247	4 days in Washington, D.C., at about $27 per day.
2134	2 days in New York, N.Y., at about $26 per day.
78122	4 days in Washington, D.C., at about $23 per day.
78693	3 days at Bretton Woods, N.H., at about $24 per day.
78123	4 days in Washington at about $23 per day.
2060	4 days in Washington at about $21 per day.
2120	4 days in Atlantic City, N.J., at about $20 per day.
79050	4 days in Atlantic City at about $34 per day.
2154	2 days in Washington, D.C., at about $22 per day.
79272	4 days in Washington, D.C., at about $23 per day.
79458	2 days in Washington, D.C., at about $24 per day.

Travel—Continued

79538	2 days in Washington, D.C., at about $25 per day.
2279	2 days in Chicago, Ill., at about $22 per day.
2307	2 days in Washington at about $48 per day. Includes suite for conference president's meeting room.
2325	2 days in Washington at about $23 per day.
81533	3 days in New York at about $28 per day.
2407	3 days at Atlantic City, N.J., at about $32 per day.
2345	2 days at New York, N.Y., at about $24 per day.
82137	4 days at New York, N.Y., at about $24 per day.
82399	4 days at New York, N.Y., at about $25 per day.
2302	8 days in New York, N.Y., at about $26 per day.
80054	2 days in New York, N.Y., at about $22 per day.

Mr. BOLTON. May I ask, then, at that point, that the authorizations for those expenditures be put in the record immediately following?

The CHAIRMAN. Certainly, I would love to have it in there.

Mr. HICKMAN. That is what I would like to put in the record. We have a set of materials here showing the Board of Governors authorization for Federal Reserve bank expenditures. As a matter of fact, we come well within the general authorization.

The authorizations are here. And, in addition, I would like to put in the justifications for these. We have provided all of this to the committee before.

The CHAIRMAN. Without objection, we will put in the justifications.

(The documents referred to follow:)

(H) EXPENDITURES OF FEDERAL RESERVE BANKS [1]

#3181. Cafeteria.

[May 14, 1946, S–912, *Sec. of Bd. to Presidents of all F. R. Bks.*]

* * * * * * *

* * * the Board will offer no objection to a Federal Reserve Bank's absorbing up to one-half of the cost of operating its cafeteria, as shown by the functional expense report, Form F.R. 634.

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#3186. Submission of annual budgets to Board.

[Feb. 4, 1947, S–958, *Sec. of Bd. to Presidents of all F. R. Bks.*]

Now that the war is over the Board has decided to ask the Federal Reserve Banks to resume the submission of annual budgets which were temporarily discontinued in 1942 upon the recommendation of the Presidents' Conference, because of the difficulty of estimating in advance the cost of the various war activities they were constantly being asked to perform. Some of the Banks have continued to operate under a budget procedure although the submission of a budget to the Board was not required.

As you know, Congress and the President have indicated an intention recently to scrutinize more closely the expenditures of the various departments and agencies of the Federal Government. In the Legislative Reorganization Act of 1946 Congress evidenced its intention in this respect by directing the Comptroller General "to make an expenditure analysis of each agency in the executive branch of the Government (including Government corporations) which, in the opinion of the Comptroller General, will enable Congress to de-

[1] Source: Federal Reserve Loose-Leaf Service.

termine whether public funds have been economically and efficiently administered and expended."

Responsibility for supervision and control of the costs of operating the Reserve Banks, including expenses incurred by them as fiscal agents of the United States, is shared by the boards of directors and officers of the Banks and the Board of Governors. As the agency of the Government charged with responsibility for general supervision of the Reserve Banks, the Board should be able to demonstrate whenever necessary that it is in a position to and does adequately supervise expenditures of the Reserve Banks for salaries and for other purposes. This subject was discussed during the last meeting of the Chairmen's Conference, and the Board desires to discuss the matter with the Presidents at the time of their next conference in Washington.

While the procedure followed by the Reserve Banks in preparing the budget will depend upon the internal organization of the Bank or branch, it is essential that it be prepared in such a manner that persons in charge of the respective units may be held responsible for expenses incurred therein, and that the budget be reviewed and approved by the senior management and the board of directors.

[July 13, 1962, S-1837, *Sec. of Bd. to Presidents of F. R. Bks.*]

As you were informed in the Board's telegram of June 29, 1962, the Board has approved revised procedures under which the Federal Reserve Bank budgets are to be prepared and submitted to the Board. A number of proposals designed to simplify and improve Reserve Bank budgetary procedures were set forth in a memorandum sent to Mr. Fulton as Chairman of the Conference of Presidents with the Board's letter of April 16, 1962 and the revisions that have been adopted are in conformance with those approved by the Conference of Presidents at its meeting on June 18, 1962. These provide for:

1. Submission of budgets by either departments or functions.
2. Submission of two budgets each year, one covering the period January 1–June 30 and the other covering the period July 1–December 31.
3. Comparisons of budget estimates with actual expenses for the same period one year ago.
4. A budget report form showing by departments or functions the average number of employees and total expenses for the base period and for the budget period, and the amount and percentage change in expenses.
5. Limiting explanatory material accompanying the budgets to the reasons for (a) the significant developments resulting in substantial gross increases or gross decreases in departmental or functional expenses, and (b) changes in the number of employees in Grade 12 and above expected at any time during the budget period, as compared with the number of such employees on the last day of the base period.
6. Elimination of the budget experience reports.

Under the revised procedures, statements covering evaluation of activities of certain functions, membership dues and donations, and five-year projections of bank premises projects need not be submitted with the semi-annual budgets.

The first budget to be prepared under the revised procedures is to cover the period January 1–June 30, 1963, and it should be submitted to reach the Board not later than November 22, 1962.

The Accounting Manual will be revised to reflect the changes in the Reserve Bank budgetary procedures as outlined above.

This letter supersedes the Board's letter of October 4, 1956 (S-1604), contained in F.R.L.S. 3186.

[Feb. 7, 1963, S–1863, *Sec. of Bd. to Presidents of F. R. Bks.*]

Among the changes in the Reserve Bank budgetary procedure set forth in the Board's letter of July 13, 1962 (S–1837), was the provision that the six-month budget estimates were to be compared with the same period one year ago. Experience with the budgets for the first half of 1963 has revealed that this procedure was not as effective as was hoped. Much of the material submitted with these budgets related to changes that had already occurred, or were expected to occur, between the close of the base period (first half of 1962) and the beginning of the budget period. Accordingly, the Board believes that budgets could be made less complicated and more revealing of prospective developments if they were compared with the current rate of expenditures, rather than with the same period of the previous year.

As you probably know, the possibility of this change in procedure was discussed informally with the various Reserve Banks and it appears that some of the Banks are in favor of making the change at this time while others have reservations. The informal discussions also indicated that there are various ideas as to how to determine the current rate of expenditures for the purpose of budget comparisons.

Under these circumstances, the Board is of the opinion that possibly experimentation with current rate comparisons on a voluntary basis would be helpful. Therefore, if your Bank is interested in comparing its budget with the current rate of expenditures, the Board would be pleased to receive your budget for the second half of 1963 on this basis. If you adopt this procedure—

(1) Your current rate of expenditures may be determined by whatever method your Bank considers to be most appropriate. Please explain briefly in a statement accompanying the budget the method used for this determination.

(2) In order that comparative figures on a uniform basis may be obtained for the System as a whole, please show *in addition* to the current rate of expenditures the actual expenses (by departments or functions) for the second half of 1962. However, explanations should be confined to the differences between the current rate of expenditures and the budget estimates, and should not take into account differences between actual expenses for the second half of 1962 and the budget estimates.

If for one reason or another your Bank would prefer not to adopt the current rate of expenditures comparison procedure at this time, your budget for the second half of 1963 may be prepared in the same manner as that submitted for the first half of the year.

#3187. Discretionary expenditures.

[Jan. 16, 1945, S–826, *Sec. of Bd. to Chairmen and Presidents of all F. R. Bks.*]

Recently a Federal Reserve Bank inquired informally whether, in the case of a director who was retiring after a substantial length of service, there was any objection to an expenditure of Bank funds for a suitable memento of his service. Another Reserve Bank recently proposed that recognition in some tangible form involving the expenditure of Bank funds be made to employees who had completed 25 years of service with the Bank.

The Board has felt that in its consideration of such questions and similar questions affecting officers and employees of the Federal Reserve Banks it must take into account the peculiar relationship of the Reserve Banks to the Government. They do not have the same status as privately owned corporations which are voluntarily created by and operated for the benefit of their stockholders. They were set up by Congress to perform functions prescribed by Congress for public purposes. Stock holdings and dividends thereon are strictly limited, the owners of the stock being somewhat like holders of preferred stock in other corporations, while the residual interest in the assets of the Banks is in the Federal Government, which, therefore, may be regarded in effect as the owner of all the common stock.

In view of this situation, the provisions of the law, and the fact that the Reserve Banks are not accountable to the Federal budget and accounting authorities, the Board feels that Congress has placed upon it a substantial measure of responsibility for the expenditures of the Federal Reserve Banks. The Board therefore feels that it must be prepared to justify the Reserve Banks as well as itself in the event of criticism from Congress or other Governmental sources on the ground of claims that expenditures had been made in disregard of the Government's residual interest.

On the other hand, the regional and decentralized character of the System under a corporate form of organization with a board of directors and executive officers in each of the twelve districts, together with the absence of provision for any direct Governmental appropriations for the support of the Federal Reserve Banks, should be regarded as evidencing an intention that there should be some room for latitude on the part of the local organization in determining what is reasonable and proper in particular circumstances, subject to the general supervision of the Board of Governors.

In the light of these considerations, the Board has reviewed the question of the expenditures which may be considered as more or less directly related to the conduct of the affairs of a Reserve Bank and this letter supersedes and cancels the following letters on the subject:

	Loose Leaf Service
X-4211 dated 12/13/24	------
X-4290 dated 3/16/25	#3180
X-7276 dated 10/20/32	#3182
X-9069 dated 12/28/34	#3183
X-9823 dated 2/19/37	#3184
S-148 dated 3/6/39	#3185
------ dated 7/22/44	#3187

In the attached memorandum specific reference is made to certain types of expenditures.

The Board is confident that the Reserve Banks will exercise their discretion with respect to the expenditures authorized in this letter and the attached memorandum in full recognition of their responsibilities as stewards of public funds. As stated, none of the expenditures need be submitted to the Board in advance for approval. The Board will rely upon its examiners to note such expenditures during the course of their regular examinations and report as to any cases which they feel should be brought to the attention of the Board. If in the review of any such report it appears that a particular expenditure is of a questionable type, the Board will then take the matter up with the particular bank concerned.

[Jan. 16, 1945, S-826-a, Enclosure with S-826]

Memorandum Regarding Certain Types of Expenditures Supplementing Board's Letter of January 16, 1945, S-826

Mementos to retiring directors

The practice of making some appropriate parting presentation is not unusual among corporations and other organizations and the fees received by Federal Reserve directors for attendance at meetings are not large in view of the service which they are called upon to render without other remuneration. Accordingly, the Board considers that the question of what memento or token, if any, should be given to retiring directors in commemoration of their service in the public interest may properly be left to the good judgment of the remaining directors. Reasonable expenditures for this purpose, therefore, will be regarded as meeting with the approval of the Board.

Expenditures for welfare and educational work, etc.

As stated in the Board's letter of December 13, 1924 (X-4211), the Board is of the opinion that Federal Reserve Banks have the right to make appropriations from their funds for the purpose of welfare and educational work among the employees of the respective Banks. They may also pay for official luncheons, dinners, and meetings and for entertainment of local and out-of-town visitors and groups incidental thereto when such entertainment is on an official, rather than a personal, basis.

Such expenditures should be kept within a reasonably low limit. In case of doubt as to whether a particular expenditure is a proper one, the matter should be referred to the Board.

Minor expenditures for testimonials, etc.

Some questions have been raised in the past as to minor expenditures of Reserve Banks for testimonials, floral offerings, and similar purposes. The Board believes that the board of directors of each Reserve Bank should be free to exercise its discretion in authorizing such expenditures in reasonable amounts.

Recognition of long service

Reasonable expenditures for service certificates, pins, emblems, or other tangible marks of recognition of long service may be considered as directly related to the conduct of the Bank's affairs if authorized as part of the employee relations program approved by the directors.

Gifts to retiring employees

Expenditures for gifts to employees at time of retirement are not believed to be proper charges to Bank funds. The institution as such has made provision for the retirement of employees through its payments to the Retirement System and accordingly, the Board does not approve of the expenditure of Bank funds for gifts to employees at the time of retirement.

Expenditures for purposes not directly related to the conduct of the Bank's affairs

In a number of instances the Board has had occasion to state that it can not authorize expenditures of Federal Reserve Bank funds by way of donations to further purposes no matter how worthy which are not directly related to the conduct of the affairs of the Banks. The Board continues in this belief. This position relates to such cases as contributions in response to appeals for national and community welfare and charitable funds.

[May 13, 1946, S–911, *Sec. of Bd. to Chairmen and Presidents of all F. R. Bks.*]

In a letter dated January 16, 1945 (S–826), addressed to the Chairmen and Presidents of the Federal Reserve Banks, the Board reviewed the basic considerations involved in determining what expenditures would be regarded as sufficiently related to the conduct of the affairs of a Reserve Bank to be appropriate for the exercise of its discretion without advance approval by the Board. In the memorandum attached to that letter the Board stated that it continued to be of the belief that it could not authorize expenditures of Reserve Bank funds by way of donations to further purposes, no matter how worthy, which were not directly related to the conduct of the affairs of the Banks. It was further stated that this position applied to such cases as contributions in response to appeals for national and community welfare and charitable funds.

However, several cases involving contributions to community projects have come to the attention of the Board which have caused the Board to feel that it was desirable to attempt a further clarification of its statement of policy.

In one instance, a Reserve Bank was solicited for a contribution toward the cost of a park in a city in which a branch of the Reserve Bank was located to be dedicated as a memorial to residents of the city who had served in the war. The contribution would be at the rate of $40 for each employee of the branch in the military service.

It was obvious, however, that the branch of the Reserve Bank would receive no peculiar benefit, although the park might be of great use and benefit to the people of the community generally. Moreover, it was observed, there might numerous other civic projects throughout the district which might be based upon similar considerations. The Reserve Bank, upon reviewing the questions involved, came to the conclusion that it was not advisable to make the contribution and the Board of Governors concurred.

In another case, a Reserve Bank was asked for a contribution to a fund being raised locally to finance a national contest for the best plan and design for a large memorial which had been authorized by Congress. The project would cover several blocks of a blighted area in the city and the Reserve Bank was located one block from that area. Property owners in the vicinity of the area were being asked to contribute to the fund. Banking institutions, in particular, were contributing, and the Reserve Bank, as a property owner and landlord, felt that it also should participate. The improvement of the area, it was felt, would benefit the employees and other occupants of the Reserve Bank building and the people with whom they dealt. These benefits, however, would not be different from those accruing to others in the general vicinity.

In a third case, a request was made of a Reserve Bank for a contribution to a fund for the construction of a hospital which would serve principally the day-time employees in the business area in which the Bank was located and which would replace two other hospitals. One of the hospitals had been used by the Reserve Bank for medical services for its employees that could not readily be performed by the Bank's medical department, such as X-ray work, emergency services, and compensation cases, and it was felt that the value of the hospital facilities to the Bank's employees would be greatly enhanced by the new building. Substantial contributions were being made by commercial banks in the general area served by the hospital. The proposed contribution, however, would not entitle the Bank or its employees to any special benefits or privileges different from those that would be available to any one else. It was also understood that none of the Governmental agencies in the vicinity could make, or had made, any contribution.

The latter two cases especially presented difficult questions in view of the discretion with respect to expenditures which has been left to the Board and the Federal Reserve Banks under the terms of the Federal Reserve Act and the fact that the law places the Federal Reserve Banks in a different position from that of Governmental offices in the cities in which Federal Reserve Banks and branches are located. This difference is recognized by the provisions of the Act which make Federal Reserve Bank buildings subject to taxation and which, as stated in the Board's letter of January 16, 1945, evidence an intention on the part of Congress that there should be some room for latitude on the part of the Banks as corporations in determining what is a reasonable and proper expenditure in particular cases. The Board has also recognized the difference in approving expenditures by the Reserve Banks for hospitalization and surgical benefits for employees which are not available to employees in the field offices of the Government.

Notwithstanding these considerations however, the Board can not escape the conclusion that, because of the special relationship between the Federal Reserve Banks and the Government and the Government's residual interest in the assets of the Federal Reserve Banks, careful consideration must be given to what should be regarded as "necessary expenses" under Section 7 of the Federal Reserve Act, and that in determining the policy to be followed in these matters, the limitations on local Governmental offices should be borne in mind. Contributions of the types referred to above would be primarily for purposes of local community welfare, and local offices of the Federal Government are not authorized to make such expenditures. The Board feels that contributions of this kind are not for a purpose so directly related to the conduct of the affairs of the Federal Reserve Banks as to justify their being regarded as "necessary expenses" and accordingly that they should not be made by the Reserve Banks.

[Mar. 21, 1962, S-1439, *Sec. of Bd. to Presidents of all F. R. Bks.*]

One of the matters taken up with the Board of Governors at the time of the last Presidents' Conference was the suggestion that the Board give consideration to the possibility of changing the position which it had taken in the past and authorize the Federal Reserve Banks to make contributions to such organizations as Community Funds, Red Cross, and hospitals, such contributions to be at the discretion of their own Boards of Directors and in conformity with whatever broad directive the Board might issue.

As you know, this matter has been presented to the Board on a number of occasions. It was thoroughly reviewed in 1945 when its letter of January 16, 1945, S-826, was sent to the Chairmen and Presidents of all the Federal Reserve Banks. Subsequently, requests were received by Federal Reserve Banks for contributions of this kind and, after reviewing the matter again, the Board came to the conclusion that the existing policy should not be changed. The Chairmen and Presidents of the Federal Reserve Banks were so advised in the Board's letter of May 13, 1946, S-911.

In 1950 one of the Federal Reserve Banks, in a thoughtfully worded letter, raised the question with the Board again and after reviewing the problem thoroughly the Board replied as follows:

> In support of your proposal, you comment that with respect to such contributions the Reserve Banks do not differ greatly from other Federal and State-chartered institutions which recognize their community responsibilities in this manner. We recognize that in the communities in which the Reserve Banks are located, the public may tend not to distinguish between the Reserve Banks and other banks and business concerns which make such contributions, and that there may be some feeling that the Reserve Banks are shirking their responsibilities. We continue to believe, however, that the nature of the organization, purposes, and operations of the Reserve Banks is such as to make it very difficult, at best, to find a direct relationship between contributions for community welfare and the conduct of the affairs of the Reserve Banks which would justify a conclusion that the contributions are necessary expenses of the Reserve Banks; and it seems

to us that there is a substantial difference between the Reserve Banks and commercial banks in this respect. In addition, the residual interest of the Government in the assets of the Reserve Banks and the disposition which is now being made of their earnings, raises further doubt as to the propriety of contributions by the Reserve Banks which are not made by Government agencies.

You also point out that express statutory authority has been given to national banks and to (State chartered) corporations to make contributions of this nature. The fact that such specific authority was considered necessary in the case of national banks is itself a reason for questioning the authority of the Reserve Banks to make these contributions in the absence of a similar authorization. Moreover, you will recall that the original bill to authorize national banks to make such contributions contained a provision authorizing contributions by the Reserve Banks, but this provision was omitted from the bill which was finally enacted. In order to take a liberal position today with respect to contributions by the Reserve Banks it would be necessary to disregard this legislative history, as well as the long-established position of the Board which might be considered an administrative interpretation of the law.

While the question concerning the legal authority of the Reserve Banks to make these contributions cannot be answered with finality and there may be well-founded differences of opinion with respect to it, we believe that it is essential that a uniform position be taken by the Reserve Banks. Differences in policy among the Reserve Banks or the fact that a particular Reserve Bank made contributions in certain cities or for certain purposes and did not make other contributions would invite questions by the public and by Congress.

The absence of other governmental controls and supervision under existing law places upon the Board and the Federal Reserve Banks a peculiar responsibility to be certain that any expenditures are clearly authorized by law and to be able to justify fully any item which may be questioned.

In view of the foregoing, the Board, while sympathetic with the motives which prompted your request, does not believe that it should depart from the position which it has taken in the past.

It is realized that the Federal Reserve Banks may have some difficulty in explaining the unique position they occupy in the local community and why they are different from local banks and business concerns. However, in view of the considerations set forth above, the Board does not believe that it should depart from the position it has taken in the past.

[Feb. 6, 1958, S–1647. *Chairman of Bd. to Chairman and President of all F.R. Bks.*]

As you know, the question of expenditures by the Federal Reserve Banks for membership dues and contributions has been considered and has been the subject of discussion during the past year by the Conference of Chairmen, the Conference of Presidents, and the Board, both severally and jointly.

As a result of these discussions, the Board believes that there is a mutual understanding of the problem of handling such expenditures with due regard to the public-interest aspect of the Federal Reserve System, the general supervisory responsibilities of the Board, the regional character of the Federal Reserve Banks, and the responsibilities conferred upon the Bank Directors by Section 4 of the Federal Reserve Act. It is recognized that certain expenditures might be very appropriate in a purely private business but would be inappropriate in the case of a Federal Reserve Bank in view of the public nature of its funds and operations.

The Board feels that there is also mutual and general understanding throughout the System that expenditures for membership dues and contributions should conform to the general policy on "Discretionary Expenditures" as set forth in Item # 3187 of the Federal Reserve Loose-Leaf Service, and that memberships at Bank expense should be limited to those which can be justified either by the activities of the organization or by the benefits received by the Reserve Bank.

In view of these understandings, the Board believes that there is no need at this time for it to make a further delineation between appropriate and inappropriate expenditures, and that the interests of the System will be properly served if the Officers and Directors of the Individual Reserve Banks exercise their discretion to determine whether expenditures for membership dues and contributions are appropriate and "necessary expenses" within the meaning of Section 7 of the Federal Reserve Act.

The Board also believes that it will be helpful, both to the Directors and to the Board, in reviewing proposed expenditures for membership dues and contributions to have future budget material include a list of the number and amount of such expenditures, and the justifications therefor. Accordingly, the Board's Accounting Manual will be revised as indicated in the attachment hereto.

Again, I would like to express the Board's appreciation for the interest that has been taken in this matter by the Directors and Officers of the Federal Reserve Banks. The progress that has already been made in eliminating doubtful items has been noted with particular gratification.

This letter is being sent to both the Chairman and the President of each Federal Reserve Bank.

[Oct. 2, 1958, S–1673, *Vice Chairman of Bd. to Presidents of all F.R. Bks.*]

This concerns the memorandum dated June 17, 1958, submitted by Mr. Erickson, Chairman of the Conference of Presidents, to the Board of Governors regarding the use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve Banks. It will be recalled that this memorandum was submitted following discussion of this matter at the Joint Meeting of the Board and the Presidents on June 17.

The memorandum stated that "it is the unanimous opinion of the Presidents that inclusion of wives and husbands of Federal Reserve employees at appropriate Bank functions, such as A.I.B. conventions, Federal Reserve Bank annual dinners, Christmas parties and similar affairs, is an integral, necessary and highly desirable part of the Reserve Banks' personnel relations programs." The memorandum further stated that "the Presidents feel that a prohibition of this type of expenditure would not only work hardships on personnel activities but would restrict the Reserve Banks in filling their proper roles in the banking community."

In line with the general views set forth with regard to "Discretionary Expenditures" in Item #3187 of the Federal Reserve Loose-Leaf Service, the Board believes that due consideration should be given to the public interest aspect of the Federal Reserve System when use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve Banks is contemplated, and that expenditures of this nature should be limited to those which can be justified by the benefits received by the Reserve Bank and the Reserve System.

In the case of annual dinners, Christmas parties and similar affairs given by a Reserve Bank for its *own employees*, the Board agrees that the inclusion of the wives and husbands of the Bank's employees (and guests of unmarried employees) is a necessary and desirable part of the personnel relations program, and results in benefits to the Bank concerned.

The Board is of the opinion, however, that any benefits derived from dinner parties given outside of the Bank for delegates from other Federal Reserve Banks, and their wives, attending conventions of organizations such as the American Institute of Banking would not be sufficient to justify the expenditure.

[May 11, 1961, S-1791, *Asst. Sec. of Bd. to Presidents of F.R. Bks.*]

As you know, Reserve Bank budget items for membership dues and contributions have been of particular concern to the Board in recent years. The interest and cooperation of the Reserve bank presidents and their boards of directors in reviewing these expenditures have been most helpful. Considerable progress has been made in minimizing the potentiality for criticism in this sensitive area.

In reviewing budget performance records for 1960, however, a new trend has been noted that might undermine some of the good already accomplished. Some payments that were budgeted in prior years under membership dues or contributions have now been reclassified in other expense categories. For example, in 1960 one Reserve Bank reclassified its payments to the following organizations and eliminated them from the supplementary statement of membership dues and contributions.

National Industrial Conference Board
Urban Land Institute
Policemen, firemen, and postal clerks associations

The Bank advised that after some deliberation the payments to the NICB and the Urban Land Institute were considered to be de facto subscriptions to the publications of these organizations. It considered disbursements to the policemen, firemen, and postal clerks associations to be payments for services rendered.

There is considerable merit to the view that payments to organizations such as the NICB do not fit exactly the definition of membership dues inasmuch as they do enable a Reserve Bank to receive certain publications not otherwise available. Nonetheless, the Board feels that payments of this type should be included in the supplementary statement of membership dues and contributions to avoid any possible interpretation of an effort to cover up such expenditures.

Similarly, the Board recognizes that there may be local situations where contributions to groups or associations of public service employees might be considered "payments for services rendered." Previous reviews of such payments, however, have indicated that these services would be performed without such contributions and, in fact, most Reserve Banks do not make them. Where such payments are made, it is important that they be shown as a contribution and included in the supplementary budget statement.

It may well be that there are other instances of a similar nature that have not come to the Board's attention. Once payments are deleted from the supplementary statement, it is difficult to trace specific items. It would be appreciated, therefore, if in preparing their 1962 budgets the Reserve Banks would include all membership dues and contributions in the supplementary statements. The Board will be glad to discuss any questions concerning items about which there may be some doubt as to whether they should be included.

#3188. Rental and release of outside space.

[Mar. 25, 1943, S–625, *Sec. of Bd. to Presidents of all F. R. Bks.*]

Recently a number of the Federal Reserve Banks and Branches have found it necessary, in view of expanding operations, to rent outside space.

Some of the Federal Reserve Banks have written the Board of such developments, but in order that information of this nature may be currently available, it is requested that in the future the Board be informed of leases entered into for the rental of outside space, including space used exclusively for fiscal agency activities, and of any case in which a building owned by the Bank but previously rented to outsiders is taken over by the Bank. The release of any such outside space should also be reported to the Board.

In this connection, it will be appreciated if you will submit a statement as to all outside space now occupied by your Bank and its Branches, showing the address, monthly or annual rental, number of square feet of space, and activities housed in such space.

[April 11, 1961, S–1789, *Sec. of Bd. to Presidents of F. R. Bks.*]

This supersedes the Board's letter of March 25, 1943 (S–625; F.R.L.S. #3188), which requested information regarding rental of outside space by the Reserve Banks. The Board now feels that information concerning space in Bank-owned buildings rented to tenants should also be obtained.

Accordingly, it is requested that in the future the Board be informed of (1) leases entered into for the rental of outside space, including space used exclusively for fiscal agency activities, and (2) of space within a Bank-owned building leased to tenants. Renewals and terminations of leases should also be reported to the Board.

In connection with space leased for Bank use, data submitted should show location, monthly or annual rental, number of square feet of floor space or cubic feet of vault space, use of such space, and expiration of lease. Concerning space occupied by tenants in Bank-owned buildings, please show name of tenant, number of square feet of space, monthly or annual rental, and expiration of lease.

#3188.1. Leasing space in Federal Reserve buildings to outside tenants.

[June 12, 1953, *Sec. of Bd. to Presidents of all F. R. Bks.*]

The question of leasing space in Federal Reserve buildings to outside tenants has arisen in connection with planning new branch buildings. Recently the Board had occasion to consider in an individual case whether, because of the nature of the business, a prospective tenant would be a suitable one for a Federal Reserve building.

The Board has taken the position that in new Federal Reserve buildings—and this is also applicable, wherever practicable, to new additions to existing buildings—the design should be such that unused space could be leased to outside tenants. The Board believes that this is in accordance with sound business judgment.

This is not to imply, however, that space reserved for future expansion or other space not needed for current operations should necessarily be rented out. In some cases it might be preferable to close off the reserve space. Either course, it is believed, would be preferable to extravagant use of space which would properly subject the Bank or branch to criticism.

In connection with the question of tenants, the Board is of the opinion that, as a general policy, space in a Federal Reserve Bank building should not be rented to banks, savings or loan associations, investment houses, security dealers, or other similar financial organizations dealing with the public.

In view of the building programs now under consideration at the Federal Reserve Banks and branches it appears desirable that the Board's views on these matters be made known to all Federal Reserve Banks.

[Dec. 7, 1959, *Sec. of Bd. to Presidents of all F. R. Bks.*]

The Board's letter of June 12, 1953 (F.R.L.S. #3188.1) concerns the leasing of unused space in new Federal Reserve Bank buildings or additions pending need of such space for bank operations.

Recently a question was raised whether there would be any objection to finding tenants through real estate brokers.

While each situation should be decided on its own merits, and in some instances it might be necessary as a last resort to pay real estate commissions, the Board is of the opinion that in general it would be preferable for the Reserve Banks to obtain their own tenants.

[April 11, 1961, S–1789, *Sec. of Bd. to Presidents of F. R. Bks.*]

This supersedes the Board's letter of March 25, 1943 (S–625; F.R.L.S. #3188), which requested information regarding rental of outside space by the Reserve Banks. The Board now feels that information concerning space in Bank-owned buildings rented to tenants should also be obtained.

Accordingly, it is requested that in the future the Board be informed of (1) leases entered into for the rental of outside space, including space used exclusively for fiscal agency activities, and (2) of space within a Bank-owned building leased to tenants. Renewals and terminations of leases should also be reported to the Board.

In connection with space leased for Bank use, data submitted should show location, monthly or annual rental, number of square feet of floor space or cubic feet of vault space, use of such space, and expiration of lease. Concerning space occupied by tenants in Bank-owned buildings, please show name of tenant, number of square feet of space, monthly or annual rental, and expiration of lease.

#3189. Employee hospitalization and surgical benefits.

[Mar. 11, 1946, *Sec. of Bd. to Presidents of all F. R. Bks.*]

The Board of Governors approves the general program as recommended by the Presidents' Conference under which each Federal Reserve Bank would assume two-thirds of the cost of providing hospitalization and surgical benefits through individual, husband and wife, or family membership, as the case may be, in the Blue Cross Association or Associations (or other comparable nonprofit organizations) of its district for each of its officers and employees who may wish to avail himself of the privilege.

The Board is prepared, therefore, to consider such proposals under the above program as the directors of the respective Federal Reserve Banks may approve. In submitting a proposed program, please accompany it with a schedule of the benefits and costs and an estimate of the annual expense to the Bank.

[Aug. 19, 1952, *Sec. of Bd. to Presidents of all F. R. Bks.*]

In the Board's letter of March 11, 1946, the Federal Reserve Banks were advised that the Board had approved payment by the Federal Reserve Banks of two-thirds of the cost of hospitalization and surgical benefits of a group hospitalization program.

In line with this letter, the Banks submitted their plans for the Board's approval together with the estimated costs. Subsequent changes in benefits and costs have likewise been submitted to the Board.

In some instances recently, Federal Reserve Banks have submitted to the Board relatively minor increases in the costs of such plans. In each of these instances the increased cost had been initiated by the Blue Cross organization, entailed no significant benefit increases, and left the Bank no alternative but to pay the increased rate or withdraw from the group.

Where these circumstances exist, it is not necessary for the matter to be submitted to the Board of Governors for its consideration. However, it will be appreciated if you will advise the Board of any change in benefits and costs in order that we may have current information with respect to these items.

It is assummed that your Bank will obtain such clearance as is necessary from the proper stabilization authorities.

#3190. Major medical plan for Reserve Bank employees.

[June 2, 1959, S–1699, *Sec. of Bd. to Presidents of all F. R. Bks.*]

The Board of Governors approves the major medical plan for the Federal Reserve Banks as presented by the Presidents' Conference on May 26, 1959, including the payment of two-thirds of the premium cost for their officers and employees, effective as soon as necessary arrangements are completed. Enclosed is a summary of the principal features of the plan for which Board approval is given.

In the interests of maintaining a uniform approach, it is understood that all Federal Reserve Banks will keep their programs within the maximum benefits provided under the approved plan.

#3191. Electronic equipment. Report on cost. Budgeting.

[Nov. 16, 1961, S-1816, *Sec. of Bd. to Presidents of F. R. Bks.*]

The movement of the Federal Reserve Banks toward the acquisition of computers and electronic check processing equipment has prompted the Board to re-examine the procedures under which expenditures for such equipment are reported to it. While some Banks have voluntary submitted to the Board rather complete information regarding their proposals to purchase or rent data processing equipment, there is now no stated requirement for such submissions. Under the present budgetary procedure, expenditures for this purpose need only be tentatively provided for in the budget for furniture and equipment purchases or rentals if they are anticipated when the budget is prepared or subsequently explained in the budget experience report if they were incurred without having been provided for in the budget.

In view of the costly nature of electronic equipment, the Board believes that it should be fully informed, before any firm commitments are made, as to the considerations leading to a decision to purchase or rent such equipment. Experience indicates that the present budgetary reporting procedures are not entirely satisfactory in this regard, mainly because the desired information is not available when the budget is prepared and the Board therefore does not always have an opportunity to give the matter appropriate consideration before the expenditures are made.

Under somewhat similar circumstances, the Board has stipulated that its approval of budgetary provisions for major repairs and alterations to Bank buildings should not be construed as approval of the building project and that the Board should be advised specifically of such projects before they are undertaken.

The Board recognizes that the primary responsibility for decisions with respect to the use of electronic equipment rests with the management of each Reserve Bank, and it has no intention of minimizing this responsibility. The Board feels, however, that a procedure generally similar to that followed for building projects would be desirable in connection with proposals to rent or purchase costly electronic equipment.

Accordingly, it will be appreciated if your Bank will hereafter—

(1) Continue to make the usual budgetary provision for all purchases or rentals of furniture and equipment that can be foreseen when the budget is prepared.

(2) Advise the Board specifically, before making commitments that cannot be withdrawn without penalty to the Bank, of intentions to acquire any unit or system of office equipment having a purchase price of as much as $50,000 or a rental cost of as much as $4,000 per month. The information in this connection should

indicate the kind and cost of the equipment, the benefits expected from its acquisition, and the effect it will have on operating expenses. Such information might well be a summary of the material presented to the Bank's board of directors at the time the acquisition was approved.

(3) Observe the foregoing procedures in any case where a decision has been made to purchase equipment that was previously acquired on a rental basis.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., April 10, 1963.

DEAR SIR: In its letter of November 16, 1961 (S. 1816) the Board requested that it be advised specifically before any Reserve bank made a firm commitment for the acquisition of any unit or system of office equipment having a purchase price of as much as $50,000 or a rental cost of as much as $4,000 per month. At that time this arrangement was felt to be desirable because of a belief that neither the budget nor functional expense reporting procedures were adequate to provide the Board with sufficient information concerning contemplated acquisitions of costly electronic equipment.

Since 1961, however, the budgets have been changed from an annual to a semiannual basis; the functional expense reports have been expanded to show in each function all of the important costs applicable thereto; all of the Reserve banks now have data-processing computers, and all of them have also received the Board's approval to acquire at least one unit of electronic check-processing equipment; and the economic feasibility of selected applications of electronic equipment has been demonstrated and the banks have gained considerable experience in this field. In the light of these developments the Board is now of the opinion that there is no longer any necessity for it to be advised before commitments are made to acquire any office equipment.

Accordingly, special advice of contemplated office equipment acquisitions, as requested in the Board's letter of November 16, 1961, may be discontinued. In the future the Board will rely on the budget reports for information concerning contemplated acquisitions of major units of office equipment, and on the functional expense reports for information with respect to the effectiveness of the use of such equipment. As indicated in its earlier letter, the Board believes that the primary responsibility for decisions concerning the use of electronic equipment rests with the management of each Reserve bank, and it assumes that careful attention will continue to be given to such matters.

For the reasons set forth above, the Board's letter of November 16, 1961 (S. 1816), is revoked.

Very truly yours,

MERRITT SHERMAN,
Secretary.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, D.C., June 21, 1955.

DEAR SIR: The Board expects to review again with the Presidents while they are in Washington certain expenditures of the Federal Reserve banks. A copy of a self-explanatory letter being sent to the chairman of the Presidents' conference in this connection is attached.

Sincerely yours,

WM. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
June 21, 1955.

Mr. C. S. YOUNG,
Chairman, Conference of Presidents, care of Federal Reserve Bank of Chicago, Chicago, Ill.

DEAR MR. YOUNG: The Board recognizes that it is difficult to lay down hard and fast rules to distinguish between appropriate and inappropriate expenditures. The Board continues to feel that decisions on certain Federal Reserve bank expenditures should be guided by the general principles set forth in its letter of January 16, 1945 (S. 826). These principles recognize that Federal Reserve banks have a special relationship to the Government. Unlike privately owned corporations, Federal Reserve banks were established by the Congress to perform essential public functions. Reserve bank expenditures, as of course you know, cannot be viewed in the same light as those undertaken by private enterprises.

The Board is strongly of the viewpoint, as stated at meetings of the chairmen's and Presidents' conference, that the Federal Reserve banks themselves have primary responsibility for determining the appropriateness of expenditures and that they should be prepared to justify expenditures. As the Board stated in the 1945 letter, however, Congress has placed upon the Board a measure of responsibility for reviewing expenditures of the Federal Reserve banks.

Attached to the 1945 letter was a memorandum specifically referring to certain types of expenditures which could be incurred without the approval of the Board. The letter concluded with the statement that the Board was confident that the banks would exercise their discretion in full recognition of their responsibility as stewards of public funds and that the Board would rely on its examiners to comment in reports of examination on any expenditures which they felt should be questioned. The memorandum mentioned such matters as mementos for retiring directors, expenditures for welfare and educational work, minor expenditures for testimonials, recognition of long service, gifts to retiring employees, and expenditures for purposes not directly related to the conduct of the banks' affairs.

The procedures outlined above have worked satisfactorily and there have been few occasions when the Board has thought it necessary to question specific expenditures. While the Board sees no objection to paying reasonable costs of luncheons and dinners given in connection with meetings of directors and other appropriate meetings arranged by the Federal Reserve banks, it questions the appropriateness of expenditures for professional entertainment, tickets for the theater and similar outlays.

At the forthcoming meeting with the Presidents the Board would like to review this subject again with a view to reaching a more definite understanding with respect to expenditures of this type.

A copy of this letter is being sent to the chairman of the respective Federal Reserve banks.

Sincerely yours,

WM. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, D.C., December 21, 1956.

DEAR SIR: At the recent conference of chairmen, I expressed the Board's concern about the variety and nature of some of the provisions in the 1957 Federal Reserve bank budgets for membership dues and contributions. I also referred to this matter in the recent letters to the presidents of the Federal Reserve banks regarding the 1957 budgets. The Board's concern is that all such expenditures reasonably qualify as "necessary expenses" within the meaning of section 7 of the Federal Reserve Act.

For example, payments to the American Institute of Banking in connection with the development of employees are regarded as appropriate. However, the Board feels that there are questions as to amount or type of some of the other contemplated expenditures. As background for this letter and to show the wide variety in type and amounts which has caused the Board's concern, I am enclosing a memorandum listing the budget provisions of the Federal Reserve banks for membership dues and contributions during the coming year.

Expenditures for membership dues and contributions come within the general category of "discretionary expenditures," and the Board's policy with respect to this general subject is outlined in No. 3187 of the Federal Reserve looseleaf service. The paramount criterion in considering such proposed expenditures is the unique nature of the Federal Reserve banks, rather than the practice of commercial banks and other organizations in the community.

Since the Board's policy as outlined in No. 3187 of the Federal Reserve looseleaf service does not specifically refer to membership dues, the following guides regarding such expenditures are suggested:

1. Reserve bank expenditures for memberships should be limited to those organizations whose purposes are directly related to the work of the Reserve bank, or organizations in which the bank should be represented, such as appropriate financial, business, and agricultural organizations. This principle applies regardless of whether the membership is in the name of the bank or an individual.

2. Individual memberships in general professional associations should be regarded as personal memberships at the expense of the individuals, as distinguished from individual memberships in associations which arise out of employment at the bank and are appropriate expenses of the bank.

Examples of the personal type of memberships are national, State, and local bar and medical associations; American Economic Association; American Statistical Association; Institute of Accountants, etc.

A membership in such an organization, however, could be regarded as an appropriate bank expense, if membership is necessary to obtain desired publications for the use of the bank.

Examples of membership arising out of employment at the bank are memberships in credit, personnel, management, and bank auditors' associations; Industrial Nurses Associations, etc.

3. Memberships in social, college, luncheon clubs, and other such organizations should be personal expenditures, as it is difficult to see how they are appropriate uses of Federal Reserve funds, even though it is recognized that the bank may derive some indirect benefits from such memberships.

After you have had a chance to discuss this matter at a meeting of your directors, the Board will appreciate any comments you may care to make and your advice as to any action concerning the proposed expenditures at your bank.

A copy of this letter is being sent to the president of the bank for his information.

Sincerely,

WM. McC. MARTIN, JR.

JUSTIFICATION NO. 1

Advisory service—Jarvis & Fisher, Inc.

This service provides specialists on a consulting basis in the field of workmen's compensation and unemployment compensation under the Ohio and Pennsylvania State laws. For our purpose, it is much less expensive to employ such a consultant than to retain such a qualified person on our payroll.

JUSTIFICATION NO. 2

Federal Advisory Council—Justification for expenses

Section 12 of the Federal Reserve Act provides for the creation of a Federal Advisory Council, the members of which are selected annually by the board of directors of each Federal Reserve bank. The act provides that the members of the Federal Advisory Council shall receive such compensation and allowances as may be fixed by their respective boards of directors subject to the approval of the Board of Governors.

Meetings of the Council are held in Washington, D.C., at least four times each year, and oftener if called by the Board of Governors. The act further provides that the Council may, in addition to the meetings above, hold such other meetings in Washington or elsewhere as it may deem necessary, and may select its own officers and adopt its own methods of procedures.

The Federal Advisory Council has the power, as provided in the Federal Reserve Act, by itself or through its officers to—

1. Confer directly with the Board of Governors of the Federal Reserve System on general business conditions;
2. Make oral or written presentations concerning matters within the jurisdiction of the Board; and
3. Call for information and make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by Reserve banks, open market operations by said banks and the general affairs of the Reserve banking system.

The fees and allowances for members of the Federal Advisory Council have been approved by the Board of Governors and the directors of this bank, and are comparable to those fixed for the directors of Federal Reserve banks. The representative from the Fourth Federal Reserve District is usually invited to attend joint meetings of our boards of directors.

An annual payment of $450 is made by each Federal Reserve bank to cover the expenses of the secretary's office of the Federal Advisory Council.

The Council is strictly an advisory body to the Board of Governors. The members are usually resident bankers in the districts from which they are selected. The Council constitutes a link between the Board and representatives of banking in the 12 Federal Reserve districts.

JUSTIFICATION NO. 3

Medical program for employees

All prospective employees must meet certain minimum standards of health, and current employees receive periodical health examinations to detect any illnesses in early stages, permitting the employees to seek medical treatment before an illness may become a major sickness. Minor illnesses are taken care of by a doctor or nurse to minimize absences that might otherwise occur. Chest X-rays to detect tuberculosis are arranged for employees through county facilities which are free at Cleveland and Pittsburgh but require a nominal charge to the bank at Cincinnati.

The bank provides these services on its premises with nurses in attendance during daytime working hours and a doctor in attendance at each office on a partial-day basis. In addition, the medical departments provide medical services in emergencies and, if hospitalization is necessary, transport the sick or injured to a hospital by the best means available.

This program benefits the bank by tending to reduce turnover and absenteeism, and eliminates the possibility of placing individuals in jobs for which they are physically unfit. It also reduces the possibility of injury claims being filed against the bank.

JUSTIFICATION NO. 4

Consultant service—James A. Davidson & Associates

This firm was retained to make a preliminary study of our eating facilities. Breakdown of kitchen equipment, much of which is over 40 years old and for which replacement parts can no longer be obtained, required the review of an expert in the food service field. The bank benefited by getting an unbiased report of our facilities with recommendations and specifications for replacements of equipment and rearrangement for efficiency of operations.

JUSTIFICATION NO. 5

Architect's services

It is sound business procedure to engage the services of competent architects and engineers when extensive additions, alterations or repairs to buildings are contemplated rather than attempt to deal directly with contractors. Our building managements are not trained professionals in this area and must rely upon the advice of the architect. The architect's services include preliminary and final drawings, cost estimates, specifications, obtaining bids for specifications and inspection to determine that specifications have been observed.

The following are some of the projects for which fees were paid in the period covered.

Main office

Assembly room.—Constructed to provide a meeting room for a maximum of 95 people. Meetings conducted by this bank are held for bankers, businessmen, economists, educators, scholars, and the bank's own staff. No regular meeting room was available and arrangements were always on a makeshift basis. This room was designed and constructed to meet this urgent need.

Fallout shelter.—In order to carry out emergency responsibilities asigned to this bank under Executive Order No. 10480 and consistent with Government policy to make shelter areas available in present buildings wherever possible, certain areas of this bank, which are below street level, were prepared for use by employees as a shelter area if an emergency should occur. The plan does not interfere with the day-to-day operation of the departments located in the areas reserved for use as a shelter area during emergency periods. Services of the architects were required in connection with ventilating, plumbing, and electrical problems including standby generating equipment.

Tenants' quarters.—Because of the arrangement of private offices and conference rooms in the area used by the Appellate Division of the Internal Revenue Service, it was necessary to have the architects plan a rearrangement of air ducts in order to get a more effective flow of air.

Roof and flashing.—In 1962, it was necessary to replace the roof and flashing which had been installed in 1923 because of the development of leaks which were causing internal damage. It was not economical to do any further patching. The architects drew plans and specifications and followed with inspections to make certain the specifications were observed.

Rockwell entrance.—The only vehicle entrance into this building is from Rockwell Avenue into our security court which has been unchanged since 1923. The road is too narrow and lacks overhead clearance for many present-day vehicles. This requires trucks and automobiles to make a wide sweep into Rockwell Avenue when entering, which creates traffic problems. The architect has made preliminary plans for widening the entrance and for providing additional head room on the ramp.

Guard station No. 5.—The protection department headquaters is the heart of our security program because all signal devices, alarms, and similar equipment are located there. There are only two possible entrances to this area, one of which is protected by an armorplate, bullet-resistant glass pass-through. Guard station No. 5 was designed and constructed to give similar security to the second point of entrance.

Steam return and corrosion investigation.—Corrosion was taking place in the live and return steam lines which would be destructive to pipes, if permitted to continue, in addition to causing blocked traps, valves, etc. The architects, working with the manufacturer of the steam, recommended an amine coating process which would gradually disintegrate the corrosion which had been formed. They designed the necessary plumbing for injecting the amine solution.

NCR room, third floor.—The architect's services included the plans for installation of a transformer and wiring and appropriate ventilation for the installation of a complement of National Cash Register equipment to process checks encoded with magnetic ink, as well as to provide for additional complements as delivered.

Cincinnati branch

Remodeling oil storage and civil defense program.—Architect's fee in connection with installation of four combination gas and oil boilers which replaced two obsolete stoker-fired coal-burning boilers in use since 1927, and alterations for various purposes.

Water tank, diesel exhaust, pipe extension.—Architect's fee in connection with modification of existing exhaust from diesel generator to comply with city ordinance.

Coin room motor vibration study.—Study made to eliminate vibration in basement slab of our coin division caused by air conditioning equipment and to check our coin division floor from structural weakness evidenced by a separation in the floor.

Building washrooms.—Architect's fee in connection with renovating and remodeling of all washrooms in building to maintain value of building and improve employee and tenant relations. Fixtures obsolete and plumbing defective.

Rifle range.—Architect's fee in connection with study of target range construction for training guards in more efficient use of firearms and protection of property.

Air conditioning coin room.—Engineer's fee in connection with replacement of worn out air-conditioning equipment on basement floor.

Fourteenth floor sewer line.—Architect's fee in connection with correction of faulty plumbing and unsanitary condition.

JUSTIFICATION NO. 6

Conference of Presidents

The Conference of Presidents of the Federal Reserve banks is a nonstatutory organization within the framework of the Federal Reserve System. The Presidents meet approximately every 3 months, more frequently if necessary, in Washington, D.C., to confer on mutual problems of the Federal Reserve banks and the System. The objective of the Conference is to seek continuous improvement in and coordination of Reserve bank operations. The conclusions on the Conference may be discussed with the members of the Board of Governors and, where appropriate, are submitted to the Board in the form of recommendations for Board action.

The Presidents' Conference works through its standing Committees and Subcommittees. Each President is assigned the chairmanship of one of the standing Committees and also serves as a member of other Committees. These include the Committees on Bank Supervision, Research and Statistics, Collection and Accounting, Discounts and Credits, Legislation, Emergency Operations, Fiscal Agency Operations, Bank Relations and Public Information, Systems and Procedures, Personnel, and Miscellaneous Operations. The Committees provide guidance and direction to their respective standing Subcommittees comprised of officers from the 12 Federal Reserve banks. Meetings of the Subcommittees are generally held at the Federal Reserve banks or the Federal Reserve Building in Washington, D.C. Reports of the Committees and Subcommittees are submitted to the Presidents for their consideration and discussion at the next meeting of the Conference.

Secretary to Conference of Presidents

The secretary is appointed by the Chairman of the Conference to serve for a 1-year term. The responsibilities of the secretary include preparing meeting agenda and minutes and maintaining the Conference's files. The secretary's expenses include payment for an extra room at the hotel which is used by the Presidents and Conference Committees for meetings and discussions held before and after the Conference meetings at the Board of Governors.

COMMITTEES

Membership on the various Committees consists of representatives from the Reserve banks. Some travel expense is necessary when meetings are held.

Committee on Emergency Operations

The Committee has the responsibility for suggesting and coordinating System emergency plans and programs, and the emergency organization structure required for all of the Reserve banks. This relates to the responsibility of the Board of Governors for the development of national security preparedness measures relating to monetary and bank credit policies and programs as outlined in the President's Executive Order 11094 of February 26, 1963, which superseded Defense Mobilization Order I–20 of February 1956.

This Committee is assisted in the performance of this work by its Subcommittee on Emergency Operations. Mr. Clyde Harrell, Vice President in charge of the Pittsburgh branch of this bank, has, for a number of years, served as the Chairman of this Subcommittee. In this capacity, it is necessary for him to meet with the other members of the Subcommittee to discuss matters pertaining to emergency preparedness of the Federal Reserve and member banks. These trips are necessary in fulfilling the System's obligation as outlined in the aforementioned Executive order.

Insurance Committee of Federal Reserve banks

The Insurance Committee of the Federal Reserve banks is a System Committee consisting of 1 representative and 1 alternative from each of the 12 Federal Reserve banks. It is the purpose of the Committee to consider common problems of the 12 Reserve banks relating to their acquisition and maintenance of insurance coverage or, where appropriate, to agreements among the Reserve banks to self-insure certain risks.

Subcommittee on Electronics

The Subcommittee on Electronics deals with the problems of using sophisticated electronic equipment intended to increase the efficiency (subject to economic considerations) of the operations of the Reserve banks. The travel expense under review was necessary to attend a meeting of the Subcommittee, held at another Reserve bank, for the purpose of considering various aspects of a study on the performance, capability and feasibility of proposed automatic currency sorting and counting equipment.

Ad Hoc Subcommittee on Rationale Underlying System Relationships with Member banks

The meeting of the subcommittee held May 3, 1963, at the Federal Reserve Bank of Chicago, Chicago, Ill., was held pursuant to the instructions of the conference of Presidents of the Federal Reserve System.

The specific assignment of the subcommittee was to consider:

1. The need for changes and improvements in the manner in which the Federal Reserve banks conduct their operating relationships with commercial banks.

2. What rationale should be used in determining whether services to, and relations with, member banks are appropriate.

The following committees, conferences, and seminars are not directly responsible to the conference of Presidents, but operate within the Federal Reserve System.

Federal Open Market Committee

The President of this bank regularly attends the meetings of the Federal Open Market Committee and participates in the deliberations that are involved in the making of monetary policy. Practice is for the Vice President in charge of research to accompany the President to such meetings. The Vice President aids the President in keeping informed on international, national, and regional business and financial developments. When the President is a member of the Federal Open Market Committee (alternate years), the Vice President serves as an associate economist of the committee.

Research Advisory Committee

This Committee is comprised of the directors of research of all Federal Reserve banks and research officers of the Boards of Governors; it often meets following the meeting of the Federal Open Market Committee. The Committee is responsible for supervising assignments and projects undertaken by all other System research committees. It reviews recommendations made by other committees in the research area. It also discusses economic developments and problems and their relationship to monetary policy.

System Committee on Call Reports

This Committee was established as an ad hoc committee of the System Research Advisory Committee and meets periodically. The purpose has been to investigate the problems associated with changes likely to be made in the frequency and detail of the call report. The work of the Committee is specifically focused on the data needs of the Federal Reserve System and the reports that will be needed from member banks to offset possible gaps in banking data.

System Committee on Education and Publications

This Committee meets periodically and includes members from all Reserve banks and the Board of Governors. The purpose of the Committee is to provide guidelines for the preparation and dissemination of information by the Federal Reserve System, including all Federal Reserve banks and the Board of Governors of the Federal Reserve System, about economic activity and monetary policy intended primarily for use by educational institutions.

President's Committee To Appraise Employment and Unemployment Statistics

A nationwide study was conducted for the improvement of the collection and interpretation of statistics on employment. The Committee was composed of economists from Federal Government agencies, State and local government organizations, private enterprise, and educational institutions. A member of this bank's research staff was appointed to that Committee. The results of the work of the Committee were published in a study entitled "Measuring Employment and Unemployment," published in 1962.

System Committee on Debits

This Committee was established as an ad hoc committee of the System Research Advisory Committee to review an intensive study of data on debits to deposit accounts in banks with a view to improving their usefulness in monetary analysis.

Committee on Business Analysis

This Committee meets semiannually and includes members from all Reserve banks and the Board of Governors. The Committee conducts studies of the nonfinancial factors affecting the level and composition of business activity on a national basis. In addition, the Committee undertakes periodic reviews of both regional and economic conditions.

System Committee on Computers in Research

This Committee meets periodically for the purpose of coordinating the development of computer applications to research activities within the Federal Reserve System.

Committee on Current Reporting Series

This Committee meets semiannually and includes members from all Reserve banks and the Board of Governors. The purpose of the Committee is to implement System-wide data collection programs as authorized by the Board of Governors. These programs include the conducting of studies to determine the most efficient methods of obtaining information, methods and techniques to be used, and the quality of statistical series now maintained by the Federal Reserve System. The Committee also prepares procedural hand books to assure a uniform collection of information throughout the Federal Reserve System.

System Committee on Financial Analysis

This Committee meets semiannually and includes members from all Reserve banks and the Board of Governors. The purpose of the Committee is to conduct studies on the structure and functioning of financial markets and to improve methodology for handling available financial data. The Committee's work covers the following areas: business finance, consumer finance, Government finance, real estate finance, financial intermediaries, and flows of funds in money and capital markets.

System Committee on Seasonal Adjustments

Seasonal adjustment procedures are applied to a large number of statistical series that are computed in the research department. An understanding of the best methods of computing seasonal adjustment through the use of electronic data processing equipment is necessary. The System held a 2-day conference attended by representatives of all of the Federal Reserve banks and Government agencies in Washington on this particular problem.

CONFERENCES

Attendance of Reserve bank personnel at conferences requires travel expense when meetings are held in other locations.

Conference of General Auditors—Biennial

Attended by general auditors and key audit personnel who meet with members of the staff of the Board of Governors to discuss problems, methods, and procedures. From the discussions, certain standardizations of procedures and minimum frequencies of audits and examinations are developed and agreed on. The discussions have been invaluable in the development of a more effective audit program, and in the development and maintenance of high level professional competence by those persons engaged in this work.

Conference of representatives of bank examination departments, Federal Reserve banks

The Division of Examinations of the Board requires the officers in charge of the bank examination departments of Reserve banks to meet at the Board's offices in Washingon, D.C., at least once each year.

These annual meetings afford the occasion to be certain that new rulings and interpretations are understood and that they are being given uniform treatment by all bank examination personnel.

Examination conference, Washington, in 1962

The conference attended by the assistant vice president in charge of our examination department was devoted to a review with the staff of the division of examinations of previously submitted reports and memorandums incident to bank mergers and consolidations.

The Board was to point out certain areas in the examination reports; the kinds of additional information that should have been included in order to make them more helpful in supporting considerations given; and judgments which must be made by the Board of Governors.

System personnel conference

This is the annual meeting of the personnel officers of the 12 Federal Reserve banks. Each bank benefits by these meetings through the discussions and talks that are given. This meeting permits an exchange of ideas assisting materially in the development of each bank's personnel policies and in better coordination of those policies throughout the System.

Interstate conference on labor statistics

Attendance at this meeting was associated with Mr. Brunner's carrying out his assignment for the President's Committee to Appraise Employment and Unemployment Statistics.

Federal Reserve bank examination trust conference

It has been customary at the end of the midwinter trust conference to have a meeting of all trust examiners and Federal Reserve Board personnel who have attended the conference. This meeting ordinarily has been held in the offices of the Federal Reserve Bank of New York since the midwinter trust conference is held in New York. The meeting is conducted by a representative of the Board. The meeting affords the opportunity to review common problems, trust examination procedures, and to outline areas for improvement in the examination procedures.

Midwinter trust conference

Trust examiners and other representatives of the Federal Reserve Bank of Cleveland historically have been invited to participate in the trust conferences sponsored and conducted by the American Bankers Association. From time to time when the examination schedule has permitted it, trust examiners have been directed to attend the trust conferences. The benefits derived from attending such conferences have been multiple. The subjects discussed in the formal general assemblies and in the workshops cover matters of importance to the administration of trust department in a world subject to the pronouncement and rapid changes in law, structure, and economic conditions characteristics of postwar American finance. The greater knowledge a trust examiner has of the problems of trust administration and of solutions thereof, the more effective he can be in examinations of trust departments. The knowledge gained by an examiner at these conferences is put to use in the conduct of a formal examination itself and also in the discussions which follow an examination when areas for improvement in the administration of the department under examination are discussed with the department's administrative officers. Also, very important benefits are derived through personal contacts the examiners have at such meetings with the personnel of trust departments of banks which are located in the Fourth Federal Reserve District. It is frequently possible at such times to discuss informally particular internal problems and to secure their resolution more easily than might be possible at the time of a formal examination.

SEMINARS

Attendance of Reserve bank personnel at seminars requires travel expense when meetings are held in other locations.

Seminar on reserve projections

The purpose of the seminar on reserve projections was to better acquaint members of the research staffs of the Federal Reserve Board of Governors and of the various Federal Reserve banks with the methods of projecting member bank reserves for purposes of keeping the Federal Open Market Committee better informed on the interpretation of financial developments and on the conduct of open market operations.

System meeting on foreign exchange reports

Pursuant to Executive Order No. 6560 dated January 15, 1934, and Executive Order No. 1033 dated February 8, 1949, and Treasury Department regulations issued thereunder, banks and corporations in the Fourth Federal Reserve District engaged in transactions in foreign exchange, transfers of credit, and the export of coin and currency are required to file confidential reports with this bank on forms prescribed by the Treasury Department. Various types of reports are filed monthly, quarterly, semiannually, and annually with this bank on behalf of the Treasury Department and the Balance of Payments Division of the Federal Reserve Bank of New York, which is very closely identified with the Treasury Department in this activity. The data reported on these forms are an important part of the basic information used in the formulation of Government financial policies and in the preparation of statistics on the U.S. balance of payments.

The meeting was attended by Federal Reserve bank people engaged in gathering statistical data and by representatives of the Treasury Department. The purpose of the meeting was—

(1) to enable Federal Reserve bank technicians who handle the foreign exchange reporting in each Reserve bank to learn more about the many complex reporting problems involved;

(2) to give Federal Reserve bank staff members an opportunity to obtain information on the bgackground, purpose, and importance of these reports;

(3) to enable staff members of the Federal Reserve banks to benefit from the intensive work done at the Federal Reserve Bank of New York in this area, in conjunction with the Treasury Department;

(4) to provide an opportunity for an exchange of information and to discuss the problems the Reserve banks encounter in collecting the data; and

(5) to enable the Treasury Department staff to discuss the role of the Treasury Department in the foreign exchange reporting filed and the contemplated introduction of new forms which would provide greater coverage and obtain a more precise analysis of money market flows.

JUSTIFICATION NO. 7

Visits to branches by officers from main office

The President and First Vice President visit the branches regularly in the discharge of their duties. Other officers also make such visits from time to time. These trips are justified because a firsthand, on-the-spot appraisal is needed for general supervision, review, appraisal, and control of operations. Correspondence and telephonic communication by themselves are inadequate.

JUSTIFICATION NO. 8

Boards of directors

Section 4 of the Federal Reserve Act provides that every Federal Reserve bank shall be conducted under the supervision and control of a board of directors, and said board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law. In general, the directors are responsible for the conduct of the affairs of the Reserve banks in the public interest.

The Conference of Chairmen of the Federal Reserve Banks, in 1941, adopted a statement on the functions of the Federal Reserve banks. This statement also gave some indication of the broad general responsibilities of directors:

"There should be no limit to the work of the Federal Reserve banks in the field of cooperation, education, and leadership. The good that the banks can do is limited only by the intelligence, courage, and leadership of their directors and officers. On the other hand, we must not underestimate the routine or operating functions and responsibilities of central banking as they form a vital part of the System. On the assumption that there will be further centralization with respect to fiscal and monetary policy and that the objectives of that policy will be different and novel, involving measures which will take on an increasingly explicit regional differentiation, it seems desirable that the Reserve banks be firmly established as centers of information, enlightenment, and leadership. They must be able to submit comprehensive information, wisely interpreted, on economic problems and regional trends. They must be able to act as centers for interpretation in their districts of national policy and methods in the fiscal and monetary area. They must be able to assume leadership in times of emergency, and to exert proper influence on national policy, especially from the point of view of regional considerations."

The directorship of a Federal Reserve bank is a position of public responsibility and the directors elected and appointed should be in a position to make available to the bank a seasoned experience in business and public affairs and a broad knowledge of regional conditions and regional interests. While the directors have a responsibility for district policies, they also have an obligation to the formulation of national or System policies, and to their effective application in the district when adopted.

In the performance of its obligations, the board of directors of the Federal Reserve Bank of Cleveland recommends changes in the discount rates; appoints and outlines the duties of executive personnel; receives reports and recommendations of the officers, and takes such action as it may deem appropriate on matters of bank policy pertaining to the operations of this bank, its personnel, and its relations with the public; determines the salaries of officers and employees (subject to the approval of the Board of Governors); elects a member of the Federal Advisory Council; and appoints the majority of the branch directors.

The directors are expected to bring to the discussion of these matters of policy the experience gained in their respective fields of private and public endeavor from the point of view of the public interest.

The general justification for the expenditures of "public funds" for the boards of directors of the Federal Reserve banks must be based on the fact that the directors are needed under our unique federated central banking system to give direction on a regional basis to the individual banks. Specific justifications for certain items of expenditures are noted below.

1. *Fees of directors.*—The present schedule of fees and expenses payable to main office and branch directors is—

(*a*) Daily fee for attendance at directors meetings, committee meetings, or while otherwise engaged on official business for the bank (one fee to be paid for each day regardless of number of meetings) $75;

(*b*) Subsistence allowance for directors residing outside the city (or its residential environs) in which the meeting is held or for any director traveling away from his home city on official business for the bank—$20 for each day or portion of day; and

(*c*) Necessary transportation expenses—actual amount.

These expenditures are considered justifiable in light of the services performed by the directors individually and collectively as noted above. In some instances the cost of being a director far exceeds the remuneration paid by this bank.

2. *Luncheons and dinners for directors.*—Meetings of the board of directors are held on the second Thursday of each month. Except for occasional joint meetings of the main office and branch boards, the meetings are held at the main office building. After each board meeting the directors have lunch with the bank officers. On occasions where it is evident that time does not permit adequate discussion of items at the board committee meetings prior to the actual meeting of the board of directors, the committees may meet the evening preceding board day. Usually dinners are provided the directors at these meetings. The aforementioned luncheons and dinners are working sessions. Our directors are busy men, and to derive maximum benefit from their visits to the bank an attempt is made to utilize their talents while they are on the bank premises.

During the past several years it has been the practice of this bank to hold joint meetings of the main office and branch boards of directors at various cities in the fourth district. These meetings have been held in Pittsburgh, Cincinnati, Columbus, Youngstown, etc. On the Wednesday evening preceding the board meeting a dinner is held for the bank directors and businessmen in the city where the joint meeting is held. Approximately 125 guests attend the dinners to hear the chairman of the board of directors, the president of the bank, and when possible, a member of the Board of Governors speak on some phase of current business conditions and System operations. These dinner meetings are in keeping with the bank's program of keeping the public informed of the fourth district bank and System operations.

At each meeting of the Board of Directors, whether at the main office or in another city, members of the research staff present a report of national and local economic conditions. Because of the interest expressed by the directors in these reports, many have been published and distributed nationally. The reports are initially presented to aid the directors in the performance of their statutory duties and later published to keep the public informed of business conditions, and the work of the System.

In addition to the President, first Vice President and members of the research staff, the Vice Presidents in charge of the branches also attend these meetings. They report to the Board on the operations of the branches and the general business conditions in the territories served by them. Occasionally, officers from the main office also make reports to the Board. These direct reports assist the directors in the performance of statutory duties in such areas as recommending changes in the discount rate. The branch Vice President attended at least one meeting of the managing committee of this bank per month, usually on the day previous to the Board meeting. In this way they were able to review operating procedures with other members of management on a personal basis and were brought up to date on main office operations.

3. *Meeting in Washington for new directors.*—For a number of years the Board of Governors has sponsored a 2-day orientation meeting in Washington, D.C., in February or March, for newly appointed or elected directors to acquaint them with their statutory responsibilities. The new directors, elected or appointed for 3-year terms, participate in discussions which enable them to assume their duties more readily as a direct result of these meetings. In addition, they are made aware of the national scope of System operations, going beyond regional bounds of their district considerations.

4. *Silver trays for retiring directors.*—For many years it has been the custom to present to retiring directors an inscribed silver tray as a token of appreciation for the services they have rendered. This is a most modest gift for the public service willingly given by these men.

JUSTIFICATION No. 9

Membership dues and contributions

Expenditures for membership dues and contributions, as well as related travel and other expenses incurred in connection with seminars, conferences, workshops, conventions, special schools, and dinner meetings by this bank in banking, professional, service, and other organizations, contribute significantly to the effective and efficient discharge of its responsibilities. Such expenditures are reviewed each time they are to be incurred in order to determine whether the desired benefits are being received by the bank.

Memberships provide the opportunity for bank personnel to meet formally and informally with the business and banking leaders within the area, enabling the bank's staff to arrive at a more comprehensive understanding of business and economic conditions within the district. Memberships are the basis for relationships which permit a free flow of information and data. No payments are made for dues in social organizations or organizations whose activities are not related to the bank's activities or which do not supply the bank with information useful to the bank.

In addition to its monetary responsibilities as the central bank, the bank provides numerous services for the commercial banks and the U.S. Treasury. In this capacity, the bank is constantly seeking better and more efficient methods for providing the varied services. Memberships are a means of keeping current with technological changes in all phases of the bank's operations. They provide a vehicle in the form of meetings, seminars, workshops, and conventions for keeping personnel alert to new techniques and procedures. The memberships range from professional organizations for economists to the more technical associations for persons working with high-speed data processing equipment.

American Bankers Association

The American Bankers Association is a trade association with a membership that includes 98 percent of the Nation's commercial banks. Its primary objectives are to promote the general welfare and usefulness of banks; to secure uniformity of banking action; to keep abreast on subjects important to banking and commerce; to improve banking practices; and to keep bankers current on customs and practices affecting the banking interests of the country. The association includes committees, divisions, and departments specializing in such areas as fiscal policies, Federal legislation, Government borrowing, monetary policies, country bank operations, credit policy, and economic policy.

Ohio Bankers Association, Pennsylvania Bankers Association, West Virginia Bankers Association, and Kentucky Bankers Association

The State bankers associations are organizations of high-level banking executives with the purpose of promoting more effective banking within each respective State. They hold group meetings, conferences, and schools relating to subjects important to bankers. The associations serve to disseminate information relative to changing banking services and techniques within their particular State. The States involved lie, either in whole or in part, within the Fourth Federal Reserve District.

Ohio Bankers Association—Group 9

Group 9 is one of nine geographical divisions of the Ohio Bankers Association within the State. Its purpose is to promote better banking at the local level and to provide the opportunity for bankers within the group to become better acquainted. It includes the banks of Cleveland where the main office of the Federal Reserve Bank of Cleveland is located.

Association of Credit Management

The Cleveland and Cincinnati organizations are members of the National Association of Credit Management. This organization is an association of banking and industrial executives engaged in the field of credit management. The organization fosters the development of improved practices in credit administration. The interchange of ideas and information assists the bank in the administration and servicing of V-loans.

Credit Association of Western Pennsylvania

The association is composed of executives engaged in the field of credit. Its function is to promote a better understanding of credit problems within the Pennsylvania area.

Bankers Club of Pittsburgh

This is an organization of Pittsburgh bank officers and directors who meet periodically to discuss banking in the Pittsburgh area.

American Economic Association

The American Economic Association is an association of economists and statisticians. It publishes the American Economic Review, and the proceedings of the annual meeting which are of particular value to the research activities of this bank. The annual meeting provides economists from Government, educational institutions, and private enterprise an opportunity to discuss economic theory, economics problems, and economic analysis.

Financial Public Relations Association

The Financial Public Relations Association is an organization founded for the purpose of bringing together representatives of the Nation's banks to provide education and the exchange of ideas in the field of financial public relations, providing the public with a better understanding of the role of banking in the American economy.

National Association of Bank Auditors and Comptrollers

The association is composed of bank personnel directly related to the accounting and auditing functions. Its purpose is to provide a program of research and education for improving operating methods, auditing methods, accounting controls, and for standardizing practices, and management reports. In addition, the organization provides members with a better working knowledge of State, Federal, and international laws as applied to banks and banking.

Robert Morris Associates

Robert Morris Associates is a national organization with local chapters in large cities; local membership is a prerequisite for national membership. It is an association of bank credit men and lending officers with the objectives of improving methods of gathering, analyzing, and disseminating credit information; promoting closer relationships between credit men; and doing basic research in credit financing, in credit risk, and related subjects. The information and the relationships developed is of great value to this bank in connection with the administration of the V-loan program.

The Real Property Inventory of Metropolitan Cleveland

The Real Property Inventory of Metropolitan Cleveland is a factfinding agency which assembles and publishes reports relative to housing, retail trade, income, and population characteristics within the area. It is the only source of such information.

National Office Management Association

It is an organization of office managers for the purpose of promoting the application of scientific methods to office management in commerce and industry with the objective of increasing productivity, lowering costs, and improving quality.

Purchasing Agents Association of Cleveland

The organization holds monthly meetings to discuss and to hear recognized leaders in the field discuss timely subjects of interest to purchasing personnel. The membership includes a subscription to the Midwest Purchasing Agents magazine, which is a valuable source of information on the procurement of supplies.

Cincinnati Building Owners and Managers Association

This is an association of building owners and managers with the objective of promoting more efficient building management. They publish reports relating to service employees' salaries, rental rates, occupancy ratios, and costs of maintenance repair services which are of direct value to this bank in the rental of space in our Cincinnati branch building. It should be pointed out again that a considerable part of that building (approximately 50 percent) is operated as a commercial office building with tenants.

Brookings Institution

This is an independent organization devoted to research, education, and training in the areas of economics, government, administration, international relations, and the social sciences. Membership provides desired publications at a reduced rate.

Cleveland, Cincinnati, and Pittsburgh Chamber of Commerce

This is an organization of business and professional men. The activities include such functions as collecting and tabulating information relating to business activity and business developments, holding educational meetings, and carrying on programs which aid industry in the community as a whole. The participation by the bank in chamber activities aids the bank in obtaining information on business activity.

Pittsburgh Personnel Association

This is an organization of personnel executives who meet quarterly to discuss changing personnel techniques. Its purpose is to promote more effective personnel policies.

Cleveland Farmers Club

This is an affiliate of the Cleveland Chamber of Commerce and is responsible for activities related to agriculture. One of its principal objectives is to interpret agriculture to industry and industry to agriculture. The organization provides an opportunity for the bank's agricultural economist to associate with leaders in this area. This association helps the staff of the bank to keep itself informed of developments and problems of agriculture in Ohio.

Cleveland Law Library Association

The organization maintains a comprehensive library of law books and legal publications for the use of members. This permits bank counsel to have access to a collection of legal books and publications that would not otherwise be available.

Cleveland Retail Credit Men's Co.

The organization accumulates data underlying the credit records of the buying public of this area. Its services are used by this bank in connection with investigations of applicants for employment.

National Industrial Conference Board

This is an organization of business associations, trade associations, Government bureaus, colleges, labor unions, and libraries for the purpose of conducting research in economics, business management, and human relations. Publications and studies prepared by the National Industrial Conference Board are used extensively by this bank.

Ohio State Bar Association

This is an association of attorneys. The organization issues a publication which includes reports of the Supreme Court and courts of appeals opinions within a few days of the time that they are issued. This is the only source of such opinions until they are printed in bound volumes several months later.

American Management Association

This is an organization of professional management executives in industry, commerce, government, and educational institutions. Its purpose is to provide training, education, research, publications, and information services with a view to developing better management practices and facilitating the development of executive talent.

Special Libraries Association

This is an international organization of professional librarians and information experts who serve manufacturing concerns, banks, corporations, law firms, newspapers, research organizations, university libraries, Government bureaus, and other organizations in the fields of business, medicine, science, technology, and the social sciences. The membership provides the bank with an extensive source of data which may be obtained from member libraries.

Systems and Procedures Association

This is a professional organization of office management specialists engaged in standardization and simplification of office accounting methods in business and government.

National Bureau of Economic Research, Inc.

This is an association of economists, accountants, and statisticians engaged in analysis of business cycles, economic, social, and industrial problems. It conducts research in collaboration with agencies interested in national income and wealth, prices and pricing policy, banking and credit, and fiscal policy.

Publications relative to research findings are available to members. Membership fee includes one copy of each publication. Additional copies may be obtained at a reduced rate.

Pennsylvania Bankers Association—group eight

Group eight is one of the geographical divisions of the Pennsylvania Bankers Association within the State. Its purpose is to promote better banking at the local level and to provide the opportunity for bankers within the group to become better acquainted. Its territory includes the city of Pittsburgh where one of the branches of the Federal Reserve Bank of Cleveland is located.

Justification No. 10

Bank directors—industrialists meetings

These dinner meetings, sponsored by the Federal Reserve bank in cooperation with the local banks, bring together bank directors and businessmen in a particular geographic area. The meetings are designed to present bankers with information regarding monetary and credit policies of the Federal Reserve System and to obtain up-to-date and practical information regarding business conditions in the communities where the meetings are held. These meetings provide a forum for public discussion of Federal Reserve System policies with this bank's officers and employees, and a reservoir of information on economic conditions in the district.

Information obtained at these meetings is submitted to the president to aid him in discharging his responsibilities in the field of credit and monetary policy.

(See justification No. 18 for overall program.)

Justification No. 11

Management training program

The bank has a training program for middle and top management personnel. Each year a number of these persons attend graduate banking schools; personnel administration meetings and seminars; systems and procedures courses and meetings; bank examination school; American Management Association conferences, seminars, lectures and classes; Federal open market training programs, foreign currency operations classes, etc.

All of the key personnel of the bank attend staff discussion meetings over a period of 2 days, usually once each month except in the summer, held at one of the bank's three offices. The staff discussion meetings cover various operations and functions of the bank and the Federal Reserve System. At our Cincinnati and Pittsburgh branches, department managers participate in a training program of rotating managers between the two offices for limited periods to give the managers an opportunity of comparing and discussing operations which has resulted in more efficient operations at both offices.

The expenditures for registration fees, travel and subsistence for persons included in the training program benefit the bank in the development of both the special and general knowledge and background of key personnel, including bank examiners, to enable them to discharge their duties more effectively and to assume greater responsibility as the need arises.

Justification No. 12

Expenses for prospective employees

College recruitment plays a major part in the acquisition of men with ability who could be trained for responsible jobs in the future. The persons who are interviewed and seem to meet the requirements of the bank are asked to visit the bank for further tests and interviews. It is the practice of companies to pay the transportation costs of the men who are invited. There is a twofold advantage by interviewing these men in the bank: (1) a much better appraisal can be made of their qualifications and this in turn permits a better judgment to be exercised in the selection of these people, and (2) the applicant himself has an opportunity to see the bank in operation. This enables him to exercise better judgment in deciding whether to accept or reject an offer of employment. Both of these factors result in a lower turnover cost and fewer less desirable individuals.

JUSTIFICATION No. 13

Board of trustees—retirement system

The retirement system of the Federal Reserve banks was established in 1934 to provide retirement benefits for employees. It is administered by a board of trustees made up of the president and one elected representative from each Reserve bank plus one member of the Board of Governors and a representative elected by Board employees. Travel expenses incurred by a trustee are for the purpose of enabling him to attend the annual or special meetings of the Board of Trustees and meetings of committees which assist in the administration of the retirement system as provided in the rules and regulations.

The representative of the employees is elected every 3 years. At election time the branches send representatives to attend a nominating committee meeting at main office. This gives proportionate representation to the employees at all offices.

Seminars are held periodically at the main office to discuss retirement programs and these are attended by branch representatives.

JUSTIFICATION No. 14

Bank-owned automobiles and auto rental

The results of a survey made by bank indicated that it is more economical at Cleveland to purchase and operate five passenger automobiles, driving each about 25,000 miles per year and trading every other year, than to lease five autos. When more than five are required at any given time, the employee driver may drive his own car at a mileage rate or rent one of the Chevrolet class. In view of existing transportation needs, it is more economical to rent or pay mileage than to own more than five cars.

These cars are used by officers and employees who visit banks, business establishments, educational institutions, and attend bankers and professional meetings throughout the State, and for transportation of official visitors and, when necessary, of directors.

Both branch offices presently maintain three automobiles for the reasons outlined above.

JUSTIFICATION No. 15

American Institute of Banking

The American Institute of Banking is the educational section of the American Bankers Association and provides a curriculum of banking subjects. It is the largest single adult education group in the United States. The expenses of the Cleveland, Cincinnati, and Pittsburgh chapters are underwritten by the local banks in those cities and by this bank. The major portion of assessments for expenses of the chapters is based on the educational cost of conducting classes in banking subjects for employees of the participating banks and are levied in proportion to the enrollments of employees in the courses. Employees of the banks are urged to take advantage of the educational program by becoming members of the American Institute of Banking through payment of nominal dues. The bank does not pay the employees' dues.

In order to encourage employees to take the educational courses, the bank has a plan of tuition refund on satisfactory completion of courses.

As extracurricular activities, the chapter sponsors seminar programs for middle management groups and a limited number of social activities for the members. The local chapter holds an annual banquet and the national organization holds an annual convention. This bank sponsors attendance at the local banquets for those employees who by virtue of their activities in key areas of the local chapter organization or by attainment of high grades in the educational courses, have earned the right to attend, and for any of the bank's officers whose schedule permits attendance. Attendance at the annual convention including travel and subsistence is sponsored by the bank for only a few employees who hold key responsibility in the local chapters. Those attending the annual convention participate in the discussions on policies and procedures for both the national and local organization, and attend various departmental conferences in bank management and operations.

The bank places a high value on the educational programs and seminars of the American Institute of Banking. The great majority of the employees of the bank are members of the organization and many are enrolled in the educational classes. The bank believes its expenditures for this program result in direct benefits both in education and training of employees.

JUSTIFICATION NO. 16

Computer training program

Before and after the installation of both the general purpose computer and the high-speed check processors, it was necessary that our personnel be trained to program for and operate them. This training included visits, with resulting travel expenses, to other Fed banks, member banks, and the Board of Governors.

The U.S. Government will benefit through the eventual faster return of funds to the Treasury Department as checks are processed more economically through the high-speed system. It is also expected that the high-speed equipment will, in time, reduce the amount of float outstanding for the account of member banks.

Visits to other Federal Reserve banks were made to obtain and compare information relating to organization for computer systems, to operating problems, and to conversion and programing techniques. At times visits were made to obtain information about a specific application of the computer.

Visits to member banks were made to discuss various problems involved in the reporting of data to us by the member bank to improve the flow of such data for smoother computer processing.

Visits to the Board of Governors. A 1-week course, offered by the officer in charge of electronic data processing at the Board of Governors, was given to orientate research administrators at the various Reserve banks and to prepare research personnal for use of computer techniques and systems.

Attending Fortran programing course. The need for computer programing instructions in "Fortran," a scientifically oriented programing language, to be used to develop programs for applying compound interest formulas, linear correlations, moving averages, etc., could not be met by the computer manufacturer whose course in Fortran was oriented to mathematicians, physicists, and engineers. It was necessary to obtain these instructions at the Board of Governors in Washington where Fortran in terms of language for businesses or statisticians was in use. The programing knowledge gained was put to immediate use in processing jobs such as salary survey information.

Visits to plants of manufacturers to familiarize our personnel with operating and programing the hardware.

JUSTIFICATION NO. 17

Travel expense—Examining banks

Section 9, paragraphs 7 and 8 of the Federal Reserve Act, place the responsibility of examining State member banks upon the Board of Governors of the Federal Reserve System and provide that expenses of such examinations may in the discretion of the Board of Governors be assessed against the banks examined.

It is apparent that when Congress adopted the provisions of the eighth paragraph of section 9, relating to expenses of examinations, that it considered membership in the Federal Reserve System by State banks would be unattractive if they were subjected to double expenses for examinations. The State banking departments always charge for their examinations. The Board of Governors was given discretion in determining whether the expenses of Federal Reserve examinations should be assessed against the banks or absorbed by the Federal Reserve System.

Late in 1935, the Board of Governors authorized the 12 Federal Reserve banks in the discretion of each to waive the charges of examinations of State member banks which were located in their districts.

The Board of Directors of the Federal Reserve Bank of Cleveland, at its meeting on March 31, 1938, authorized the waiving of charges for expenses incident to examinations of State member banks in the Fourth Federal Reserve District. Since the middle of 1938, all expenses incurred in examining of State member banks within the Fourth Federal Reserve District have been waived and absorbed by the Federal Reserve Bank of Cleveland. The absorption of travel expenses of examiners for the Federal Reserve Bank of Cleveland is in line with the intent of Congress to further the effectiveness of the Federal Reserve System and to encourage the maintenance of the dual system of banking.

JUSTIFICATION No. 18

Bank relations and public information department

The bank relations and public information department of the three offices of this bank operates under the general objectives and directives provided by the Conference of Presidents of the Federal Reserve banks and this bank's board of directors.

The Conference of Presidents, at its meeting in June 1953, adopted the following basic objectives for the bank relations and public information program of the Federal Reserve System:

1. To bring about understanding of the Federal Reserve System's statutory purposes, responsibilities, and operations so as to maximize the effectiveness of the System; and conversely,
2. To keep the Federal Reserve System aware of attitudes toward the Federal Reserve System's policies and regulations and the policies and operations of individual Reserve banks.

In following the objectives outlined above, the bank relations and public information department of this bank has developed programs which, among other things, are designed to maintain a close, cordial working relationship with the Fourth District bankers, to aid the operating departments of this bank in the performance of their work, and to inform the public as to the purposes, responsibilities, and operations of this bank and the System.

Under the provisions of the Employment Act of 1946, the Federal Reserve System has the duty to regulate the supply, availability, and cost of money with a view to contributing to the maintenance of a high level of employment, stable values, and a raising standard of living. In this light, it is essential to maintain a continuous flow of information to the bank's staff regarding banking developments in the Fourth District and to keep the public informed regarding the responsibilities, operations, and policies of the Federal Reserve System. To this end, our officers and key employees make a practice of visiting bankers in the bankers' own banks. In addition, we provide for tours within the Reserve bank for those who wish to view or study our operations. Our bank also provides speakers, films, etc., for schools, civic, and business groups; and publications in order to foster better understanding by the public of bank and System operations.

The above paragraphs indicate our general justification for the expenditures of the bank relations and public information department of this bank. One of the programs is described below:

Bank visitation program including bank open house visits

These visits provide for an informal discussion with bankers of operating problems relating to the Reserve bank and make it possible for this bank, in fulfilling its statutory obligations, to render better services to the banks. In addition, information obtained on these trips regarding economic and financial conditions within the district is reported to the President of this bank to aid him in discharging his duties as a member of the Federal Open Market Committee.

Attendance at bank open houses is considered to be useful in maintaining good working relationships with the commercial banks for the purposes mentioned above.

JUSTIFICATION No. 19

Conference of National Association of Supervisors of State Banks

Attendance at the annual conference of the National Association of Supervisors of State Banks enables the officers in charge of bank supervision to consult and exchange views with supervisors of State banks. This facilitates coordination of policies and practices and helps to reduce areas of misunderstanding and conflict. The Federal Reserve Bank of Cleveland has thus been able to maintain close and harmonious working relations with the banking departments of States lying in whole or in part within the Fourth Federal Reserve District.

Each session has a formal program and presents outstanding speakers often drawn from the Congress of the United States, high officials or directors of Federal agencies, nationally recognized bankers, former supervisors of banks, active members of the association and others discussing timely subjects of banking importance. Many times the subjects are quite controversial in nature and warrant the exchange of ideas by the persons attending since they must be dealt with in the performance of their daily duties. The personal discussions concerning the subjects of the program which are had, both before and after the meetings, are very helpful in determining the treatment to be accorded those areas. Group discussions of this kind, which deal with general problems are frequently much more helpful in providing understanding of mutual objectives than are discussions with individual supervisors over particular cases where the principles involved are frequently clouded by conflicting interests and pressures.

Advantage is taken of the occasion to hold, at the end of the conference, a separate meeting which is attended by all Federal Reserve personnel at the conference. This meeting almost always includes at least 1 representative from each of the 12 Federal Reserve banks and from the Division of Examinations of the Board of Governors. System policies relating to bank supervision and administration of the bank examination function are reviewed at this meeting, in order to provide greater coordination.

JUSTIFICATION No. 20

Fellowship program

The Federal Reserve Bank of Cleveland sponsors a fellowship program whose stated purpose is to provide financial support for well-qualified graduate students who are completing requirements for the Ph. D. degree in economics or business administration at a university located in the Fourth Federal Reserve District. The program requires each fellow to spend at least two summers at the Federal Reserve Bank. The intent of the program is to give such students an opportunity to become better acquainted with the purposes and functions of the Federal Reserve System, and thereby improve their skills as economists, researchers, and teachers. Monetary theory and policy have become so important in today's affairs that such a program is considered to be highly desirable as a means of providing better opportunities to superior students to study in this field.

A copy of the program is attached.

As part of this bank's fellowship program, we allowed selected fellows to visit the Federal Reserve Bank of New York. The purpose of the visit was to consult with persons at that bank who are particularly close to, and especially qualified in, the areas of research in which the fellows were conducting research activity. The visitations represented an attempt by this bank to render appropriate assistance to the fellows in carrying out their research projects.

RESEARCH FELLOWSHIPS IN ECONOMICS, FINANCE, MONEY AND BANKING, STATISTICS TO BE AWARDED BY THE FEDERAL RESERVE BANK OF CLEVELAND, ACADEMIC YEAR 1963–64

One or two research fellowships are available to graduate students who show excetional intellectual capacity and high levels of competence in written and oral expression. The awards are made for the purpose of promoting graduate study in economics, finance, money and banking, statistics, and related fields as well as to provide students an opportunity to study the problems of central banking at first hand.

The awards cover a term of about 15 months and include the following:

1. Initial term of residence (3 months) on a research project at the Federal Reserve Bank of Cleveland—award, $1,200.
2. Graduate study, full time, at a university of the student's choice for 1 academic year—award, $3,000, plus tuition and fees. Additional allowance of $500 will be made for each dependent (wife and children).
3. Second term of residence, continuation of research project at the Federal Reserve Bank of Cleveland until completion, up to 3 months—award, approximately $500 per month.
4. An additional award of $500, payable upon acceptance of a completed report of the assigned research project, if submitted within 1 year of completion of second residence.

Upon termination of the fellowship, an applicant may be offered employment by the Federal Reserve bank but there is no obligation on the part of the bank to offer such employment, nor on the part of the fellow to accept such offer, if made.

Nominations.—Applicants must be nominated by departments of economics or schools of business in universities in the Fourth Federal Reserve District which offer a Ph. D. (or equivalent) in these fields.

Eligibility requirements.—Applicants must have completed a minimum of 1 full academic year of graduate study, preferably 2 years, in economics (including agricultural economics), statistics, business administration, or finance by the time the fellowship becomes effective; must be citizens of the United States; must be in good health; must be attending or qualified for admission to a university located in this district, and offering a Ph. D. degree or equivalent in economics, statistics, business administration, or finance. Preference will be shown to applicants who, by the end of the period covered by the research award, expect to have completed the requirements for a doctorate.

Research projects.—The research assignments will be on problems of significance to the Federal Reserve System and it is expected that they usually will be acceptable in partial fulfillment of doctoral thesis requirements, thereby enabling students to expedite completion of work for their degree. However, it is not necessary that the research project be in a field related to the student's thesis topic. (An illustrative list of projects is available from your department head and from the research department, Federal Reserve Bank of Cleveland. Research assignments are developed in cooperation with the student and his faculty adviser.)

Supervision.—During the periods of residence at the Federal Reserve Bank of Cleveland, supervision will be provided by Federal Reserve personnel; during the academic year, by the student's faculty adviser.

Application forms should be filed with the university by February 1. University nominations must be received at the Federal Reserve Bank of Cleveland by February 15; awards will be announced by March 31, 1963.

JUSTIFICATION NO. 21

RESEARCH SURVEYS

Security loan program

This program involved the participation by this bank in a national survey conducted by the Board of Governors at the request of the Securities and Exchange Commission. The purpose of the survey was to obtain additional detailed information on security loans outstanding at selected member banks in the Fourth Federal Reserve District.

Collateralized loan survey

This involved the participation by this bank in a national survey conducted by the Board of Governors at the request of the Securities and Exchange Commission. The purpose of the survey was to obtain additional detailed information on collateralized loans outstanding at selected member banks in the Fourth Federal Reserve District.

JUSTIFICATION NO. 22

Meeting with superintendent of banks of Ohio at Columbus, Ohio, May 6, 1963

This meeting was attended by a majority of directors of a State member bank, the superintendent of banks, first deputy superintendent of banks for the State of Ohio, and the vice president in charge of examinations for the Federal Reserve Bank of Cleveland.

The meeting was called by the superintendent of banks and the Federal Reserve Bank of Cleveland. The general condition of the bank was reviewed and discussed. The principal purpose of the meeting was to point out the continuing growth of the bank and consider the resulting circumstances that the bank's capital structure had not kept pace with the bank's expansion of deposits.

A memorandum presenting a complete report of the meeting was submitted to the Board of Governors, Washington, D.C.

The holding of meetings such as this is required from time to time in the everyday performance of responsibilities assumed jointly by the superintendent of banks and the Federal Reserve Bank of Cleveland in the supervision of State member banks.

JUSTIFICATION NO. 23

Federation of Management Organization

The Federation of Management Organization is an organization to which the Special Libraries Association belongs. It was through FMOA that the Special Libraries Association participated in the International Management Congress.

As president of Special Libraries, Miss Klahre was a special representative and her attendance at this meeting was necessary because of the upcoming International Management Congress in September 1963.

Justification No. 9 outlines the benefits accruing to the bank because of participation in this organization.

JUSTIFICATION NO. 24

Speeches

Officers, economists, and others frequently are invited to speak to trade organizations, service groups, business groups, and high schools and universities on subjects relating to system monetary policy and credit functions, business and agricultural conditions, and service functions of the Federal Reserve banks. This is another service provided by this bank in its attempt to keep the public informed of business conditions and the system's operations and their effect on the general populace.

(See Justification No. 18 for overall program.)

JUSTIFICATION NO. 25

American Economic Association meetings

It is the policy of this bank to send senior members of its research staff to the annual meeting of the Allied Social Sciences Associations, which includes such groups as the American Economic Association, American Finance Association, American Statistical Association, American Farm Economics Association, American Marketing Association, and other organizations involved in economic and associated research and analysis. It is the purpose of these meetings to bring together economists and other social scientists from Government, educational institutions, and private enterprise to discuss economic theory, economic problems, and economic analysis. Attendance at these meetings is of direct benefit to the research staff in improving professional skills and competence.

JUSTIFICATION NO. 26

Tours of the bank

This bank provides tours within the bank for groups of bankers, students, teachers, and businessmen in order to inform the public of the manner in which the Federal Reserve System meets its statutory duties and responsibilities, and how System operations affect the individual citizen.

As a matter of courtesy and convenience, a meal is served to those groups who have traveled from outside the county limits to tour our bank. Cigars and cigarettes, in limited quantities, are made available to those who attend luncheons at our bank as a consideration shown to our guests. Spiritous liquors are not served. At these meals, guests have the opportunity of discussing with the officers and employees of this bank different phases of System and bank operations, thereby increasing public knowledge relative to the nature of our work.

(See justification No. 18 for overall program.)

JUSTIFICATION NO. 27

Meeting with National Association of Armored Car Cos.

Mr. Clyde Harrell, while attending the Pennsylvania Bankers Association convention in Atlantic City, also met with Mr. Merritt Kennedy, president of National Association of Armored Car Cos. The outcome was the adoption of policies by the Federal Reserve System concerning Federal Reserve shipments in transit with armored cars in the event of a war emergency.

JUSTIFICATION NO. 28

Employee educational refunds

To encourage employees to take night courses and to improve themselves and their usefulness to the bank, this bank will refund tuition on the satisfactory completion of courses which, in the judgment of the bank's management, will accomplish the above improvement, or when the subject course is of direct benefit in the work of the employee. The majority of employees participating in this educational program are enrolled in college night courses.

The bank derives benefit from this program in three ways: (1) it makes such employees better qualified for their present jobs, (2) it makes them better prepared for potential advancement, and (3) it aids the recruitment for qualified persons by making bank employment more attractive.

JUSTIFICATION No. 29

Social and athletic programs for employees

This bank's social and athletic programs for employees encompass a calendar of annual events represented by the following, some of which are conducted by an employee organization known as the Federal Reserve Club:

Dinner-dance for employees.
Federal Reserve Club trustees' dinner.
Relocation site employees' dinner (will no longer be held because record sites are no longer staffed permanently).
Smorgasbord or picnic for employees.
Twenty-five-year employees' dinner.
Christmas party for children of employees and their families.
Christmas lunch for employees (Cincinnati).
Bowling league dinner for employees.
Merry Widow bowling for employees.
Part of the expenses of participating in the bank's bowling league.
Golf tournament for employees.
Employees' softball teams' dinner.
Insurance covering Federal Reserve Club liability in connection with an organized fishing trip for bank employees.
Table tennis supplies for employees.

The bank's policy of sponsoring these events for employees is considered to be desirable and essential because we compete in a labor market in which banks and industries provide somewhat similar programs. There is a shortage of skilled officeworkers in our markets. Our programs are considered to be successful in contributing to good employee morale, and in creating an atmosphere conducive to retention of worker and reduction of turnover, thereby increasing efficiency in the bank.

JUSTIFICATION No. 30

Meeting with Bell Telephone Co., Ligonier, Pa.

Mr. Clyde Harrell, en route to Pennsylvania Bankers Association Convention at Atlantic City, was a guest at dinner following the directors' meeting of the Bell Telephone Co., Ligonier, Pa. The meeting afforded the opportunity to meet the directors of the company and also a select group of leading industrialists in the Pittsburgh area. These contacts are invaluable in obtaining opinions on economic conditions which, when given to the president, aids him in formulating his recommendation for credit policy.

Pennsylvania Bell Telephone Co. based in Harrisburg, holds 1 annual meeting in western Pennsylvania at which they invite about 100 leading executives from western Pennsylvania area in for a public relations program.

FINK.

JUSTIFICATION No. 32

Sympathy flowers for employees

The bank sends a floral piece to the family of an employee in the event of death of an employee or a member of his immediate family, and to an employee who is an operative patient in a hospital. These expressions maintain good relations with employees and contribute to employee morale.

JUSTIFICATION No. 33

Birthday lunches for employees

A birthday lunch is furnished each employee in the banks' cafeterias. The small cost of this program is believed more than offset by the establishment of better feelings between employees and the bank.

JUSTIFICATION No. 34

Service pins, retirement receptions and dinners for officers and employees

Following an established custom in most banks and industries, this bank recognizes long and faithful service of officers and employees by awarding 15- and 25-year service pins at minimal cost as a gesture of good will. Retirement dinners limited to officers are held upon retirement of officers, and receptions are held upon retirement of all employees. The retiree is presented with an imprinted book containing individual expressions of best wishes from all employees.

We believe these events result in improved employee relations and morale.

JUSTIFICATION NO. 35

Bank examination reports of national banks

The Federal Reserve Act, section 4, paragraph 8, provides that "Each Federal Reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts, or other credit accommodations, the Federal Reserve bank shall give consideration to such information." The reports of examination of national banks are required to carry out these responsibilities.

The Comptroller of the Currency charges $100 for each copy of a report of examination that he furnishes to this bank. The Federal Reserve Bank of Cleveland has requested that it be furnished with a copy of the report of examination of the first examination of each national bank that is made each year. At this date these are 360 national banks in the Fourth Federal Reserve District. Also, this bank is to be furnished with copies of each examination report of the examination of national banks that are on the chief national bank examiner's problem list.

The Board of Governors has authorized that each Federal Reserve bank pay to the Comptroller of the Currency at the rate of $100 for each report of examination that is furnished.

JUSTIFICATION NO. 36

SERVICES USED FOR APPRAISAL OF ASSETS OF MEMBER BANKS

Standard & Poor's

Bond Guide (monthly).
Stock Guide (monthly).
Bond Selector (quarterly).
Corporation Records (monthly).

In order to be eligible for purchase by State member banks, corporate bonds must be of "investment quality" and prima facie evidence of such eligibility is their inclusion among the top four ratings by the national rating services. As a guide in determining the rating of a particular bond, our bank examiners depend upon Standard & Poor's Bond Guide which also includes valuable price data. Banks are also permitted to purchase unrated bonds if available information indicates that they are, in the opinion of the examiner, of investment quality. The descriptive material supplied by Standard & Poor's Bond Selector, and by the Corporation Records are depended upon for this purpose. Standard & Poor's Stock Guide is used principally in connection with the examinations of trust departments of member banks in order to evaluate the judgment of the trust officers in selecting stocks for investment.

Moody's Investors Services

Moody's Municipal and Government Manual (annual) (includes loose-leaf services): Under the provisions of section 5136, U.S.R.S., purchases by State member banks of so-called revenue bonds issued by public authority are restricted to 10 percent of the bank's capital and surplus whereas there is no such restriction governing the purchases of general obligations. It is often difficult to determine from the information on file in the bank whether or not a particular bond is a general obligation or a revenue bond. In such cases it becomes necessary to obtain this information from other sources. Moody's Municipal and Government Manual provides us with complete descriptive material in connection with municipal issues from which we determine the status of such bonds.

The Standard Statistics Co., Inc., and Fulton Reid & Co., Inc.

In addition to the foregoing, we employ the services of the Standard Statistics Co., Inc., New York, N.Y., in determining current market prices on municipal bonds. The pricing of municipal bonds which constitutes an important segment of the investment account in many member banks has been difficult because of the lack of dependable quotation services. Many of the issues held by the banks are of local origin and of limited distribution and generally there are no quotations published covering them. The Standard Statistics Co., Inc., has sufficient facilities and an efficient organization and we have found that the pricing information supplied by them cannot be obtained satisfactorily elsewhere. These services immediately preceding our use of the Standard Statistics Co., Inc., were furnished by Fulton Reid & Co., Inc., Cleveland, Ohio.

JUSTIFICATION No. 37

Films

Another phase of the bank relations and public information programs is to make available for showing to bankers, business and service groups, schools, etc., prints of films on the history and operations of the Federal Reserve System and other films of economic interest to the public. These films are designed to provide the public with information not only on the System, but the operations of the U.S. Treasury, Mint, and so forth.

Expenditures for films include maintenance, postage, and rental charges and the production of film "leaders" to identify the source of the film and indicate where the film might be obtained. An additional cost was incurred in 1962 in the purchase of a film script designed to replace the outdated public information film "A Day at Federal Reserve Bank of Cleveland." However, when it was determined that the Federal Reserve System would produce a somewhat similar film, production of the local film was discontinued. The script is being retained for consideration at some future date. The aforementioned System film "Money on the Move," was purchased on a pro rata basis of capital and surplus by the 12 Federal Reserve banks. The film is now available for viewing as a service to the general public.

(See justification No. 18 for overall program.)

JUSTIFICATION No. 38

Refreshments for open house for 1962

The bank held an evening open house for its employees and their families in the spring of 1962, showing new methods that had been inaugurated in bank operations. After touring the bank, the visitors were provided with coffee or fruit punch and pastries and a place to sit down and rest.

The bank believes such an event held periodically is a stimulant to good employee morale, and that it contributes to a better understanding of the bank's operations by relatives and friends who are a part of the public.

JUSTIFICATION No. 39

Investigation reports on applicants for employment

Before hiring applicants a credit report is requested from the Retail Credit Co., the Credit Bureau, or other similar credit agency. These reports protect the bank against the possibility of hiring employees who would pose a security risk in positions of trust and responsibility.

JUSTIFICATION No. 40

Recreational library subscriptions

Provides the employee with reading materials for recreation and self-improvement, and contributes to employee morale.

JUSTIFICATION No. 41

Subscriptions for library

It is deemed both necessary and desirable to maintain a business library to (1) aid the research staff in carrying out interpretation and analysis of economic affairs, (2) keep officers and employees fully informed as to national business, ecoonmic, and banking developments, so as to interpret more intelligently the changes being experienced in our area, and (3) furnish backgound material for periodic reports to our directors and the president to assist them in recommending appropriate action in the discount rate and open market operations. Subscriptions to newspapers, periodicals, economic indicators, information service, reports, and kindred material are necessary to accomplish these objectives.

As part of the library functions, publications are bound into volumes by outside binderies for greater ease in filing and use.

JUSTIFICATION No. 42

Pro rata share of expenses for study of check handling operations

The Stanford Research Institute entered into arrangements to furnish advisory services of the Federal Reserve banks in the development of improved methods of handling checks. The overall purpose of the program was to study the flow of checks through Federal Reserve banks and branches to ascertain how and when further mechanization of these operations might be achieved. The work of the Stanford Research Institute contributed substantially to the development of mechanized handling of checks by Federal Reserve banks. This voucher is for the Federal Reserve Bank of Cleveland's share of the expenses of this study. The System benefited by having the findings and recommendations of a group of independent analysts.

JUSTIFICATION No. 43

Luncheon facilities and subsidy for employees

The bank provides on its premises concessionaire-operated luncheon facilities with lunches at reasonable cost to employees. The concessionaires' experience in food handling enables them to exercise greater economies and to supply nutritional food at lower cost than would be possible if the bank operated the facilities. The food is served to employees at below actual cost, the net expense of the concessionaires' operations being borne by the bank. The rate of absorption of expense is within the limit established for the Federal Reserve System by the Board of Governors.

Serving low-cost lunches to employees is considered to be a "fringe benefit" and is the established practice of many employers in the areas of our three offices.

JUSTIFICATION No. 44

Newspaper advertising for new employees

Maintenance of adequate staffs of qualified personnel requires continuous recruitment. When the need is particularly pressing and applicants are not otherwise available recourse is had to newspaper advertising. This device secures the maximum number of applicants for a minimum cost.

JUSTIFICATION No. 45

Dun & Bradstreet, Inc.

The services of Dun & Bradstreet are used to obtain credit reports covering individuals, partnerships, and corporations engaged in commercial and industrial enterprises. Such reports furnish historical and background data on management, information regarding facilities and territories served, financial and paying record data and other information pertinent to the making of a credit decision.

Reports of Dun & Bradstreet are one of the tools needed to obtain credit information for the following purposes:

(1) As a part of the credit investigations in compiling the information needed as part of the reports which Federal Reserve Bank of Cleveland is required to submit to the armed services under section 302(b) of Executive Order No. 10161 pursuant to section 301(b) of the Defense Production Act of 1950, as amended, in connection with V-loans. Under this act, Federal Reserve banks are designated and authorized to act as fiscal agents of the armed services in the making of contracts of guarantee with respect to private financing for defense contractors.

(2) In preparation of credit reports for departments and agencies of the U.S. Government, when the information requested is to be used in the awarding of proposed Government contracts.

(3) In ascertaining the credit responsibilities of firms whose uncertified checks our banks may accept in payment of noncash collection items.

(4) As an aid in our analysis of the credit standing of the makers of notes that may be offered to us by member banks as collateral to borrowings under section 13 of the Federal Reserve Act.

(5) By our building department in the awarding of contracts for substantial building improvements and/or repairs.

(6) By our legal department to identify and learn about concerns, that may have a potential claim against the bank or against whom the bank may have a potential claim.

(7) By our cash and check departments to ascertain or check on the financial responsibilities of Brinks and other armored car service companies whose services may be up for consideration.
(8) Other related purposes.

JUSTIFICATION NO. 46

Advertising—Treasury refunding

The only time the Federal Reserve Bank of Cleveland places advertising for the Treasury Department is when specific instructions are received from the Treasury Department for this bank, as fiscal agent of the United States, to place such advertising. The copy and format for the ads are furnished by the Treasury. The payment in question was authorized January 20, 1963—Supplement No. 2 to confidential letter No. 308 from John Carlock, Fiscal Assistant Secretary, U.S. Treasury Department.

JUSTIFICATION NO. 47

Photographs for biographical books

As part of the development and training program, biographical sketches of all employees with potential are kept. Photographs are part of this record and permit easier and faster identification of persons in lower management levels when discussions on promotions occur.

JUSTIFICATION NO. 49

Service subscriptions for legal department

Subscriptions: Federal Bank Service, Labor Law Reports, Installment Credit Guide, and Commerce Clearing House-State Taxes.

The aforementioned are Commerce Clearing House and/or Prentice Hall legal publications which are necessary to maintain the law library of the legal department of this bank.

They are looseleaf publications and the looseleaf pages are constantly being changed to reflect current changes in the law and regulations so that the legal department may be kept abreast of developments. Federal Bank Service concerns itself with banking laws and regulations. Labor Law Reports concerns itself with labor law adminstration and labor management relations (this is of pertinence to us as it relates to overtime, minimum wage, classification of employees as exempt or nonexempt, etc.). Installment Credit Guide concerns itself with laws relating to corporate and commercial practices, including the new uniform commercial code. Commerce Clearing House-State Taxes concerns itself with the tax laws in Ohio and Pennsylvania which it is necessary for us to deal with.

JUSTIFICATION NO. 50

PUBLICATIONS BY RESEARCH DEPARTMENT

Justification of the cost of these publications is explained below.

Monthly Business Review
Business Trends
Basic Business News
Money Market Instruments

To disseminate information on regional and national economic developments and trends for purpose of improving economic intelligence and decisionmaking of bankers, educators, businessmen, and public at large.

ANNUAL REPORT

To keep member banks and public at large informed on current operations, status, and policies of the Federal Reserve Bank of Cleveland and the Federal Reserve System.

"CHANGING ECONOMIC PROFILES OF SELECTED U.S. CITIES"

This study was published as part of our effort to disseminate information on regional and national economic developments and trends for purpose of improving economic intelligence and decisionmaking of bankers, educators, businessmen, and public at large.

DISPLAY AT ANNUAL MEETING OF AMERICAN ECONOMIC ASSOCIATION

Exhibit conducted in conjunction with conference was a means of bringing to the attention of educators and economists who attended the meetings the various publications edited and distributed by the research staffs of the Federal Reserve banks and the Board of Governors.

JUSTIFICATION No. 51

Employe publication—Federal Reserve Notes

There are two basic reasons for the existence of a house organ such as Federal Reserve Notes:

1. As a morale builder. It provides recognition to employees for jobs well done and keeps employees abreast of personal happenings of fellow workers.
2. As a means of communication. It is an excellent medium of communication between management and employees. Any changes of policy or in departmental organization or in supervisory or management personnel are discussed in the employees magazine. This helps reduce misunderstanding.

JUSTIFICATION No. 52

Ohio News Bureau Co.—News clippings

This service benefits the bank by aiding the research staff in carrying out interpretation and anlysis of economic affairs and by enabling the library to provide services to personnel of this bank, member banks, students, and the general public.

JUSTIFICATION No. 53

Photographs for publicity

Photography in public information work is not unusual. This bank, being aware of the educational value of photography in the field of public information, uses pictures of operations, group meetings, and individual persons for purposes of publicity, employee relations, and general education. Publicity photographs have been taken of this bank's directors. officers, and employees and have been used frequently by newspapers, television stations, magazines, and other publications.

A picture of the conference of Presidents taken at its meeting on December 3, 1962, was arranged for by this bank. This picture was taken not only because it was deemed newsworthy, but because it was also the first picture taken of the conference for 6 years. During that period a number of changes had taken place in the membership of that body. Pictures of the conference were distributed to the other Reserve banks and to the Board of Governors for their use.

This bank continues to use pictorial publicity, where possible, as a visual aid in informing the public of the bank's and the System's actions and responsibilities.

(See Justification No. 18 for overall program.)

JUSTIFICATION No. 55

Building supplies

All three offices own the buildings they occupy. Maintenance includes cleaning force, heating, ventilating and air-conditioning engineers, carpenters, electricians, painters, machine shop. It is less expensive to perform these services with our own employees than to contract for them with outside firms. The purchase of tools and supplies and furnishing work uniforms is a necessary expenditure in the operation of the building service departments.

JUSTIFICATION No. 56

Office supplies and stationery including duplicating service

Forms, stationery, office supplies, and duplicating service are necessary to the conduct of operations of a Federal Reserve bank in the discharge of the responsibilities and duties imposed on it by law and by banking and business custom and practices.

JUSTIFICATION No. 57

Servicing office equipment

It has been determined to be more economical to maintain a small mechanical repair unit to keep typewriters, adding machines, coin and currency machines, and other office equipment in top operating condition, than to rely upon the service facilities of the manufacturers or service maintenance companies.

Stocks of spare parts are maintained for efficient operation, and work uniforms are supplied to the personnel since the work is greasy and dirty.

JUSTIFICATION No. 58

Protection departments

The safeguarding of the billions of dollars of cash and securities which this bank holds for the U.S. Treasury, for member banks and for its own account requires the maintenance of an adequately supplied protection force and adequately serviced vaults. The Treasury and the bank benefits from these expenditures because holdups and robberies are discouraged by these precautions.

The guard force is supplied with uniforms for identification, and with weapons and ammunition.

Vault equipment is inspected and serviced regularly.

The Cincinnati branch has an additional arrangement with American District Telegraph for protection alarms when the vaults are closed.

JUSTIFICATION No. 61

McClanahan-Heidacher contract

Approximately one-half of the building owned and occupied by the bank in Cincinnati is rented. The engagement of a building management firm to operate rental portion relieves the bank management of this responsibility thereby allowing bank personnel to devote full time to bank operations. It also is believed that an experienced management firm, such as McClanahan-Heidacher, Inc., can operate more efficiently than could the bank staff. (Copy of contract attached.)

MANAGEMENT AGREEMENT BETWEEN FEDERAL RESERVE BANK OF CLEVELAND AND McCLANAHAN-HEIDACHER, INC.

1. Federal Reserve Bank of Cleveland, being the owner of the premises situated at the southwest corner of Fourth and Race Streets, Cincinnati, Ohio, and the 15-story office building erected thereon known as the Federal Reserve Bank Building (hereinafter referred to as "owner"), hereby engages McClanahan-Heidacher, Inc., an Ohio corporation with offices in the Enquirer Building, Cincinnati, Ohio (hereinafter referred to as the "manager"), to perform the services hereinafter outlined with respect to the care, maintenance, and management of the aforesaid premises.

2. At the owner's expense, the manager is authorized exclusively to advertise any space available for rental, to secure tenants and to execute on behalf of owner leases with such tenants for a term of not more than 1 year (unless a longer term be specifically approved in each case by the owner); to collect rents (otherwise than by suit, distraint, or other legal action); to compute bills for electric services furnished all tenants and collect the same; and to deposit all payments collected for rent, and sale of electricity, in a separate property management bank account with the Central Trust Co. of Cincinnati to be held in trust for the owner; such account to bear such title as will indicate that the funds therein are held by the manager as trustee or such other title as will indicate that the funds are not the property of the manager. The manager shall pay from this bank account the charges of the Cincinnati Gas & Electric Co. for furnishing electric service to the premises known as Federal Reserve Bank Building.

3. The manager is further authorized to make or cause to be made any repairs or alterations, and to do or cause to be done any decorating, which the manager considers necessary in connection with the rental or normal maintenance of leased space, provided, that the manager shall not undertake or contract for any such work involving an expenditure of more than $500 for a single project, or involving aggregate expenditures of more than $2,000 for work undertaken or contracted for in any 1 calendar month, except with the prior approval of the owner; to purchase and pay for all supplies and other materials not furnished by the owner which are necessary to the performance of the manager's functions under this agreement; to employ, supervise, discharge, and pay all engineers, janitors, and other building employees, except for those employed by the owner in the care of that part of the premises from time to time occupied by the owner,

and to perform all other acts reasonably incidental to the proper management of the premises.

4. Manager shall be permitted to enter into contracts with the Cincinnati Nuclear Corp., or other appropriate party, such contracts to be subject to approval of owner, for the supplying of steam for heating purposes to the Woman's Exchange Building. Manager shall perform the duties imposed on the supplier of steam under such contracts. Manager shall collect payments made under such contract for the supplying of steam and shall deposit same in the separate property management bank account referred to in paragraph 2 hereof, which amounts shall be treated in like manner as the other moneys deposited in said bank account pursuant to paragraph 2 hereof. Five percent of such payments received during the time this agreement is in effect shall be included in paragraph 7(b) hereof in computing the amounts due manager.

5. The manager shall render to the owner on or about the 10th day of each month a statement of income and expense for the preceding month, and with such statement shall remit the net amount in the hands of the manager after deduction of the amounts payable to manager hereunder for the preceding month. If at any time funds required for expenditures made or to be made by the manager pursuant to paragraph 3 of this agreement are not available from rent collections in the hands of the manager, the owner shall promptly upon request by the manager, supply the excess funds required.

6. All persons employed by the manager to perform the services which the manager is authorized or required by this agreement to furnish shall be supervised and controlled solely by the manager, and shall be employed by the manager exclusively for work to be done in the performance of this agreement, unless otherwise agreed in any specific case between the manager and the owner. It is understood and agreed that the manager shall employ and pay a resident manager for the premises and such clerical assistant or assistants as may be required by the said resident manager, and shall furnish the said resident manager's office furniture, fixtures, and supplies; that the owner shall furnish office space in the premises for the resident manager and his clerical assistants without charge to the manager, and that the compensation of the resident manager and his clerical assistants, together with the cost of the aforesaid office furniture, fixtures, and suplies shall be considered supervisory expense incurred by the manager for the purposes of paragraph 7 of this agreement.

7. In consideration of its services hereunder, the manager shall receive:

(*a*) The sum of $908.67 per month for that space occupied by the owner in the aforesaid building, to wit:

> Basement to 7th floor inclusive and the entire 14th floor, excepting boiler and machine room and some building maintenance space in basement, first floor lobby alcove, and approximately 376 square feet used by barber shop on 6th floor.

In the event the space occupied by the owner in the building is subsequently reduced, there shall be a proportionate reduction in the sum set forth in this subparagraph (*a*);

(*b*) An amount equal to 5 percent of the gross income received during the time this agreement is in effect as payment for electric service (except payment for electric service by owner) and as rental for space in the aforesaid building not occupied by owner;

(*c*) An amount equal to 3 percent of the fair rental value (as determined from month to month by agreement between the owner and the manager or, in the absence of such agreement, as evidenced by the rental last received from the same space) of any space in the aforesaid building not presently occupied by the owner, but hereafter so occupied;

(*d*) An amount equal to the actual expense incurred by the manager under the provisions of paragraph 3 of this agreement, excluding overhead and supervisory expense;

all payable at the time of each monthly accounting made pursuant to paragraph 5 of this agreement. No rental commission is to be paid by the owner for any tenancy created pursuant to this agreement, except that if a tenant is secured by a licensed salesman or broker not employed by the management department of McClanahan-Heidacher, Inc., and if the leasing of space to such tenant is approved in advance by the owner, then the owner shall pay to such licensed salesman or broker a rental commission equal to one-half the fee established by the Cincinnati Real Estate Board.

8. Manager will carry workmen's compensation on its own employees and will pay the cost of same without charging such cost against owner. Manager shall be added as an additional insured to owner's comprehensive public liability insurance policy with respect to those operations of manager which are performed under this management agreement. The limits of such comprehensive public liability insurance policy (which shall include elevator coverage) shall not be less than the following:

Bodily injury	$200,00 limit per person.
	600,000 limit per accident.
Property damage	500,000 per accident.

The cost of maintaining the aforesaid insurance shall be paid by owner. Owner shall furnish manager with evidence that such insurance is in effect. Manager will carry steam boiler insurance in an amount satisfactory to owner (or will permit its name to be added to any steam boiler insurance policy carried by owner), and the cost of such insurance shall be charged to owner as a reimbursable expense (or owner, in its discretion, may pay the premium direct).

9. In addition to the duties which the manager specifically in this agreement undertakes to perform, the manager agrees to perform all the functions customarily performed by building managers of commercial properties. The manager agrees to perform all its duties and functions with due and proper care having due regard for the best interest of the owner and in a manner consistent with the highest standards of recognized building managers.

10. The provisions which the owner may be required to place in any management agreement as a result of the owner's leasing at any time any space in the building to the United States of America shall be deemed to be incorporated herein the same as if fully set forth and the manager agrees to comply with such provisions.

11. In performing its duties hereunder, manager shall act as an independent contractor.

12. This agreement represents the entire contract between the parties, and the manager agrees to perform the services provided for herein upon the terms and conditions herein set forth. This agreement shall remain in effect for a period of 3 years from February 1, 1963, unless sooner terminated by notice in writing from either party to the other, which may be given with or without cause at any time and shall be effective at the close of the first calendar month that ends not less than 30 days after the date of such notice.

13. This agreement shall be deemed personal between the parties, and shall not be subject to assignment by either of them. The manager may, however, delegate to any corporation owned and controlled by the manager, its officers or employees, any or all of the duties that the manager is to perform under paragraphs 3, 4, or 9 hereof, accounting for the expenses of such other corporation in the same manner as if they were direct expenses of the manager; and in the event of such delegation, the provisions of paragraph 8 hereof with respect to liability insurance shall apply to the manager and such other corporation, jointly and severally.

14. This agreement shall become effective February 1, 1963.

In witness whereof, the parties hereto have executed this agreement this 31st day of January 1963.

FEDERAL RESERVE BANK OF CLEVELAND
(Owner),
By FRED O. KIEL, *Vice President.*

MCCLANAHAN-HEIDACHER, INC.
(Manager).
By JULIUS HEIDACHER

JUSTIFICATION NO. 64

Dinners with northern Kentucky bankers and Pittsburgh bankers

These dinner meetings were arranged with the chief executives of northern Kentucky and Pittsburgh banks in order to introduce to them the new incoming President of the Cleveland bank, Mr. W. B. Hickman. We considered that such meetings at central points would be more economical as to travel, time, and expense than visits to each city or bank in the areas.

The new President had been in the Fourth District area less than 3 years prior to his appointment. It was essential, therefore, that he meet as many bankers as possible in order to facilitate the discharge of his responsibilities. As President he is expected to be well informed regarding banking, credit and economic developments and problems, and to interpret monetary and credit policy to the district. He must know bankers and others well enough to gain their confidence and to encourage them to discuss with him freely and frankly their programs, plans, policies, and views. These contacts are also helpful in carrying out the reserve bank's responsibilities as fiscal agent of the U.S. Government, particularly in administering U.S. tax and loan accounts carried at banks, sale of U.S. savings bonds, and sale or exchange of U.S. Government securities for member bank account or for the account of their customers. This activity redounds to the benefit of the U.S. Treasury.

JUSTIFICATION NO. 65

Job evaluation travel expense of branch personnel

In order to foster the efficient conduct of the bank's business and to assure fair treatment for the more than 1,500 employees of the three offices of the Federal Reserve Bank of Cleveland (offices at Cleveland, Cincinnati, and Pittsburgh) the personnel department is continually reviewing the job content of positions in the three offices. This review is undertaken for the purpose of providing a proper alinement of grades and remuneration with difficulty of work and levels of responsibility within the three offices of the bank and in comparison with comparable jobs in other concerns in the three communities.

To achieve comparability in the assignment of salary grade levels, and to discus personnel administration with a view toward uniformity, meetings of members of personnel departments concerned with the particular functions or problems under consideration are held from time to time. Branch personnel are represented in such meetings held at the bank's main office. Travel and subsistence expenses of these branch personnel are paid by the bank.

This program has been effective in providing an equitable means of determining the relative values of jobs and permits a more sound salary administration program thus reducing the tendency of employees to seek employment elsewhere.

JUSTIFICATION NO. 66

Emergency preparedness program

Pursuant to the authority granted by Executive Order 11094, issued by the President of the United States, the Federal Reserve System has embarked upon national security preparedness measures relating to monetary and bank credit programs in the event of a national emergency.

One phase of the emergency preparedness program of this bank was to establish cash agent banks through the Fourth Federal Reserve District, where currency would be placed in the vaults of these cash agent banks for use only in the event of a national emergency.

Cash agents—Travel expense

A substantial amount of currency has been prepositioned in 12 of the 15 cash agent banks in the Fourth District. Periodically, it is necessary for one or more of our officers to go to these cash agent banks to check the alarm systems, make audits, or handle other miscellaneous details in connection with our cash agent program. These trips, which involve travel expense, are made as part of the responsibility of this bank in carrying out the details of our emergency preparedness program under the Executive order issued by the President of the United States.

Travel expenses—Record center program

For a number of years, in order to strengthen our emergency preparedness program, two people were assigned each week throughout the year to the record center at Athens, Ohio, for training purposes and to become familiar with the operations of the record center in the event it would be necessary to use them during a national emergency.

This training program was revised on July 1, 1963, when three records sites were established—one for the main office and one for each of the branches. Records had to be moved from Athens to the other sites.

This program should be of immeasurable direct benefit to all of the communities in the Fourth Federal Reserve District in the event of a national emergency, with accompanying practical benefits to the Federal Reserve Bank of Cleveland and the U.S. Government.

JUSTIFICATION No. 67

Balance sheet audit of branches

The board of directors of this bank has authorized and directed the general auditor to make periodic complete audits of the branches. It is less excepsive to have the audit force of the main office travel to branches and conduct the audit on a concentrated basis over a period of a week or two, than to keep a resident audit force at each branch large enough to perform the work.

JUSTIFICATION No. 70

Ackenheil & Associates, Inc., engineering fees

In April of 1962 we retained the engineering firm of Ackenheil & Associates to make a preliminary survey and a continuing check of the bank building structure to protect the bank building and property from any possible damage due to the imminent construction of the Federal building adjacent to our property. It had been determined that due to the soil conditions and the depth of the foundation for the proposed building, there would be a distinct possibility of damage to the bank property. There was also a possibility that water seeping into the excavation and being removed could cause a lowering of the water table pressure beneath the bank building which could cause settlement and subsequent damage. Also, there was the possibility of damage to the bank building from the vibration caused by pile driving.

Ackenheil & Associates surveyed the bank building to determine existing plaster cracks. These existing cracks were then noted and microscopically measured and photographed. Certain check points on the exterior of the building were established and measured. The plaster cracks were inspected and measured weekly for the purpose of detecting any structure movement during the pile driving and excavation. The check points on the exterior were surveyed at varying intervals during the excavation. Weekly reports were submitted to the bank to keep the officers informed at all times.

Ackenheil & Associates' final report indicated that there had been only a very minor settlement of the bank building in the order of one thirty-second to one sixteenth of an inch. The preliminary investigation had indicated the possibility of three-sixteenths of an inch of settlement. This very minor settlement caused no structural damage to the bank building. The plaster cracks that had been kept under surveillance also indicated that there had been no structural movement other than the expected vibration from pile driving.

The bank benefited by having expert examination at all times in a situation that could have been dangerous and could have resulted in heavy damage and expense.

JUSTIFICATION No. 71

Moving expenses of C. Harrell from Cleveland to Pittsburgh

Shortly after the death of the vice president previously in charge of the Pittsburgh branch, the Federal Reserve Bank of Cleveland transferred Mr. Harrell from Cleveland to Pittsburgh, to assume responsibility, as vice president, for management of the branch, and requested him to move his domicile from Cleveland to Pittsburgh. In line with common practice of industry and government, his necessary moving expenses were paid.

JUSTIFICATION No. 72

Outside cost of tabulating

Periodically it is necessary to process certain punch cards, including cards used in fiscal agency bond inscription operations, so that the data punched into the cards is interpreted or printed on the cards. As the volume of this operation does not warrant the installation and rental of an Alphabetical Interpreter, the prepunched cards are taken to a service institution for processing. The annual cost for this service is less than 1 month's rental would be if such an "Interpreter" were installed in our tabulating department.

JUSTIFICATION No. 73

Work uniforms for cash department personnel

Since the work of counting and wrapping coin is dirty and messy, the bank furnishes work clothes for the people working in the unit.

The furnishing of the clothes enables the bank to maintain more effectively standards of cleanliness and sanitation considered to be desirable and necessary. The employees engaged in the work in this unit are in the lower pay grades and requiring them to supply and launder their own work clothes would impose a severe and unconscionable financial burden on them. The cost to the bank of furnishing and laundering the uniforms is estimated to be less than would be the compensation necessary to reimburse the employees for doing it individually.

JUSTIFICATION No. 74

Savings bond drive luncheons

The branch sponsored a luncheon on March 7, 1962, for bankers and industrialists in Erie County, Pa., to promote the sale of savings bonds through the Payroll deduction plan. At that time the Savings Bonds Division of the U.S. Treasury Department was commencing a drive to encourage greater participation in the bond program in Erie County.

The branch also sponsored a dinner-meeting on March 29, 1962, using the branch's cafeteria facilities. It was attended by Pittsburgh area volunteer workers interested in the savings bond program; its purpose was to help increase the sale of savings bonds.

These meetings helped to encourage greater interest in the savings bond program, and were sponsored at the request of the Treasury Department. The Board of Governors approved the Treasury Department request and authorized Federal Reserve banks to assist in the Treasury's program to stimulate sales of savings bonds by paying the cost of a luncheon or a dinner.

JUSTIFICATION No. 75

Christmas gifts to employees in armed services

A token gift of $10 which displays continuing interest in having an experienced employee return to the bank following military service.

JUSTIFICATION No. 76

Dinner for convention of Allied Social Science Association [1]

Pittsburgh was host city to over 3,800 delegates representing 12 large research, educational, and scientific associations attending the Allied Social Science Associations meeting held December 26–29, 1962.

In connection with the Science Associations meetings, the branch management felt it would be a fine opportunity for the representatives attending the Science Associations meetings from the various Reserve banks and Board of Governors' office to get together to discuss problems of mutual interest in the research and economic field. Accordingly, the branch sponsored a dinner-meeting which was held at the branch, using its cafeteria facilities. The branch facilities were decided upon because it was more economical than holding the dinner at a local hotel.

The meeting at the branch was of benefit as it presented the opportunity to the members of the research staffs from the various Reserve banks and Board of Governors' office to meet informally with those in the same line of endeavor, share their experiences, and exchange information on research and economic policies.

JUSTIFICATION No. 77

Employees' handbook

The employees' handbook contains policies, rules, and regulations of the bank affecting the employee during the normal course of business. This booklet is furnished by the bank to all employees. It fosters an improved understanding of personnel policies and encourages employees to observe established rules. In so doing, it has eliminated those grievances and complaints that usually arise through misunderstanding or lack of knowledge of the bank's rules.

Mr. HICKMAN. I'd like to make this comment about our fellowship program, which you mentioned. We have a program here which I think is probably saving the Federal Reserve Bank of Cleveland, and the Treasury indirectly, more money than any other program.

[1] The Allied Social Science Associations refer to meeting in Pittsburgh as meetings—not conventions.

The CHAIRMAN. What is that?

Mr. HICKMAN. This is our fellowship program—this is the payment of the money to the University of Kentucky, to Ohio State University, to Carnegie Institute of Technology, and so forth.

Roughly, what we do is select two promising young graduate students each year to work on subjects of interest to our bank.

And I would like to indicate some of the topics that these young people are working on.

One man is working on the impact of monetary policy on the investment portfolio decisions of country member banks. Another is working on term lending among large member banks in the Fourth Federal Reserve District. Another one is working on the principal determinants of the demand for money by consumers and households, and so on.

The CHAIRMAN. Mr. Hickman, whose permission did you have outside of your own directors to make these expenditures?

The Federal Reserve Board didn't give you that power, did they?

Mr. HICKMAN. Oh, yes. These are moneys that are needed to be spent to understand the workings of the monetary system.

The CHAIRMAN. Who did you make a report to on these actual expenditures?

Mr. HICKMAN. We make a functional report quarterly to the Board of Governors. And then we have an annual budget——

The CHAIRMAN. I was told that you did not. We will have to look into that.

Mr. HICKMAN. That is correct. We give them a quarterly——

The CHAIRMAN. Including these items right here that I mentioned? Of course the items that we have here, they are just a small number of the items. You say they are included in totals and not details?

Mr. HICKMAN. There is a listing——

The CHAIRMAN. In detail?

Mr. HICKMAN. I think that there is, sir. No, I beg your pardon. I have to take that back. There is not.

The CHAIRMAN. You are wrong about that, because you made no report to anyone.

Mr. HICKMAN. I am sorry.

The CHAIRMAN. We looked into that carefully.

So the banks are spending all this money for anything they want to spend. Some of it is justified, some of it is not justified.

But you are spending money here as though it was your money. It is not your money. It is the Government's money, it is the taxpayers' money.

If you didn't spend it for these purposes, it would go into the Treasury, reduce the tax bill of every person in the United States. So this is a serious matter. And I think you people are going just too far, taking onto yourselves the decision as to how you will spend money. There doesn't seem to be much of a limit on what you spend it for or how much.

Mr. HICKMAN. We are spending $6,000 for a study, per man, for 18 months' work, on a subject of interest and value to the Federal Reserve Bank of Cleveland. It is very difficult to get professional economists to work for you 18 months full time for that kind of money.

The CHAIRMAN. I know. But most of your work is check clearing.

Mr. HICKMAN. No, as I started off by saying, Mr. Chairman, the main responsibility, most of our work, most of my time is spent on trying to formulate the correct decisions, the correct information, to give to the Board of Governors, in assisting them to formulate monetary policy.

The CHAIRMAN. You could not prove or disprove anything along that line. There is no way to arrive at any definite conclusions.

Mr. HICKMAN. It is a very nebulous thing, as you know. Millions and millions of dollars are spent for similar purposes.

The CHAIRMAN. Any other questions, gentlemen?

Mr. WIDNALL. Mr. Chairman, I think he made a statement earlier about 33 percent of the time was spent on check clearing—32 percent.

The CHAIRMAN. And 16 percent for what?

Mr. HICKMAN. For general services—let me get this breakdown, please.

The CHAIRMAN. Of course, the Federal Reserve Act contemplated that the bankers would pay for clearing these checks.

That is something else that the Federal Reserve banks took on, without any authority at all, and it is costing the Government about $150 million a year. The lowest estimate has been $125 million a year.

Mr. HICKMAN. Well, as I understand, the total cost of this to the Federal Reserve Bank of Cleveland for the check collection function in 1963 was $3,700,000. The total cost for the system was $41 million.

The CHAIRMAN. The taxpayers paid that. They shouldn't have paid it. But you are making them pay it.

Mr. HICKMAN. The taxpayers are paying for the roads and the harbors and the public works, to take care of promotion of commerce and industry.

A fundamental part of the Federal Reserve Act was to encourage the use of checks as a means of payment.

The CHAIRMAN. So the banks are not helping the Federal Reserve—capital about $500 million, so-called capital—it is not used, it is idle, unused. You pay them 6 percent on it.

Mr. HICKMAN. It is not idle. Our capital is used.

The CHAIRMAN. What do you use it for?

Mr. HICKMAN. It is invested in Government bonds and all the other assets we have.

The CHAIRMAN. Where are the Government bonds it is invested in?

Mr. HICKMAN. It is prorated over all the assets.

The CHAIRMAN. The bonds you said that you held were not owned by you. It is owned by others. You answered that question for me.

Mr. HICKMAN. These bonds are owned by us, a proportionate share of these bonds.

The CHAIRMAN. How much in bonds do you have?

Mr. HICKMAN. I just gave you the balance sheet of the bank here. We have somewhere in the neighborhood of two and a half billion dollars worth of Government bonds. U.S. Government securities, $2,783 million——

The CHAIRMAN. Wait a minute. Is that your part of the portfolio?

Mr. HICKMAN. That is what we own.

The CHAIRMAN. You own yourself in Cleveland?

Mr. HICKMAN. That is correct. We own it.

The CHAIRMAN. And that is not part of the open market portfolio?

Mr. HICKMAN. That is part of it.

The CHAIRMAN. How did you buy those bonds?

Mr. HICKMAN. By setting up liabilities—claims on us in the form of member bank reserves.

The CHAIRMAN. What did you pay for them?

Mr. HICKMAN. Checks on the Federal Reserve Bank.

The CHAIRMAN. Didn't pay any money for them?

Mr. HICKMAN. We paid deposits for them.

The CHAIRMAN. Paid deposits for them. That is just by a flick of the pen.

Mr. HICKMAN. That is just what banking is. That is the way it is done.

The CHAIRMAN. That is what I say. You paid nothing for these bonds.

Mr. HICKMAN. That is the whole banking process.

The CHAIRMAN. All right. Of course, we have 11 other Presidents to interrogate. And I have some other questions. I think I will wait and ask one of the others.

Mr. BOLTON. Mr. Chairman—as a point of clarification—with specific reference to the study being made by the various economists, is it your point that these would be better controlled if they went through the appropriation process?

The CHAIRMAN. Yes, sir; it is. And we get rid of that back-door spending.

Mr. BOLTON. I understand the gentleman's point. But I think, therefore, if these research projects which are approved by the Congress, and appropriations through ARA, such as discovering where the umbilicus of a whale is and the mating habits of seals in Alaska are better controlled and the taxpayers' money is better controlled than it is under the policy directed along policy lines for a distinct purpose by the bank.

The CHAIRMAN. Without the approving the projects the gentleman has stated, I think that all Government expenditures should be made under Government supervision some way, and somebody independent should be reviewing and evaluating the operations of the Fed to see whether or not the money is properly spent. That is my point.

Mr. BOLTON. And you don't believe that any breadth of judgment——

The CHAIRMAN. Sure, you have to have discretion. But you don't have to have where they can spend thousands of dollars to join the American Bankers Association, and things like that. That is just clearly out of line. There is no point in them joining the American Bankers Association. Why should members of Congress join and charge it up to the Government, and make the Government pay it? That would be terrible.

Mr. BOLTON. Does the gentleman know whether the Government pays the membership in the American Medical Association for any members of the Department of Health, Education, and Welfare?

The CHAIRMAN. I don't know. But it would not surprise me if they paid for specific professional people. But that is quite a long way from what they are doing here. Here is where a whole bank is joining the American Bankers Association, spending thousands of dollars for it.

Mr. WIDNALL. Mr. Chairman, do I understand you to be saying that if they are to use any economists in that bank, it should go through the appropriation process and be screened, as to the number they hire, who they hire?

The CHAIRMAN. Well, we have a way of handling that. The agencies ask for something and say, "This is approximate—we might use some of these other funds for that, and we have to have some flexibility." You have to have that.

Mr. BOLTON. If that is the gentleman's point, we are a lot closer together than some of the past statements would indicate.

The CHAIRMAN. I would not label every penny—of course not. You have to have some flexibility. But somebody has to look that over. It is just like the fellow, his son's going to town to shop, back in the old days, to buy food and cattle feed, everything else. And he just throws the boy his purse and tells him to go to town, buy a wagonload, and then give the purse back, and he never looks at it. They got along all right that way. But it is not a good way to do business. And that is what we are doing right here. We are throwing the Federal Reserve a billion dollars a year. After they spend all they want for any purpose, it is never approved by Congress, never approved by anybody, before or after. And then they send the balance back to the Treasury. It is kind of a loose way of doing business. And it is far from what you said as to how your operations were better than any Government agency's operations. I cannot agree with you on that.

Mr. WIDNALL. Mr. Chairman, I would like to compliment them on what they have done with respect to research. I think the funds in my own way of thinking have been wisely spent and in the interest of the taxpayer. There is no more frustrating experience than to see what happened last year, when Congresss did not act on the defense education scholarship funds, and thousands of our young people could not go to college this past fall because of the failure of Congress to act, and they could have acted a year ago this January. They need help. It seems to me they are using the expeditious way to get competent help. And it is in the interest of all the people.

Mr. BROCK. Mr. Chairman—if I may add a comment. I can think of no more judicious use of the tax dollar than to provide an educational opportunity for Government employees or anybody.

And I think it is commendable that these employees of yours are being given this opportunity to advance themselves technically so that they are of greater benefit to the Federal Reserve bank, to the people of the United States.

I think perhaps if we wanted to be brutally honest about this thing, if we are going to put this list into the record of educational opportunities being offered, and membership in organizations, which I also agree with because we have to have communications between the two to be able to assess the economy—I think it would be entirely germane, then, for a list to be compiled of the subsidization of Members of Congress, in the form of shampoo, hair oils, massage parlors, and steam baths.

This to me is just talking about the other side of the coin and being fair about it.

The CHAIRMAN. Well, I am not using any of the services the gentleman mentioned. But I would not object to any reasonable regulation against any Member of Congress. I don't get any free haircuts either. I have been here 35 years and I have never gotten a free haircut.

Mr. BROCK. It is subsidized, as is the cafeteria. I think the point that I would like to raise is what method of investigation raised these figures, and where did the facts come from?

The CHAIRMAN. Personal visits to the banks by two investigators from the committee. If you gentlemen will remember, one of the first things they discovered, and it was brought before the committee, was the note in the minutes of the Federal Reserve Bank of New York, when they were up there, about this $7,500,000 loss in Government bonds in San Francisco. And we brought that before the whole committee, appointed a committee to go out to San Francisco and look into it. And I thought their books were rather loosely handled out there. In fact, this goes to prove that the Government's money is being handled in a rather careless way, the way it looks to me.

Mr. BOLTON. Mr. Chairman, in light of this whole proposition—if the Fed were to turn those Federal bonds back to the Treasury, would you suggest that all other Government agencies do the same thing?

The CHAIRMAN. This is not a comparable situation at all. The other Government agencies pay actual money for their bonds—like the trust fund—they pay actual money. Only the Federal Reserve and the commercial banks can create money. Nobody else can get bonds unless they pay for them, except the Federal Reserve and the commercial banks. They can create money on the books of the banks.

Mr. BROCK. What would the Chairman suggest as an alternative to these bonds, for the creation of money?

The CHAIRMAN. For the creation of money? You mean Federal Reserve?

Mr. BROCK. Yes, sir.

The CHAIRMAN. The banks should pay part of it, clearing checks and other services that are just purely for the banks' benefit. The banks should pay that part. Then any public service the Government should pay, by appropriation from Congress.

Mr. BROCK. Are not these bonds used, Mr. Hickman, in the process of generating capital for the U.S. economy?

Mr. HICKMAN. Yes, sir.

Mr. BROCK. What alternative would the Chairman suggest for this purpose?

The CHAIRMAN. Well, they could still go ahead and do that. You see, these reserves are given to commercial banks. When a commercial bank sells a million dollar bond, a bond maybe that you have yourself, that you want to sell through that bank, the Federal Reserve gives them credit in their reserves for it.

Now, you see, that is not their money—that is really your money, but they are using it, and they give you a million dollars, and then the banking system can expand on that $9 million more. That is under the fractional reserve system—free of charge.

So the banking system may get interest on $10 million for the use of that million dollars that doesn't even belong to them.

Mr. BROCK. May I ask, Mr. Hickman, what would happen to the capital structure of the country if we withdrew from the Fed this $33 billion?

Mr. HICKMAN. If the bonds were canceled and the reserves of the banking system wiped out?

Mr. BROCK. Yes, sir.

Mr. HICKMAN. I should think all the commercial banks would be insolvent.

The CHAIRMAN. Nobody is advocating that. We can get to the alternative later on. We are just talking about now the existing facts.

Mr. BROCK. That is the point—we could not operate.

The CHAIRMAN. We could operate.

Mr. BOLTON. Mr. Chairman, I hate to make a point of it, but there is the recognition on the floor today——

The CHAIRMAN. We will adjourn until 2:30, and we will resume with the gentleman from Boston.

(Whereupon, at 12:20 p.m., the committee recessed to reconvene at 2:30 p.m., the same day.)

AFTERNOON SESSION

2:30 P. M.

Present: Representatives Patman (presiding), Reuss, Vanik, Minish, Hanna, Wilson, Harvey, Bolton, and Brock.

The CHAIRMAN. The committee will please come to order.

We have as our witnesses this afternoon, Mr. Ellis, President of the Federal Reserve Bank of Boston, who was here this morning but did not testify, and Mr. Shuford, President of the Federal Reserve Bank of St. Louis, and Mr. Wayne, President of the Federal Reserve Bank of Richmond.

Well, gentlemen, do you have prepared statements?

Mr. ELLIS. Sir, I came with a prepared statement; yes.

Mr. SHUFORD. Yes, sir; I have a short one.

Mr. WAYNE. I do not have a prepared statement.

The CHAIRMAN. That is all right. Just make a brief statement then. Even if it is prepared, we will put it all in the record.

You may make a brief statement, and we will take all three of you at once rather than have two of you come back tomorrow, and we can interrogate you at the same time.

Mr. Ellis, you may proceed first but, before you start, Mr. Brock asked a question and made a statement this morning which, I am afraid, was misunderstood.

Something was said about if interest was not paid on the Federal Reserve bonds that are held by the Open Market Committee that that would, in other words, invalidate the reserves.

I just wanted to state that if interest was not paid, and they were carried as non-interest-bearing obligations, it would not affect the reserves, as I understand it.

Mr. BROCK. That is correct, and I did not imply that I was talking about the removal of the bonds themselves.

Mr. CHAIRMAN. Oh, I see. Well, I misunderstood you then. Thank you, sir.

All right, Mr. Ellis, you may proceed.

STATEMENT OF GEORGE H. ELLIS, PRESIDENT, FEDERAL RESERVE BANK OF BOSTON

Mr. ELLIS. With your permission, I would like to review the salient features of the opening statement which, I understand, will be in the record.

I would like to start by simply advising you of the background that I bring to this discussion.

I joined the Federal Reserve Bank of Boston as a research economist in June 1951. Prior to that I had obtained a Ph. D. in economics at Harvard University and was an assistant professor of economics and business administration at the University of Maine. With the passage of time I became successively manager of the bank's research department, director of research, vice president, and in January 1961, president.

It is my understanding that the principal purpose of this hearing is to consider what is the best central banking system for the people of the United States. In such a reconsideration it would seem essential to start with a restatement of some basic, widely agreed objectives to be obtained by our central banking system. To my way of thinking there are two:

1. The Nation's individual commercial banks must be welded together into an effective system that will serve individuals, businesses, small and large, and governments, large and small.
2. The Nation's money-creating powers must be continuously exercised for the national interest.

Let me consider these two objectives in sequence.

The problem starts, I think, with the simple fact that we have in our country some 14,000 privately owned, highly competitive, independently operated commercial banks. The mechanics of effectively tying together the activities of all these banks through a pooling of reserves and provision of cash, check, credit, and other services needed in an integrated financial system is a major administrative task faced by no other country. At some point Congress had to decide whether these functions were going to (*a*) be left entirely to private banking, (*b*) become strictly governmental activities, or (*c*) be some combination of the two alternative approaches. Behind this choice, and behind much of the questioning that I have heard here this morning, lay the question of how far a democratic government can go in guidance and control of economic affairs without severely limiting the effectiveness of the private economy.

When it passed the Federal Reserve Act in 1913, Congress made its initial choice. It decided to create by statute 12 semipublic corporate agencies of the Federal Government—the Federal Reserve banks—to perform certain banking functions in the public interest subject to governmental supervision through the Board of Governors of the Federal Reserve System, itself a Government establishment holding powers in trusteeship from Congress.

As the Federal Reserve has evolved new administrative arrangements and new policy techniques, it has continued to reflect, in general, the political, economic, and social traditions characteristic of the

United States. The size, diversity, and democratic character of the Nation are implicit in these arrangements—specifically, that regional interests make up the national whole and that primary economic changes in most regions have become increasingly dependent upon what happens in others. The public, in general, specific economic groups in the community, and differing sections of the Nation are represented in the policymaking bodies of the Reserve System. The distribution of System powers between the regional banks and the Board of Governors, and the organization of the policymaking bodies provide means of bringing increased knowledge and improved judgment to bear on final decisions in the public interest. At the same time, this organizational framework insulates monetary decisions from both the perssures of private interests and from partisan politics.

In the meetings of the Federal Open Market Committee, as in other System bodies, lines of thought converge from two directions into the formation of national policy; one flows from banking, business, and the general public in the various regions through the Presidents of the Reserve banks, the other from the Board of Governors of the Federal Reserve System at the national level. Regional representatives of the System not only participate in policy formulation but interpret these actions and objectives in their own communities, thus encouraging wider public understanding and support of national decisions and improved effectiveness of general policy.

Policy determined, at least in part, by locally oriented means becomes more broadly based and less vulnerable than an entirely centralized determination and administration of policy with only a rudimentary role of gathering regional intelligence assigned to a network of field offices.

The flow of regional economic materials produced by the research activities of the Reserve banks contributes directly to the development of the geographical areas which they serve. One of the implications of the Employment Act of 1946 is that the Government must engage in constant analysis of business conditions in the interest of greater stablity and economic growth. Since its inception the Reserve System has collected statistics and conducted economic studies toward this end. The banks' variety of regional statistics, their continuing improvement and development as new data become available, not only increase the understanding of the economic characteristics of the various individual regions of the Nation, but provide a better perspective for analysis of economic conditions as a whole. Thus, the Employment Act reaffirmed and broadened the general objectives concerning economic growth and stability implicit in the Federal Reserve Act.

Within this general framework a Federal Reserve bank President has dual responsibilities for administration and for policy formulation. On the one hand he is responsible for administration of a bank that provides coin and currency for a wide geographical area, clears checks between banks, acts as fiscal agent of the United States in such duties as issuing, retiring, and transfering Federal securities, and many related service functions. His administration takes place in a business environment where the objective is efficient service at lowest possible costs; where a board of directors exercises general supervision and policy guidance; where operations conform to an approved budget within the framework of general directives issued by the Board of

Governors; and where he is subject to continuous audit control and examination. Each Reserve bank's internal auditor reports to and is directly responsible to the board of directors and independent of the bank's operating management. Each year, in addition, an examination of the bank is made by the Board of Governors' examiners who report directly to the Board.

It can be demonstrated that under these arrangements Federal Reserve banking operations, all of which serve the public interest in one way or another, compare favorably in result with the best in comparable Government operations and private enterprise. Having made such a self-directed complimentary observation, let me hasten to recognize that the System is made up of human beings, no one of them being infallible. We always have a host of problems and there is always a constant struggle for improvement. Part of my job is to see that the struggle has a successful outcome.

By act of Congress I am sworn to service every third year as a member of the Federal Open Market Committee. To Committee deliberations a Reserve bank President must bring familiarity with banking and credit conditions in his district and with the requirements of banks for reserves with which to meet the credit needs of their customers. He must also be fully familiar with the overall credit policies of the System and actions that may contribute to national economic stability and growth.

In fulfilling my regional operational and national policy responsibilities, I find the services of our board of directors extremely helpful. Their wide-ranging public concern and their business and banking experience are valuable in planning and conducting the bank's affairs. Their contact with the economic life of the region provides current evaluation of economic conditions that is valuable in policy determinations. In my 3 years of service as a Reserve bank President I have been fortunate to have as Chairman first, Dr. Nils Wessell, president of Tufts University, and currently, Mr. Erwin D. Canham, editor of the Christian Science Monitor. My experience with these and other directors, and that of my predecessor, suggests that they are willing to serve because they feel they are elected or appointed on the basis of reputation and ability to serve in the public interest. Furthermore, their standing in the region provides support for the Reserve System and widens public understanding and appreciation of monetary matters.

I would count it as a serious liability were the System so to be changed that we could not continue to secure highly experienced directors willing to serve the public in this way. It should be clear to all that the quality of Reserve bank directors and their devotion to public welfare insures that Reserve bank Presidents are not banker dominated.

Mr. Chairman, I should like to conclude this opening statement with a general observation about the subject matter of H.R. 3783, H.R. 9631, and the related proposals for altering the structure of the Federal Reserve System. Taken as a group, these proposals amount to a nationalization of the country's central bank. In countries with parliamentary form of government it might be argued that since the cabinet hold their office at the will of the parliament the ultimate control of the monetary system remains with the people's elected representatives. In our country, however, such a change as making the Secretary of the Treasury Chairman of the Federal Reserve Board would amount to congressional abrogation to the executive of the fundamental powers of control of the Nation's monetary system. For an excellent discussion of this issue I refer you to a letter from Mr. Allen Sproul to Mr. Patman at the time of the 1952 hearings. It appears on page 983 of the March 1952 hearings on the economic report.

In its 1960 response to the Commission on Money and Credit, the Treasury expressed my view so well that I should like simply to quote their conclusions:

> If the executive were to possess the power over the creation of money (which is the prerogative of Congress and has been delegated to the Federal Reserve), while at the same time bearing the responsibility to borrow to meet the Government's fiscal requirements as cheaply as possible, there might be considerable danger of reliance on unsound monetary policies to minimize (in the short run) Government borrowing costs, at the expense of encouraging inflationary pressures. This is no idle academic theory; it has happened in this and other countries.

I have long maintained that one principal advantage of the Federal Reserve System is that it has shown flexibility in adapting to the changing needs of our economy. At the same time, one of its greatest assets has been an independent stability that has won the confidence of the world's financial community. In fact, willingness of foreign central banks to continue holding dollars as part of their monetary reserves is heavily dependent on their confidence in the U.S. monetary system. The substantial alteration in the structure of the Federal Reserve System as proposed in the bills under discussion might raise the serious prospect of loss of confidence in the dollar and lead to a rapid gold outflow.

Mr. Chairman, any fair appraisal of how the Federal Reserve System has evolved over the past 50 years would suggest that further modification might result in continued improvement and it is always appropriate to direct inquiries in that direction. With respect to the particular proposals contained in the bills here under discussion, however, I am disposed to adhere to the judgment reached by your own Subcommittee on General Credit Control and Debt Management in 1952, when it concluded:

> The independence of the Federal Reserve System is desirable, not as an end in itself, but as a means of contributing to the formulation of the best overall economic policy. In our judgment, the present degree of independence of the System is about that best suited for this purpose under present conditions.

I still think that was a fine conclusion. Thank you, sir.

The CHAIRMAN. Thank you, sir. All right, Mr. Wayne, you may proceed.

You have an impromptu statement, I believe you said, that you would like to make.

STATEMENT OF EDWARD A. WAYNE, PRESIDENT, FEDERAL RESERVE BANK OF RICHMOND

Mr. WAYNE. There are a few comments that I would like to make, if I may, Mr. Chairman.

The CHAIRMAN. All right.

Mr. WAYNE. I brought no prepared statement.

Mr. HARVEY. Could I interrupt to ask Mr. Wayne if he is the same "Mr. Wayne" whom we saw in the movie of the Richmond bank?

Mr. WAYNE. I am afraid so.

Mr. HARVEY. I am sure we would all like to compliment you and say we thought that was a very fine movie. You did very well.

Mr. WAYNE. Thank you very much, Mr. Harvey.

Well, I would like simply to make a few observations, if I may, in connection with the matters being here considered.

In the first place, it seems to me that the central bank is, after all, a banking operation by the very "nature of the beast," and that the business that it carries out is banking in nature and is expected to be and to materially alter the central bank so that it might, in the public mind and in the mind of our friends at home and abroad, lose this particular image, would seem to me dangerous in terms of our reliance upon it.

As I have looked at the experience and as I have read economic history, it seems to me that one of the things which is true of all of the nations of the Western World, even under a parliamentary system of government where the central bank is clearly subject in the ultimate sense to the control of a member of the Cabinet, that either by tradition, as in the case of the British, or by statute or by internal party discipline or by whatever move it may be, the central bank is always once removed from the daily pressures of parliamentary life, and this, it seems to me, is a lesson of history which cannot be overlooked;

That the very nature of the central bank and that which it is expected to do in the public interest not only requires that it occupy this position, where it can exercise a detached view, and not only must it be free to do so, but it must of necessity be required to do so, because by the very nature of its purposes it will pursue unpopular courses.

It will frequently pursue courses which will for the moment arouse hostile reactions in the public mind and in the Congress and in the administrative arm, the executive arm at times, and this it seems to me is an inevitable position which the central bank must occupy.

As I look at rather recent economic history and examine, for instance, the Republic of Germany in the early 1920's and I see what happened when the central bank was completely subservient to the executive and to the treasury, it seems incredible that one would run such a risk.

If one doesn't want to go back that far, one can look at the experience of France prior to 1958 and see exactly the same thing. Or if one prefers a current example, one can look south to Brazil.

So it seems to me that it is absolutely essential that, by whatever system, the central bank must be kept in this once-removed position.

Now, with respect to the services of the clearing of checks and of providing money, currency of coin, to the Nation's needs I find myself a little startled, Mr. Chairman, to run into some of your comments and expressed views on this particular subject because it has seemed to me that one of the prime purposes for which this was established was to preserve, as Mr. Ellis has intimated, a vast system of locally oriented banks.

So far as I know, no other great nation in the world has as many as a hundred banks. Most of them have only 20 or less.

For instance, it is not necessary for the Bank of Canada to collect checks because there are about 10 banks that blanket Canada and they clear checks on themselves. The true beneficiary of the check collection system of the Federal Reserve is the public at large.

I would like to recall a comment which was made by Mr. Glass, when he was in the House of Representatives, in a speech which he made, the last speech he made, in connection with the Federal Reserve Act on the day before it was enacted into law, in which he said with respect to the provision for the establishment of the check collection function that—

> The provision, as it stands, will result in an immense saving to the tradespeople of the United States. It will eliminate the amazing wastefulness incident to many independent collection organizations by substituting one compact collection system.

And so it has happened and it has seemed to me that the real beneficiaries of this particular transaction have been the tradespeople and that somehow this service has to be performed in such a way that will permit the smaller, locally oriented banks to enjoy complete acceptance of their checks.

It is true that in other nations of the world it is the banknote which is circulated rather than the check, but this is a unique development of this country, and it seems to me that it is not likely to continue to exist unless there is some unifying system such as the Federal Reserve has provided. With respect to the currency and coin operation, surely some arm of government must and will provide the needed currency and coin for the service of the public.

I wish to heavens there was more coin to provide, for it is one of our continuing and very complex problems, and if such a situation were to exist with regard to the real medium, and that is the check, this whole thing would come to a stop.

But the real beneficiaries of the currency and coin operation have always been the general public. More particularly, regarding the banks outside of the Reserve cities, there has been a continuing effort of the Reserve System to provide currency and coin to the country banks by means which will preserve as nearly as possible an equal advantage with the city banks, which would accrue to them because they are located in proximity to the central bank.

Finally, I recognize, as you and I have discussed before, Mr. Chairman, on previous occasions, of your visits, and I have heard the discussions here, that the matter of expenditures is a matter on which there are differences of opinion.

And I concur in the feeling that it is highly desirable for the central bank, in any one of its positions, to have a disinterested party looking over its shoulder. I urge that it be ex post facto or else how can we look at this from a separate and independent position, if you want to use that term, although I do not think that is a very good term.

It is an unfortunate term. It is not "independent." It is a once removed position.

The CHAIRMAN. Thank you, sir.

Statement of condition of the Federal Reserve Bank of Richmond at the close of business Dec. 31, 1963

[In thousands of dollars]

Assets:	
Gold certificate account	845, 296
Redemption fund for Federal Reserve notes	117, 530
Total gold certificate reserves	962, 826
Federal Reserve notes of other banks	38, 672
Other cash	9, 013
Discounts and advances:	
Secured by U.S. Government securities	1, 350
Other	1, 504
Acceptances:	
Bought outright	--------
Held under repurchase agreement	--------
U.S. Government securities:	
Bought outright	2, 350, 949
Held under repurchase agreement	--------
Total loans and securities	2, 353, 803
Cash items in process of collection	588, 827
Bank premises	5, 107
Other assets:	
Denominated in foreign currencies	7, 173
All other	17, 098
Total assets	3, 982, 519
Liabilities:	
Federal Reserve notes	2, 703, 310
Deposits:	
Member bank reserves	706, 663
U.S. Treasury—General account	79, 381
Foreign	7, 520
Other	8, 074
Total deposits	801, 638
Deferred availability cash items	398, 382
Other liabilities	5, 480
Total liabilities	3, 908, 810
Capital accounts:	
Capital paid in	24, 570
Surplus	49, 139
Other capital accounts	----------
Total liabilities and capital accounts	3, 982, 519
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	27. 5
Contingent liability on acceptances purchased for foreign correspondents	4, 319

Federal Reserve note statement—Federal Reserve Bank of Richmond at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve Bank by Federal Reserve agent and outstanding	2,786,928
Less held by issuing bank, and forwarded for redemption	83,618
Federal Reserve notes, net [1]	2,703,310
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	625,000
Eligible paper	1,350
U.S. Government securities	2,275,000
Total collateral	2,901,350

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of Richmond—Current earnings

[In thousands]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	$318	$1		$1				$320
1916	215	29	$39	3		$22	$25	334
1917	419	201	96	1	$31	56	18	821
1918	2, 390	274	83		123	49	60	2, 979
1919	4, 100	351	185		125		13	4, 775
1920	5, 921	478	277		217		11	6, 903
1921	6, 166	185	196		176		7	6, 730
1922	2, 570	75	95		87		6	2, 833
1923	2, 682	63	40		84		11	2, 879
1924	1, 905	48	165		65		28	2, 210
1925	1, 721	217	154		55		35	2, 182
1926	1, 676	374	261		69		48	2, 429
1927	898	665	419		42		63	2, 086
1928	1, 944	686	167		36		25	2, 858
1929	2, 569	555	76		49		50	3, 300
1930	877	282	409		28		46	1, 641
1931	796	124	391		28		50	1, 389
1932	989	130	634		43		74	1, 871

Federal Reserve Bank of Richmond—Current earnings—Continued

[In thousands]

	Discounts and advances	Dis-counted bills	Purchased bills	Industrial loans	Commit-ments to make industrial loans	Accept-ances purchased	U.S. securities	All other	Total earnings
1933		$518	$52				$1, 060	$69	$1, 699
1934		56	5	$17	$4		1, 825	81	1, 988
1935		6	1	236	19		1, 836	133	2, 232
1936		2	1	211	22		1, 791	30	2, 056
1937		9	1	123	18		2, 075	25	2, 250
1938		9		82	15		1, 763	47	1, 916
1939		5		62	9		1, 942	28	2, 045
1940		2		54	7		2, 152	28	2, 245
1941		1		47	10		2, 281	26	2, 364
1942		1		40	15		3, 188	10	3, 253
1943		7		21	9		4, 072	5	4, 113
1944		14		9	7		5, 945	5	5, 980
1945		59		5	4		8, 686	10	8, 764
1946		134		1	2		9, 107	12	9, 256
1947		135		1	1		9, 885	21	10, 041
1948	$260			2	1		19, 412	22	19, 690
1949	197			3	1		20, 043	17	20, 267
1950	107			6			17, 624	11	17, 741
1951	165			7			25, 828	10	26, 018

[In thousands]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	$706	$4	$1		$29, 641		$7	$30, 358
1953	710	2	1		33, 343		11	34, 067
1954	221				25, 627		7	25, 855
1955	568				23, 436		8	24, 013
1956	893				34, 752		16	35, 661
1957	1, 181				46, 405		14	47, 600
1958	366				47, 475		15	47, 855
1959	1, 560				54, 981		18	56, 559
1960	819				68, 654		32	69, 506
1961	153				59, 259		17	59, 429
1962	238				67, 479	$158	13	67, 888

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Richmond—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	$177, 304	$191, 085	$569, 073	$2, 445, 259	$3, 912, 817	$5, 489, 694
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						25, 531
Depreciation on U.S. bonds					58, 606	
All other					940	6, 486
Total additions					59, 546	32, 017
Deductions from current net earnings:						
Bank premises—depreciation			28, 435	28, 245	20, 000	170, 000
Furniture and equipment	2, 349	4, 514	28, 414	91, 786	49, 420	103, 126
Reserve for probable losses						
Reserve for self-insurance						
Reserve for Federal Reserve Board expenses					25, 531	
Reserve for depreciation, U.S. bonds			50, 000	13, 198		5, 865
All other					146	4, 214
Total deductions	2, 349	4, 514	106, 849	133, 229	95, 097	283, 205
Net deductions from current net earnings	2, 349	4, 514	106, 849	133, 229	35, 551	251, 188
Net earnings	174, 955	186, 571	462, 224	2, 312, 030	3, 877, 266	5, 238, 506
Distribution of net earnings:						
Dividends paid	151, 940	197, 922	240, 944	232, 432	252, 872	392, 052
Transferred to surplus account			116, 472	2, 079, 598	3, 624, 394	4, 740, 869
Franchise tax paid U.S. Government			116, 472			204, 585
Balance to profit and loss	23, 015	−11, 315	−11, 664			

	1921	1922	1923	1924	1925
Current net earnings	$4,799,834	$1,201,588	$1,327,740	$672,406	$730,846
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds	6,827	3,618			
All other	4,202	8,831	1,888	2,006	712
Total additions	11,029	12,449	1,888	2,006	712
Deductions from current net earnings:					
Bank premises—depreciation	54,069	178,358	89,671	82,114	81,671
Furniture and equipment	197,329	64,710	43,216	52,819	18,357
Reserve for probable losses	100,000	50,000	50,000	100,000	
Reserve for self-insurance	50,000	50,000	50,000	50,000	50,000
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	15,838	3,521	3,898	9,688	5,420
Total deductions	417,236	346,589	236,785	294,621	155,448
Net deductions from current net earnings	406,207	334,140	234,897	292,615	154,736
Net earnings	4,393,627	867,448	1,092,843	379,791	576,110
Distribution of net earnings:					
Dividends paid	322,203	333,321	342,295	351,251	358,162
Transferred to surplus account	693,792	[1] 32,954	384,404	28,540	217,948
Franchise tax paid U.S. Government	3,377,632	[1] 501,173	366,144		
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $20,459 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $53,413 and $480,714, respectively.

Federal Reserve Bank of Richmond—Profit-and-loss account, 1926–35

	1926	1927	1928	1929	1930
Current net earnings	$964,189	$552,776	$1,261,508	$1,558,942	−$84,576
Additions to current net earnings:					
Profit on U.S. Government securities sold					59,218
Other additions	561	1,884	1,057	625	2,598
Total additions	561	1,884	1,057	625	61,816
Deductions from current net earnings:					
Special depreciation allowances on bank premises	182,092	50,000		72,378	
Reserve for losses	50,000		50,000		
Reserve for self-insurance			50,000	100,000	
Building for Board of Governors					
All other deductions	5,013	6,949	43,605	44,964	6,037
Total deductions	237,105	56,949	143,605	217,342	6,037
Net deductions from current net earnings	236,544	55,065	142,548	216,717	+55,779
Net earnings	727,645	497,711	1,118,960	1,342,225	−28,797
Dividends paid	363,957	372,230	370,683	368,601	353,472
Franchise tax paid U.S. Government	84,472		673,449	876,262	
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	279,216	125,481	74,828	97,362	[1] −382,269

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	1931	1932	1933	1934	1935
Current net earnings	−$231, 275	$346, 375	$31, 635	$229, 186	$260, 413
Additions to current net earnings:					
Profit on U.S. Government securities sold	82, 148	82, 101	30, 735	327, 207	257, 648
Other additions	2, 165	1, 186	17, 300	25, 259	17, 122
Total additions	84, 313	83, 287	48, 035	352, 466	274, 770
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses		107, 145	391, 805	259, 188	101, 147
Reserve for self-insurance					
Building for Board of Governors					37, 141
All other deductions	9, 684	8, 027	16, 605	9, 117	8, 567
Total deductions	9, 684	115, 172	408, 410	268, 305	146, 855
Net deductions from current net earnings	+74, 629	31, 885	360, 375	+84, 161	+127, 915
Net earnings	−156, 646	314, 490	−328, 740	313, 347	388, 328
Dividends paid	340, 360	314, 490	308, 388	299, 050	293, 644
Franchise tax paid U.S. Government			[2]		
Paid U.S. Treasurer (sec. 13b)					66, 714
Transferred to surplus (sec. 13b)				−298	27, 970
Transferred to surplus (sec. 7)	[1] −497, 006		[1] −637, 128	14, 595	

[1] Deficit in earnings after payment of dividends, charged to surplus account

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of Richmond—Profit and loss account, 1936–45

	1936	1937	1938	1939	1940
Current net earnings	$310,956	$520,212	$226,737	$355,454	$483,129
Additions to current net earnings:					
Profits on sales of U.S. Government securities	296,982	127,633	437,837	229,376	608,518
Recoveries of, and withdrawals from allowances for, losses on industrial advances (net)					
All other	3,296	56,577	33,882	21,096	72,575
Total additions	300,278	184,210	471,719	250,472	681,093
Deductions from current net earnings:					
Reserve for contingencies	406,982				
Losses and reserves for losses on industrial advances (net)		113,543	161,248	70,554	30,500
Special reserves and chargeoffs on bank premises	2				
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system	157,044	157,044	314,088		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	88,123	60,953			
All other	21,537	849	22,245	12,245	261,174
Total deductions	673,686	−332,389	−497,581	82,799	291,674
Net additions or deductions(−)	−373,408	−148,179	−25,862	167,673	389,419
Net earnings	−62,452	372,033	200,875	523,127	872,548

Paid U.S. Treasury (sec. 13b)					
Dividends paid	280, 136	291, 235	297, 732	305, 414	317, 760
Transferred to surplus (sec. 13b)	−26, 247	−13, 420	−115, 893	−46, 834	−1, 721
Transferred to surplus (sec. 7)	−316, 341	94, 218	19, 036	264, 547	556, 509
Surplus (sec. 7) Jan. 1	5, 185, 759	4, 869, 418	4, 963, 636	4, 982, 672	5, 247, 219
Additions, as above	−316, 341	94, 218	19, 036	264, 547	556, 509
Transferred to reserves for contingencies					−556, 509
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	4, 869, 418	4, 963, 636	4, 982, 672	5, 247, 219	5, 247, 219

Federal Reserve Bank of Richmond—Profit and loss account, 1936–45—Continued

	1941	1942	1943	1944	1945
Current net earnings	$278, 400	$599, 198	$1, 313, 974	$2, 774, 030	$5, 538, 717
Additions to current net earnings:					
Profits on sales of U.S. Government securities	69, 594	178, 234	1, 974, 305	191, 113	207, 653
Recoveries of, and withdrawals from allowances for, losses on industrial advances (net)	-----	-----	50, 624	106	44, 373
All other	8, 261	14, 609	264, 540	5, 207	2, 717
Total additions	77, 855	192, 843	2, 289, 469	196, 426	254, 743
Deductions from current net earnings:					
Reserves for contingencies	-----	-----	-----	-----	627, 298
Losses and reserves for losses on industrial advances (net)	15, 735	[1] 17, 422	-----	-----	-----
Special reserves and chargeoffs on bank premises	-----	-----	-----	-----	-----
Chargeoffs and special depreciation on bank premises	-----	-----	243, 691	-----	-----
Prior service contributions to retirement system	-----	-----	-----	-----	-----
Retirement system (interest base adjustment)	-----	259, 717	-----	-----	-----
Retirement system (interest base and increased benefits adjustments)	-----	-----	528, 506	-----	-----
Assessment for building for Board of Governors	-----	-----	-----	-----	-----
All other	7, 784	29, 117	5, 386	9, 752	2, 624
Total deductions	23, 519	271, 412	777, 583	9, 752	629, 922
Net additions or deductions (−)	54, 336	−78, 569	1, 511, 886	186, 674	−375, 179
Net earnings	332, 736	520, 629	2, 825, 860	2, 960, 704	5, 163, 538

Paid U.S. Treasury (sec. 13b)	13, 808	58, 959	24, 307	2, 559	4, 154
Dividends paid	330, 180	348, 441	359, 650	380, 712	409, 879
Transferred to surplus (sec. 13b)			45, 557	5[1]	35, 858
Transferred to surplus (sec. 7)	−11, 252	113, 229	2, 396, 346	2, 577, 375	4, 713, 647
Surplus (sec. 7) Jan. 1	5, 247, 219	5, 235, 966	5, 235, 966	5, 235. 966	7, 813, 341
Additions, as above	−11, 252	113, 229	2, 396, 346	2, 577, 375	4, 713, 647
Transferred to reserves for contingencies		−113, 229	−2, 396, 346		
Transferred from reserves for contingencies					3, 066, 084
Surplus (sec. 7) Dec. 1	5, 235, 967	5, 235, 966	5, 235, 966	7, 813, 341	15, 593, 072

[1] Net recoveries.

Federal Reserve Bank of Richmond—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$5, 601, 937	$5, 706, 891	$14, 769, 404	$14, 873, 882	$12, 124, 196
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	114, 920	167, 375	396, 690	1, 995, 190	2, 364, 501
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	699	24, 210			
All other	3, 153	1, 738	358	768	7, 363
Total additions	118, 772	193, 323	397, 048	1, 995, 958	2, 371, 864
Deductions from current net earnings:					
Reserves for contingencies	35, 848	38, 602			44, 818
Retirement system (salary computation adjustment)	120, 162				
Retirement system (adjustment for revised benefits)				163, 430	
Losses on U.S. Government securities sold (net)					
All other	24, 260	8, 065	4, 587	5, 128	2, 029
Total deductions	180, 270	46, 667	4, 587	168, 558	46, 847
Net additions or deductions (−)	−61, 498	146, 656	392, 461	1, 827, 400	2, 325, 017
Net earnings before payments to U.S. Treasury	5, 540, 439	5, 853, 547	15, 161, 865	16, 701, 282	14, 449, 213
Transferred to reserves for contingencies			2, 592, 033	2, 537, 242	
Paid to U.S. Treasury (sec. 13b)		1, 992			
Paid U.S. Treasury (interest on Federal Reserve notes)		4, 808, 290	10, 855, 278	12, 261, 570	12, 487, 998
Net earnings after reserves and payments to U.S. Treasury	5, 450, 439	1, 043, 265	1, 714, 554	1, 902, 470	1, 961, 215
Dividends paid	457, 887	485, 085	508, 237	539, 948	573, 601
Transferred to surplus (sec. 13b)	−427	23, 881			
Transferred to surplus (sec. 7)	5, 082, 979	534, 299	1, 206, 317	1, 362, 522	1, 387, 614
Surplus (sec. 7) Jan. 1	15, 593, 072	20, 676, 051	21, 210, 350	22, 416, 667	23, 779, 189
Surplus (sec. 7) Dec. 31	20, 676, 051	21, 210, 350	22, 416, 667	23, 779, 189	25, 166, 803

	1951	1952	1953	1954	1955
Current net earnings	$19, 354, 463	$22, 797, 676	$25, 794, 145	$18, 047, 581	$16, 170, 668
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	----------	130, 497	129, 573	31, 735	----------
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	----------	----------	----------	----------	----------
All other	1, 255	1, 693	33	9, 213	482
Total additions	1, 255	132, 190	129, 606	40, 948	482
Deductions from current net earnings:					
Reserves for contingencies	54, 664	55, 181	64, 579	52, 509	51, 955
Retirement system (salary computation adjustment)	----------	----------	----------	----------	----------
Retirement system (adjustment for revised benefits)	----------	----------	167, 576	----------	----------
Losses on U.S. Government securities sold (net)	101, 555	----------	----------	----------	55
All other	10, 488	2, 225	2, 124	637	995
Total deductions	166, 707	57, 406	234, 279	53, 146	53, 005
Net additions or deductions (−)	−165, 452	74, 784	−104, 672	−12, 198	−52, 523
Net earnings before payments to U.S. Treasury	19, 189, 011	22, 872, 460	25, 689, 473	18, 035, 383	16, 118, 145
Transferred to reserves for contingencies	----------	----------	----------	----------	----------
Paid to U.S. Treasury (sec. 13b)	----------	----------	----------	----------	----------
Paid U.S. Treasury (interest on Federal Reserve notes)	16, 720, 823	20, 006, 070	22, 511, 392	15, 573, 733	13, 786, 647
Net earnings after reserves and payments to U.S. Treasury	2, 468, 188	2, 866, 390	3, 178, 081	2, 461, 650	2, 331, 498
Dividends paid	610, 304	643, 141	676, 502	731, 160	799, 651
Transferred to surplus (sec. 13b)	----------	----------	----------	----------	----------
Transferred to surplus (sec. 7)	1, 857, 884	2, 223, 249	2, 501, 579	1, 730, 490	1, 531, 847
Surplus (sec. 7) Jan. 1	25, 166, 803	27, 024, 687	29, 247, 936	31, 749, 515	33, 480, 005
Surplus (sec. 7) Dec. 31	27, 024, 687	29, 247, 936	31, 749, 515	33, 480, 005	35, 011, 852

Federal Reserve Bank of Richmond—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$26, 716, 974	$37, 840, 469	$37, 805, 386	$45, 915, 067
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	16, 960	10, 406	9, 795	11, 746
Reimbursement for fiscal agency expenses incurred in prior years	----------	116, 135	----------	----------
Transferred from reserves for contingencies (net)	----------	----------	----------	6, 500, 112
All other	4, 039	1, 886	1, 719	266
Total additions	20, 999	128, 427	11, 513	6, 512, 123
Deductions from current net earnings:				
Reserves for contingencies	52, 928	53, 038	42, 636	----------
Retirement system (adjustment for revised benefits)	----------	571, 926	----------	----------
All other	1, 426	533	2, 080	1, 385
Total deductions	54, 354	625, 497	44, 716	1, 385
Net additions or deductions (−)	−33, 355	−497, 070	−33, 203	6, 510, 738
Net earnings before payments to U.S. Treasury	26, 683, 619	37, 343, 399	37, 772, 183	52, 425, 805
Paid U.S. Treasury (interest on Federal Reserve notes)	23, 237, 535	32, 783, 688	33, 129, 772	61, 688, 735
Dividends paid	864, 154	917, 082	961, 325	1, 016, 950
Transferred to surplus (sec. 7)	2, 581, 930	3, 642, 628	3, 681, 086	−10, 279, 880
Surplus (sec. 7) Jan. 1	35, 011, 853	37, 593, 783	41, 236, 411	44, 845, 980
Transferred from surplus (sec. 13b)	----------	----------	−71, 517	----------
Surplus (sec. 7) Dec. 31	37, 593, 783	41, 236, 411	44, 845, 980	34, 566, 100

	1960	1961	1962	1963
Current net earnings	$58, 466, 303	$47, 862, 298	$55, 359, 683	$62, 786, 323
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	153, 387	219, 354	130, 618	20, 749
Reimbursement for fiscal agency expenses incurred in prior years				
Transferred from reserves for contingencies (net)	1, 178, 351			
All other	278	515	32, 588	36, 891
Total additions	1, 332, 016	219, 869	163, 206	57, 639
Deductions from current net earnings:				
Reserves for contingencies				
Retirement system (adjustment for revised benefits)				
All other	3, 502	3, 595	66, 024	1, 459
Total deductions	3, 502	3, 595	66, 024	1, 459
Net additions or deductions (—)	1, 328, 514	216, 274	97, 181	56, 181
Net earnings before payments to U.S. Treasury	59, 794, 817	48, 078, 572	55, 456, 865	62, 842, 503
Paid U.S. Treasury (interest on Federal Reserve notes)	55, 718, 988	44, 327, 343	50, 222, 987	56, 413, 810
Dividends paid	1, 083, 429	1, 168, 329	1, 272, 977	1, 391, 693
Transferred to surplus (sec. 7)	2, 992, 400	2, 582, 900	3, 960, 900	5, 037, 000
Surplus (sec. 7), Jan. 1	34, 566, 100	37, 558, 500	40, 141, 400	44, 102, 300
Transferred from surplus (sec. 13b)				
Surplus (sec. 7), Dec. 31	37, 558, 500	40, 141, 400	44, 102, 300	49, 139, 300

The CHAIRMAN. We will now hear from Mr. Shuford.

STATEMENT OF HARRY A. SHUFORD, PRESIDENT, FEDERAL RESERVE BANK OF ST. LOUIS

Mr. SHUFORD. Mr. Chairman and members of the committee, I certainly appreciate——

The CHAIRMAN. Would you wait just a moment?

Mr. SHUFORD. Excuse me.

Mr. BOLTON. Is it your intent to have each witness testify before he is questioned?

The CHAIRMAN. That is right.

Mr. BOLTON. Fine.

The CHAIRMAN. Go ahead.

Mr. SHUFORD. I was simply saying that I certainly appreciate the opportunity to appear before the committee and to comment on some phases of the Federal Reserve System which are under consideration. I shall not undertake to cover all the specific provisions of the bills before the committee, but would like to refer to several points.

We all recognize this, but just to get myself oriented, I would like to review that the power over money is, of course, vested with the Congress of the United States. Under our system, money includes not only currency and coin but bank reserves and deposits. Due to the heavy responsibilities of the Congress and to the technical and complicated nature of monetary administration, Congress has found it desirable to delegate the responsibility for formulating and implementing monetary policy to others in order that the many factors and considerations involved may be followed closely week by week and day by day. In making the delegation Congress has been wise to create and develop the Federal Reserve System, which is a governmental institution with responsibility to exercise judgment regarding monetary matters.

I regard it, as I think most of the others do, that it is constructive for institutions to be reviewed from time to time and for changes to be made when found to be necessary. The Federal Reserve System was created 50 years ago, and during the years since has properly been under repeated review by Congress, private organizations, and the System itself. Many constructive changes have been made. I regard this, just as Mr. Wayne has just indicated, to be proper.

Through it all, the principle of independence of judgment for determining an appropriate amount of money in the economy has been adhered to and, at times, strengthened.

I regard as sound the policy of delegating monetary responsibilities to an instrumentality which is accountable only to Congress and separated from the Treasury.

The Reserve banks, as instruments of the Federal Government, operate under the authority of Congress with their powers, duties, and responsibilities provided for by law. While member banks are required to pay in capital to the Reserve banks, they do not own stock in the usual sense of the word as it applies to private corporations. The member banks do not control the Reserve banks or set their policies. They do not share in the earnings above the statutory limitation and they have no claim on the assets.

Member banks do, through the method prescribed by law, elect six directors of a Reserve bank, three of whom are bankers. The other three directors are appointed by the Board of Governors; one of these is named chairman and another deputy chairman, each for a 1-year term. In my experience, the directors are able and competent men of high character. They come from varied walks of life and bring to the banks valuable experience and informed judgment. They make important contributions, not only in the formulation of audit, budget, personnel, and operating policies, but also in the presentation of grassroots information with respect to economic and financial conditions in various sections of the country. In carrying out their responsibilities as directors, I have found that these men act in the general interest and without regard to the manner by which they are elected or who elected them.

While the Reserve banks are expected to exercise judgment and initiative in carrying out their responsibilities, they are subject to general supervision. The Board of Governors must approve the appointment of the President and First Vice President and the salaries of all officers of the banks. In addition, it supervises and coordinates the activities of the banks and examines each of them annually.

The Board also approves, and is required to approve and does examine and approve, the budget of each of the banks. They issue uniform instructions and policy letters with respect to our operations.

Again, we are left with the privilege, with the board of directors, in carrying these out; and to take the initiative and basic responsibility, but we do have to operate within the framework of this close supervision by the Board of Governors, which is again, a desirable structure.

The supervision and coordination includes the issuance of uniform operating instructions and letters of interpretation of regulations.

The examinations of the Federal Reserve banks cover all phases of operations and are made by a staff which answers only to the Board.

I will not read what I have here because you are all familiar with it, but these examinations are detailed. They are made by people that we only see, unless it is a rare occasion, once a year, and we welcome them.

I think all of us who have anything to do with these securities and money welcome them. We know it is there, in our institutions, and we are anxious to have these examiners as well as our own audits check these securities and moneys as often as is reasonably possible, and I must say again that we all welcome these checks, these true audits of our securities and valuables.

You know, too, of our own audit procedure, and I shall not repeat it other than to emphasize again, as I am sure each President will do, that insofar as the general auditor of the bank is concerned he does not answer to me. He answers directly to the audit review committee, the chairman of our board and, through them, to the board of directors.

I am furnished a copy of the examination report which he directs to the board of directors and sends a copy to the Board of Governors in Washington.

Now, with respect to the Federal Open Market Committee, I think that the composition of the Federal Open Market Committee is an important matter in view of the vital functions which the Committee performs. I believe the present arrangement for five of the Federal Reserve bank presidents to serve as members of the Committee is a desirable one. In serving on the Committee, the Presidents—I know I can speak for myself and I think I can speak for the other Presidents—fully recognize that they are public servants performing a governmental function. Their commitment is supported by the usual public oath.

I think it is the same one that I took when I went into the Navy. At least it is to support the Constitution, the work of the Government.

They, with their research staffs, study the economic and financial conditions in their particular districts as well as in the Nation. As members of the Committee they formulate their independent views and conclusions. This arrangement has permitted determination of monetary policy upon a basis of views centered in Washington but, in an important measure, coming from various sections of the country. This has facilitated close contact with current and developing grass-root trends.

The present structure and composition of the Open Market Committee, while we have in the judgment of some and I guess we all in some degree agree that we have made errors, but nevertheless, generally speaking, it seems to me that since the Open Market Committee was established it has worked especially well and I think particularly so since we have had the arrangement of all the Presidents sitting in on the meetings of the Open Market Committee, not only when they are voting members, but also when they are alternates and participants.

I would favor this continuation.

Thank you very much, Mr. Chairman.

(The complete statement of Mr. Shuford follows:)

Statement of Harry A. Shuford, President, Federal Reserve Bank of St. Louis

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before the committee and to comment on some phases of the Federal Reserve System which are under consideration. I shall not undertake to cover all the specific provisions of the bills before the committee, but would like to refer to several points.

The power over money is, of course, vested with the Congress of the United States. Under our system, money includes not only currency and coin but bank reserves and deposits. Due to the heavy responsibilities of the Congress and to the technical and complicated nature of monetary administration, Congress has found it desirable to delegate the responsibility for formulating and implementing monetary policy to others in order that the many factors and considerations involved may be followed closely week by week and day by day. In making the delegation Congress has created and developed the Federal Reserve System, which is a governmental institution with responsibility to exercise judgment regarding monetary matters.

It is constructive for institutions to be reviewed from time to time and for changes to be made when found to be necessary. The Federal

Reserve System was created 50 years ago, and during the years since has properly been under repeated review by Congress, private organizations, and the System itself. Many constructive changes have been made. Through it all, the principle of independence of judgment for determining an appropriate amount of money in the economy has been adhered to and, at times, strengthened.

I regard as sound the policy of delegating monetary responsibilities to an instrumentality which is accountable only to Congress and separated from the Treasury.

The Reserve banks, as instruments of the Federal Government, operate under the authority of Congress with their powers, duties, and responsibilities provided for by law. While member banks are required to pay in capital to the Reserve banks, they do not own stock in the usual sense of the word as it applies to private corporations. The member banks do not control the Reserve banks or set their policies. They do not share in the earnings above the statutory limitation and they have no claim on the assets.

Member banks do, through the method prescribed by law, elect six directors of a Reserve bank, three of whom are bankers. The other three directors are appointed by the Board of Governors; one of these is named chairman and another vice chairman, each for a 1-year term. In my experience, the directors are able and competent men of high character. They come from varied walks of life and bring to the banks valuable experience and informed judgment. They make important contributions, not only in the formulation of audit, budget, personnel, and operating policies, but in the presentation of grassroot information with respect to economic and financial conditions in various sections of the country. In carrying out their responsibilities as directors, I have found that these men act in the general interest and without regard to who elected them.

While the Reserve banks are expected to exercise judgment and initiative in carrying out their responsibilities, they are subject to general supervision. The Board of Governors must approve the appointment of the President and First Vice President and the salaries of all officers of the banks. In addition, it coordinates the activities of the banks and examines each of them annually. The supervision and coordination includes the issuance of uniform operating instructions and letters of interpretation of regulations. The Board must also approve each bank's budget.

The examinations of the Federal Reserve banks cover all phases of operations and are made by a staff which answers only to the Board. In addition to these examinations, the resident auditor at each Federal Reserve bank and a staff under his supervision conduct continuing audits of operations. In performing his functions and duties the auditor answers only to the directors of the bank through an Audit Review Committee and the Chairman of the Board. I think that the present structure and control of Federal Reserve banks provide a desirable and effective blending of the national and regional. There is strong control by the Board in Washington. There is benefit from the knowledge and judgment of the local boards of directors.

The composition of the Federal Open Market Committee is an important matter in view of the vital functions which the Committee performs. I believe the present arrangement for five of the Federal Reserve bank Presidents to serve as members of the Committee is a desirable one. In serving on the Committee, the Presidents fully recognize that they are public servants performing a governmental function. Their commitment is supported by the usual public oath.

They, with their research staffs, study the economic and financial conditions in their particular districts as well as in the Nation. As members of the Committee they formulate their independent views and conclusions. This arrangement has permitted determination of monetary policy upon a basis of views centered in Washington but, in an important measure, coming from various sections of the country. This has facilitated close contact with current and developing grass root trends.

The present structure and composition of the Open Market Committee has worked especially well since the procedure was changed to enable all the Presidents of the banks to participate in the meetings of the Committee.

I would favor a continuation of the present open market arrangement.

Federal Reserve Bank of St. Louis—Current earnings

[In thousands]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	$54	$6	$7	$16			$2	$87
1916	46	82	70	32		$12	57	298
1917	358	170	110	14	$15	39	66	773
1918	2, 218	226	89		52	26	65	2, 677
1919	2, 918	564	320		52		29	3, 884
1920	6, 382	273	392		104		29	7, 180
1921	4, 739	41	284		81		21	5, 166
1922	1, 304	256	832		46		19	2, 456
1923	1, 969	254	521		39		[1] 29	2, 753
1924	1, 141	142	353		27		26	1, 688
1925	838	454	712		24		27	2, 056
1926	1, 258	340	841		22		50	2, 512
1927	816	331	1, 000		16		65	2, 228
1928	1, 928	207	725		15		26	2, 902
1929	2, 508	154	540		23		24	3, 248
1930	661	285	753		17		29	1, 746
1931	389	177	561		22		40	1, 189
1932	497	108	920		40		60	1, 625

[1] Debit.

Federal Reserve Bank of St. Louis—Current earnings—Continued

[In thousands]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	United States securities	All other	Total earnings
1933		$133	$45				$1, 372	$79	$1, 629
1934		13	5	$6	$3		1, 742	57	1, 824
1935		1	1	25	21		1, 729	74	1, 851
1936		1	1	20	18		1, 804	19	1, 863
1937		5	1	16	12		1, 753	17	1, 803
1938		3		9	6		1, 529	18	1, 564
1939		2			6		1, 585	17	1, 610
1940		2		1	3		1, 895	20	1, 921
1941		1		3	4		1, 936	22	1, 966
1942		2		1	9		2, 518	22	2, 552
1943		15			6		3, 136	24	3, 181
1944		72		1			4, 582	30	4, 685
1945		108					6, 434	54	6, 596
1946		134			8		7, 115	62	7, 319
1947		144			7		8, 078	83	8, 312
1948	$190				1		16, 326	27	16, 545
1949	134						16, 873	15	17, 022
1950	132						15, 046	20	15, 197
1951	226						20, 992	7	21, 225

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	$731	-----	-----	-----	$23, 942	-----	$7	$24, 680
1953	749	-----	-----	-----	24, 681	-----	19	25, 448
1954	148	-----	-----	-----	18, 200	-----	4	18, 352
1955	474	-----	-----	-----	16, 540	-----	6	17, 021
1956	627	-----	-----	-----	23, 765	-----	10	24, 402
1957	570	-----	-----	-----	30, 352	-----	11	30, 934
1958	243	-----	-----	-----	30, 017	-----	9	30, 269
1959	759	-----	-----	-----	34, 803	-----	15	35, 578
1960	686	-----	-----	-----	43, 769	-----	19	44, 475
1961	111	-----	-----	-----	37, 728	-----	13	37, 853
1962	145	-----	-----	-----	41, 509	$119	10	41, 783

NOTE.—Details may not add to totals because of rounding.

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Federal Reserve Bank of St. Louis—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$97, 169	$144, 372	$509, 884	$2, 052, 838	$2, 783, 483	$5, 431, 763
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						19, 520
Depreciation on U.S. bonds						
All other						
Total additions						19, 520
Deductions from current net earnings:						
Bank premises—depreciation					335, 000	350, 000
Furniture and equipment		3, 355	7, 728	102, 031	73, 798	176, 102
Reserve for probable losses						
Reserve for Federal Reserve Board expenses					19, 520	
Reserve for depreciation, U.S. bonds				172, 997		34, 615
All other					11	15, 000
Total deductions		3, 355	7, 728	275, 028	428, 329	575, 717
Net deductions from current net earnings		3, 355	7, 728	275, 028	428, 329	556, 197
Net earnings	−97, 169	141, 017	502, 156	1, 777, 810	2, 355, 154	4, 875, 566
Distribution of net earnings:						
Dividends paid		31, 100	284, 566	404, 838	234, 660	253, 711
Transferred to surplus account				1, 603, 310	2, 120, 494	4, 621, 855
Franchise tax paid to U.S. Government						
Balance to profit and loss	−97, 169	109, 917	217, 590	−230, 338		

	1921	1922	1923	1924	1925
Current net earnings	$3,259,147	$833,225	$1,280,760	$247,607	$665,538
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds		3,883	80,294		
All other	13,241	2,257	564	15,452	59,748
Total additions	13,241	6,140	80,858	15,452	59,748
Deductions from current net earnings:					
Bank premises—depreciation	112,224	2,000	2,200	4,400	489,462
Furniture and equipment	54,082	44,755	29,971	25,927	257,373
Reserve for probable losses	152,000	125,000	123,687		
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					5,256
All other	2,156	20,038	23,597	28,795	66,735
Total deductions	320,462	191,793	179,455	59,122	818,826
Net deductions from current net earnings	307,221	185,653	98,597	43,670	759,078
Net earnings	2,951,926	647,572	1,182,163	203,937	−93,540
Distribution of net earnings:					
Dividends paid	270,253	283,166	296,810	304,976	306,753
Transferred to surplus account	1,042,564	276,450	407,070	[1] −101,039	[1] −400,293
Franchise tax paid to U.S. Government	1,639,109	87,956	478,283		
Balance to profit and loss					

[1] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of St. Louis—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$909, 790	$664, 002	$1, 346, 790	$1, 544, 597	$152, 569
Additions to current net earnings:					
Profit on U.S. Government securities sold	----------	----------	----------	----------	57, 523
Other additions	15, 852	152, 434	90, 022	16, 815	6, 695
Total additions	15, 852	152, 434	90, 022	16, 815	64, 218
Deductions from current net earnings:					
Special depreciation allowances on bank premises	[1] −11, 950	----------	----------	23, 276	----------
Reserve for losses	253, 500	40, 000	----------	155, 000	214, 875
Reserve for self-insurance	----------	----------	250, 000	250, 000	----------
Building for Board of Governors	----------	----------	----------	----------	----------
All other deductions	1, 070	755	401, 653	247, 252	798
Total deductions	242, 620	40, 755	651, 653	675, 528	215, 673
Net deductions	226, 768	+111, 679	561, 631	658, 713	151, 455
Net earnings	683, 022	775, 681	785, 159	885, 884	1, 114
Dividends paid	314, 420	317, 727	321, 855	319, 231	315, 839
Franchise tax paid U.S. Government	----------	----------	40, 293	509, 988	----------
Paid U.S. Treasurer (sec. 13b)	----------	----------	----------	----------	----------
Transferred to surplus (sec. 13b)	----------	----------	----------	----------	----------
Transferred to surplus (sec. 7)	368, 602	457, 954	423, 011	56, 665	[2] −314, 725

	1931	1932	1933	1934	1935
Current net earnings	−$366,121	$59,906	−$47,408	$164,908	$87,907
Additions to current net earnings:					
Profit on U.S. Government securities sold	153,306	115,524	39,059	308,050	244,755
Other additions	164,289	71,759	17,836	32,550	13,820
Total additions	317,595	187,283	56,895	340,600	258,575
Deductions from current net earnings:					
Special depreciation allowances on bank premises				321,831	
Reserve for losses			86,832	42,857	79,337
Reserve for self-insurance					
Building for Board of Governors					30,485
All other deductions	12,737	3,704	13,421	824	1,372
Total deductions	12,737	3,704	100,253	365,512	111,194
Net deductions	+304,858	+183,579	43,358	24,912	+147,381
Net earnings	−61,263	243,485	−90,766	139,996	235,288
Dividends paid	289,409	268,505	246,643	241,009	236,187
Franchise tax paid U.S. Government			[3]		
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)				−47	−899
Transferred to surplus (sec. 7)	[2] −350,672	[2] −25,020	[2] −337,409	[2] −100,966	

[1] Due to salvage receipts.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

[3] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of St. Louis—Profit and loss account 1936–45—Continued

	1936	1937	1938	1939	1940
Current net earnings	$412, 532	$431, 641	$149, 011	$251, 951	$547, 571
Additions to current net earnings:					
Profits on sales of U.S. Government securities	308, 766	116, 946	385, 083	201, 044	528, 208
Recoveries of and withdrawals from allowances for losses on industrial advances (net)					
All other	13, 878	1, 802	10, 532	8, 519	60, 998
Total additions	322, 644	118, 748	395, 615	209, 563	589, 206
Deductions from current net earnings:					
Reserves for contingencies	301, 355				
Losses and reserves for losses on industrial advances (net)				39	
Chargeoffs and special depreciation on bank premises					150, 000
Assessment for building for Board of Governors	59, 653	42, 080			
Prior service contributions to retirement system	144, 902	144, 900	289, 800		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
All other	4, 101	452	219	4, 045	205
Total deductions	510, 011	187, 432	290, 019	4, 084	150, 205
Net additions or deductions (−)	−187, 367	−68, 684	105, 596	205, 479	439, 001
Net earnings	225, 165	362, 957	254, 607	457, 430	986, 572
Paid U.S. Treasury (sec. 13b)		4, 152	1, 796		
Dividends paid	225, 724	229, 420	234, 488	239, 369	248, 242
Transferred to surplus (sec. 13b)	−559			−6, 664	−5, 675
Transferred to surplus (sec. 7)		129, 385	18, 323	224, 725	744, 005
Surplus (sec. 7) Jan. 1	4, 654, 737	4, 654, 737	4, 667, 175	4, 685, 498	4, 709, 179
Additions, as above		129, 385	18, 323	224, 725	744, 005
Transferred to reserves for contingencies		−116, 947		−201, 044	−528, 208
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	4, 654, 737	4, 667, 175	4, 685, 498	4, 709, 179	4, 924, 976

	1941	1942	1943	1944	1945
Current net earnings	$356, 525	$494, 056	$1, 005, 230	$2, 165, 269	$3, 931, 591
Additions to current net earnings:					
Profits on sales of U.S. Government securities	60, 214	153, 088	1, 658, 200	148, 719	156, 071
Recoveries of and withdrawals from allowances for losses on industrial advances (net)				−7, 000	
All other	313	1, 539	1, 249	6, 697	4, 136
Total additions	60, 527	154, 627	1, 659, 449	148, 416	160, 207
Deductions from current net earnings:					
Reserves for contingencies					623, 745
Losses and reserves for losses on industrial advances (net)					
Chargeoffs and special depreciation on bank premises	120, 468	1, 777			
Assessment for building for Board of Governors					
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		248, 913			
Retirement system (interest base and increased benefits adjustments)			521, 905		
All other	309	136	110	4, 791	25, 418
Total deductions	120, 777	250, 826	522, 015	4, 791	649, 163
Net additions or deductions (−)	−60, 250	−96, 199	1, 137, 434	143, 625	−488, 956
Net earnings	296, 275	397, 857	2, 142, 664	2, 308, 894	3, 442, 635
Paid U.S. Treasury (sec. 13b)			1, 115		
Dividends paid	258, 762	269, 312	277, 796	293, 577	326, 314
Transferred to surplus (sec. 13b)	−3, 832	616	−25	−2, 714	−241
Transferred to surplus (sec. 7)	41, 345	127, 929	1, 863, 778	2, 018, 031	3, 116, 562
Surplus (sec. 7) Jan. 1	4, 924, 976	4, 966, 321	4, 966, 322	6, 330, 100	7, 048, 131
Additions, as above	41, 345	127, 929	1, 863, 778	2, 018, 031	3, 116, 562
Transferred to reserves for contingencies		−127, 929	−500, 000	−1, 300, 000	
Transferred from reserves for contingencies					2, 774, 128
Surplus (sec. 7) Dec. 31	4, 966, 321	4, 966, 321	6, 330, 100	7, 048, 131	12, 938, 821

Federal Reserve Bank of St. Louis—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$4, 054, 763	$4, 353, 362	$12, 216, 272	$12, 469, 979	$10, 332, 945
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	86, 925	130, 373	322, 194	1, 646, 280	1, 973, 676
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	[1] 22, 897				
All other	3, 294	4, 045	137	126	174
Total additions	67, 322	134, 418	322, 331	1, 646, 406	1, 973, 850
Deductions from current net earnings:					
Reserves for contingencies	16, 805	17, 008			17, 999
Chargeoffs on bank premises		143, 553			
Retirement system (salary computation adjustment)	116, 949				
Retirement system (adjustment for revised benefits)				153, 522	
Losses on U.S. Government securities sold (net)					
All other	2, 212	82	185	1, 096	83, 918
Total deductions	135, 966	160, 643	185	154, 618	101, 917
Net additions or deductions (−)	−68, 644	−26, 225	322, 146	1, 491, 788	1, 871, 933
Net earnings before payments to U.S. Treasury	3, 986, 119	4, 327, 137	12, 538, 418	13, 961, 767	12, 204, 878
Transferred to reserves for contingencies			2, 129, 843	2, 116, 055	
Paid to U.S. Treasury (sec. 13b)		401			
Paid to U.S. Treasury (interest on Federal Reserve notes)		3, 553, 033	9, 014, 434	10, 294, 486	10, 595, 592
Net earnings after reserves and payments to U.S. Treasury	3, 986, 119	773, 703	1, 394, 141	1, 551, 226	1, 609, 286
Dividends paid	353, 160	378, 794	392, 300	407, 193	431, 812
Transferred to surplus (sec. 13b)	−5, 297				
Transferred to surplus (sec. 7)	3, 638, 256	394, 909	1, 001, 841	1, 144, 033	1, 177, 474
Surplus (sec. 7) Jan. 1	12, 938, 821	16, 577, 077	16, 971, 986	17, 973, 827	19, 117, 860
Surplus (sec. 7) Dec. 31	16, 577, 077	16, 971, 986	17, 973, 827	19, 117, 860	20, 295, 334

	1951	1952	1953	1954	1955
Current net earnings	$15, 503, 151	$18, 825, 427	$18, 979, 784	$12, 099, 517	$10, 947, 221
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	-----	108, 609	105, 011	25, 452	-----
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	-----	-----	-----	-----	-----
All other	6, 244	7, 490	2, 226	5, 050	636
Total additions	6, 244	116, 099	107, 237	30, 502	636
Deductions from current net earnings:					
Reserves for contingencies	22, 607	24, 873	32, 098	21, 655	18, 662
Chargeoffs on bank premises	-----	-----	-----	-----	-----
Retirement system (salary computation adjustment)	-----	-----	-----	-----	-----
Retirement system (adjustment for revised benefits)	-----	-----	145, 596	-----	-----
Losses on U.S. Government securities sold (net)	86, 872	-----	-----	-----	73
All other	417	2, 920	2, 050	5, 524	6, 998
Total deductions	109, 896	27, 793	179, 744	27, 179	25, 733
Net additions or deductions (−)	−103, 652	88, 306	−72, 507	3, 323	−25, 097
Net earnings before payments to U.S. Treasury	15, 399, 499	18, 913, 733	18, 907, 277	12, 102, 840	10, 922, 124
Transferred to reserves for contingencies	-----	-----	-----	-----	-----
Paid to U.S. Treasury (sec. 13b)	-----	-----	-----	-----	-----
Paid to U.S. Treasury (interest on Federal Reserve notes)	13, 435, 403	16, 560, 583	16, 533, 509	10, 380, 897	9, 274, 574
Net earnings after reserves and payments to U.S. Treasury	1, 964, 096	2, 353, 150	2, 373, 768	1, 721, 943	1, 647, 550
Dividends paid	471, 210	513, 060	536, 709	568, 325	617, 044
Transferred to surplus (sec. 13b)	-----	-----	-----	-----	-----
Transferred to surplus (sec. 7)	1, 492, 886	1, 840, 090	1, 837, 059	1, 153, 618	1, 030, 506
Surplus (sec. 7) Jan. 1	20, 295, 334	21, 788, 220	23, 628, 310	25, 465, 369	26, 618, 987
Surplus (sec. 7) Dec. 31	21, 788, 220	23, 628, 310	25, 465, 369	26, 618, 987	27, 649, 493

[1] Net loss.

Federal Reserve Bank of St. Louis—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$17,470,813	$23,614,288	$22,450,644	$27,472,066
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	12,665	7,489	6,933	7,864
Reimbursement for fiscal agency expenses incurred in prior years		83,015		
Transferred from reserves for contingencies (net)				5,691,670
All other	4,541	1,438	139,600	3,044
Total additions	17,206	91,943	146,533	5,702,578
Deductions from current net earnings:				
Reserves for contingencies	17,370	14,259	18,436	
Retirement system (adjustment for revised benefits)		455,325		
All other	2,812	3,204	671	989
Total deductions	20,182	472,789	19,107	989
Net additions or deductions (−)	−2,976	−380,846	127,425	5,701,588
Net earnings before payments to U.S. Treasury	17,467,836	23,233,442	22,578,070	33,173,654
Paid U.S. Treasury (interest on Federal Reserve notes)	15,135,639	20,296,234	19,675,908	40,296,779
Dividends paid	650,481	682,073	715,956	760,610
Transferred to surplus (sec. 7)	1,681,716	2,255,135	2,186,206	−7,883,735
Surplus (sec. 7) Jan. 1	27,649,493	29,331,210	31,586,344	33,746,035
Transferred from surplus (sec. 13b)			−26,515	
Surplus (sec. 7) Dec. 31	29,331,210	31,586,344	33,746,035	25,862,300

	1960	1961	1962	1963
Current net earnings	$35, 839, 322	$29, 339, 372	$32, 565, 491	$35, 904, 587
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	98, 618	139, 634	79, 230	12, 768
Reimbursement for fiscal agency expenses incurred in prior years				
Transferred from reserves for contingencies (net)	470, 496			
All other	759	1, 026	16, 637	17, 535
Total additions	569, 873	140, 659	95, 867	30, 303
Deductions from current net earnings:				
Reserves for contingencies				
Retirement system (adjustment for revised benefits)				
All other	2, 679	3, 283	86, 140	1, 996
Total deductions	2, 679	3, 283	86, 140	1, 996
Net additions or deductions (−)	567, 194	137, 376	9, 727	28, 307
Net earnings before payments to U.S. Treasury	36, 406, 516	29, 476, 748	32, 575, 218	35, 932, 894
Paid U.S. Treasury (interest on Federal Reserve notes)	33, 936, 191	25, 741, 888	30, 331, 971	32, 405, 995
Dividends paid	801, 826	862, 261	940, 346	985, 699
Transferred to surplus (sec. 7)	1, 668, 500	2, 872, 600	1, 302, 900	2, 541, 200
Surplus (sec. 7) Jan. 1	25, 862, 300	27, 530, 800	30, 403, 400	31, 706, 300
Transferred from surplus (sec. 13b)				
Surplus (sec. 7) Dec. 31	27, 530, 800	30, 403, 400	31, 706, 300	34, 247, 500

The CHAIRMAN. Thank you very much, Mr. Shuford.

Now, without objection, we will ask each one of you gentlemen to insert, in connection with your remarks, the last statement issued by your banks showing the bank's condition. You need not insert everything that is in your statement, but just show everything in it regarding the condition of your bank.

Mr. WAYNE. You mean on the last daily statement or——

The CHAIRMAN. The last annual statement will be all right.

Mr. SHUFORD. At the close of the year?

The CHAIRMAN. At the close of the year.

Mr. ELLIS. For which year?

The CHAIRMAN. You are on a calendar year, are you not?

Mr. ELLIS. Yes, sir.

The CHAIRMAN. December 31, 1963.

Mr. WAYNE. We will insert it. I do not have it with me.

The CHAIRMAN. Well, that is all right, you can furnish it, and make it just the statement of the condition.

(The statement follows:)

Statement of condition of the Federal Reserve Bank of St. Louis, at the close of business, Dec. 31, 1963.

[In thousands of dollars]

Assets:	
Gold certificate account	$633,169
Redemption fund for Federal Reserve notes	60,338
Total gold certificate reserves	693,507
Federal Reserve notes of other banks	21,923
Other cash	13,417
Discounts and advances:	
Secured by U.S. Government securities	2,000
Other	1,088
Acceptances:	
Bought outright	--------
Held under repurchase agreement	--------
U.S. Government securities:	
Bought outright	1,325,049
Held under repurchase agreement	--------
Total loans and securities	1,328,137
Cash items in process of collection	298,295
Bank premises	6,171
Other assets:	
Denominated in foreign currencies	5,189
All other	10,260
Total assets	2,376,899

Statement of conditions of the Federal Reserve Bank of St. Louis, at the close of business, Dec. 31, 1963—Continued

[In thousands of dollars]

Liabilities:	
Federal Reserve notes	$1, 340, 343
Deposits:	
Member bank reserves	651, 848
U.S. Treasurer—General account	82, 828
Foreign	5, 440
Other	3, 267
Total deposits	743, 383
Deferred availability cash items	238, 588
Other liabilities	3, 213
Total liabilities	2, 325, 527
Capital Accounts:	
Capital paid in	17, 124
Surplus	34, 248
Other capital accounts	------
Total liabilities and capital accounts	2, 376, 899
Ratio of gold certificates reserves to deposit and Federal Reserve note liabilities combined ......percent	33. 3
Contingent liability on acceptances purchased for foreign correspondents	$3, 125

Federal Reserve note statement of Federal Reserve Bank of St. Louis, at the close of business, Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	$1, 402, 417
Less held by issuing bank and forwarded for redemption	62, 074
Federal Reserve notes, net [1]	1, 340, 343
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	250, 000
Eligible paper	2, 000
U.S. Government securities	1, 210, 000
Total collateral	1, 462, 000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

The CHAIRMAN. I would like to insert in the record statements prepared from information furnished by the Federal Reserve about the discounts and advances and number of banks accommodated which would include the number of banks in the district and the number of banks accommodated for each of the years 1960 to 1963, inclusive, and also the discounts and advances by years for 1960 to 1963, inclusive.

(The documents follow:)

FEDERAL RESERVE SYSTEM

Discounts and advances—Number of member banks accommodated (at the discount window of the regional banks)

	Number of banks, 1963	1960	1961	1962	1963
Boston	251	178	146	132	127
New York	426	230	180	145	139
Buffalo		42	32	28	33
Philadelphia	443	208	158	117	120
Cleveland	513	71	44	29	38
Cincinnati		39	26	19	26
Pittsburgh		42	27	24	26
Richmond	413	104	73	67	64
Baltimore		31	27	15	17
Charlotte		23	12	11	16
Atlanta	467	86	46	42	49
Birmingham					
Jacksonville					
Nashville					
New Orleans		27	22	18	19
Chicago	1, 010	220	151	133	146
Detroit		55	37	41	46
St. Louis	475	54	17	21	20
Little Rock		8	1	3	5
Louisville		11	8	6	8
Memphis		8	5	4	3
Minneapolis	485	97	52	34	69
Helena		34	24	19	22
Kansas City	796	64	45	45	41
Denver		32	17	17	22
Oklahoma City		45	29	27	37
Omaha		76	49	62	64
Dallas	656	45	16	21	24
El Paso		11	4	3	5
Houston		16	4	5	12
San Antonio		22	9	7	9
San Francisco	172	8	4	3	4
Los Angeles		9	5	5	6
Portland		7	6	5	5
Salt Lake City		6	4	4	6
Seattle		11	5	5	4
Total	6, 107	1, 920	1, 285	1, 117	1, 232

Discounts and advances

1960

	Number	Amount	Bank earnings	Allocated earnings [1]	District earnings
Boston	1, 634	$1, 449, 287, 158	$540, 445	$11, 445	$551, 754
New York [1]	1, 436	7, 375, 454, 000	1, 612, 922	65, 754	1, 750, 097
Buffalo	252	343, 705, 000	71, 421		
Philadelphia	1, 821	2, 712, 358, 000	832, 228	13, 617	845, 845
Cleveland	532	2, 388, 350, 000	461, 635	21, 678	769, 086
Cincinnati	341	764, 245, 000	153, 841		
Pittsburgh	301	518, 685, 000	131, 932		
Richmond	1, 277	2, 006, 871, 000	530, 163	10, 407	819, 821
Baltimore	301	557, 438, 000	124, 297		
Charlotte	254	629, 623, 000	154, 954		
Atlanta	1, 028	3, 255, 948, 000	1, 136, 889	11, 981	1, 980, 105
Birmingham					
Jacksonville					
Nashville					
New Orleans	793	2, 616, 184, 500	831, 235		
Chicago	2, 433	10, 714, 867, 797	3, 514, 282	31, 891	4, 097, 753
Detroit	412	1, 844, 024, 000	551, 580		
St. Louis	431	1, 220, 637, 000	337, 983	7, 633	686, 396
Little Rock	61	76, 875, 000	19, 351		
Louisville	225	678, 436, 000	113, 250		
Memphis	228	1, 272, 887, 000	208, 179		
Minneapolis	808	3, 600, 367, 500	1, 073, 349	5, 313	1, 134, 086
Helena	276	189, 935, 000	55, 424		
Kansas City	754	1, 075, 379, 000	333, 106	9, 463	1, 826, 595
Denver	295	1, 361, 155, 000	302, 604		
Oklahoma City	781	3, 591, 289, 000	833, 186		
Omaha	654	582, 807, 000	348, 236		
Dallas	468	1, 763, 149, 514	830, 005	13, 386	1, 210, 595
El Paso	111	106, 785, 000	73, 173		
Houston	144	420, 989, 642	164, 294		
San Antonio	166	351, 739, 000	129, 737		
San Francisco	129	1, 850, 144, 000	391, 890	28, 389	961, 629
Los Angeles	119	1, 563, 130, 000	301, 774		
Portland	70	433, 440, 000	75, 160		
Salt Lake City	105	253, 850, 000	52, 759		
Seattle	153	333, 650, 000	111, 657		
Subtotal	18, 793	57, 903, 685, 111	16, 402, 941	230, 821	16, 633, 762
Foreign loans on gold [1]	22	154, 000, 000	230, 821		
Total	[2] 18, 815	[2] 58, 057, 685, 111	[2] 16, 633, 762		

See footnotes at end of table, p. 314.

Discounts and advances—Continued

1961

	Number	Amount	Bank earnings	Allocated earnings [1]	District earnings
Boston	746	$475, 082, 000	$113, 284	$6, 265	$119, 549
New York [1]	827	3, 952, 971, 000	487, 937	35, 822	541, 164
Buffalo	166	101, 270, 000	17, 405		
Philadelphia	909	564, 176, 125	148, 084	7, 415	155, 499
Cleveland	198	685, 266, 000	98, 280	11, 896	167, 325
Cincinnati	86	125, 720, 000	39, 741		
Pittsburgh	161	334, 510, 000	17, 408		
Richmond	495	381, 305, 500	87, 121	5, 877	152, 703
Baltimore	169	175, 730, 000	35, 686		
Charlotte	82	150, 644, 000	24, 019		
Atlanta	212	320, 324, 500	63, 327	6, 772	181, 830
Birmingham					
Jacksonville					
Nashville					
New Orleans	227	332, 127, 000	111, 731		
Chicago	948	3, 041, 332, 513	528, 088	18, 014	608, 563
Detroit	156	531, 870, 000	62, 461		
St. Louis	66	91, 605, 000	24, 025	4, 343	110, 934
Little Rock	3	1, 500, 000	411		
Louisville	37	41, 435, 000	6, 017		
Memphis	177	678, 950, 000	76, 138		
Minneapolis	175	78, 030, 000	26, 809	2, 941	51, 912
Helena	166	118, 945, 000	22, 162		
Kansas City	328	477, 076, 000	88, 090	5, 498	259, 677
Denver	84	229, 115, 000	31, 614		
Oklahoma City	127	139, 342, 000	27, 846		
Omaha	330	461, 967, 000	106, 629		
Dallas	64	261, 484, 006	41, 119	7, 415	62, 759
El Paso	18	5, 005, 000	2, 733		
Houston	19	3, 119, 860	2, 065		
San Antonio	44	59, 332, 000	9, 427		
San Francisco	23	132, 050, 000	14, 865	15, 598	89, 996
Los Angeles	14	307, 600, 000	30, 699		
Portland	62	83, 611, 000	8, 068		
Salt Lake City	36	104, 600, 000	11, 392		
Seattle	20	84, 450, 000	9, 374		
Subtotal	7, 175	14, 531, 545, 504	2, 374, 055	127, 856	2, 501, 911
Foreign loans on gold [1]	27	126, 000, 000	127, 856		
Total	[3] 7, 202	[3] 14, 657, 545, 504	[3] 2, 501, 911		

See footnotes at end of table, p. 314.

Discounts and advances—Continued

1962

	Number	Amount	Bank earnings	Allocated earnings [1]	District earnings
Boston	720	$702, 173, 000	$165, 256	$45, 924	$211, 180
New York [1]	754	5, 040, 618, 000	747, 670	267, 759	1, 059, 944
Buffalo	156	312, 410, 000	44, 515		
Philadelphia	590	484, 789, 400	98, 384	56, 673	155, 057
Cleveland	153	601, 735, 000	65, 319	91, 844	215, 615
Cincinatti	71	65, 360, 000	11, 318		
Pittsburgh	90	232, 145, 000	47, 134		
Richmond	629	607, 627, 000	103, 730	43, 975	238, 006
Baltimore	101	146, 405, 000	23, 228		
Charlotte	115	479, 360, 000	67, 073		
Atlanta	338	811, 700, 000	128, 647	51, 783	235, 404
Birmingham					
Jacksonville					
Nashville					
New Orleans	152	228, 200, 000	54, 974		
Chicago	893	3, 606, 161, 537	603, 095	135, 828	875, 033
Detroit	186	1, 058, 910, 000	136, 110		
St. Louis	79	263, 690, 000	33, 848	33, 221	144, 619
Little Rock	9	6, 900, 000	2, 967		
Louisville	41	41, 250, 000	4, 977		
Memphis	93	569, 070, 000	69, 606		
Minneapolis	137	87, 768, 000	23, 866	22, 474	53, 485
Helena	58	31, 025, 000	7, 145		
Kansas City	249	383, 530, 000	81, 865	41, 039	366, 300
Denver	115	726, 870, 000	85, 048		
Oklahoma City	188	405, 018, 000	58, 823		
Omaha	422	261, 893, 000	99, 525		
Dallas	132	639, 314, 759	181, 995	54, 719	269, 378
El Paso	22	11, 600, 000	5, 751		
Houston	16	40, 000, 000	16, 628		
San Antonio	67	44, 640, 000	10, 285		
San Francisco	57	782, 000, 000	80, 813	131, 911	307, 682
Los Angeles	34	460, 000, 000	54, 049		
Portland	68	116, 388, 000	11, 591		
Salt Lake City	14	24, 500, 000	3, 325		
Seattle	27	254, 950, 000	25, 993		
Subtotal	6, 776	19, 528, 000, 696	3, 154, 553	977, 150	4, 131, 703
Foreign loans on gold [1]	18	157, 050, 000	977, 150		
Total	[3] 6, 794	[3] 19, 685, 050, 696	[3] 4, 131, 703		

See footnotes at end of table, p. 314.

Discounts and advances—Continued

1963

	Number	Amount	Bank earnings	Allocated earnings [1]	District earnings
Boston	748	$1, 206, 233, 000	$235, 128	$31, 919	$267, 047
New York	1, 111	13, 800, 395, 000	2, 206, 478	178, 895	2, 514, 235
Buffalo	258	746, 545, 000	128, 862		
Philadelphia	716	1, 192, 468, 000	244, 235	38, 571	282, 806
Cleveland	289	2, 074, 941, 000	324, 982	61, 848	546, 633
Cincinnati	100	377, 315, 000	53, 169		
Pittsburgh	132	596, 985, 000	106, 634		
Richmond	727	1, 342, 022, 000	220, 085	31, 253	563, 965
Baltimore	111	211, 040, 000	32, 215		
Charlotte	271	1, 745, 925, 000	280, 412		
Atlanta	548	2, 007, 970, 000	443, 372	36, 573	585, 180
Birmingham					
Jacksonville					
Nashville					
New Orleans	176	441, 690, 000	105, 235		
Chicago	1, 086	5, 188, 183, 742	1, 188, 597	93, 764	1, 679, 049
Detroit	267	1, 528, 155, 000	396, 688		
St. Louis	85	794, 116, 200	139, 306	22, 611	246, 814
Little Rock	24	31, 065, 000	8, 102		
Louisville	96	263, 600, 000	35, 267		
Memphis	44	338, 050, 000	41, 528		
Minneapolis	263	551, 494, 000	139, 316	15, 295	169, 804
Helena	96	60, 740, 000	15, 193		
Kansas City	300	1, 211, 645, 000	240, 899	27, 931	821, 800
Denver	170	1, 087, 716, 000	134, 126		
Oklahoma City	428	1, 419, 150, 000	257, 607		
Omaha	428	440, 821, 000	161, 237		
Dallas	161	1, 765, 630, 346	420, 774	37, 904	585, 957
El Paso	42	22, 200, 000	18, 153		
Houston	60	255, 125, 000	76, 179		
SanAntonio	97	126, 800, 000	32, 947		
San Francisco	57	875, 500, 000	131, 822	88, 450	602, 554
Los Angeles	81	1, 491, 500, 000	203, 280		
Portland	87	440, 200, 000	59, 457		
Salt Lake Ciry	87	324, 000, 000	37, 303		
Seattle	47	732, 950, 000	82, 242		
Subtotal	9, 193	44, 692, 170, 288	8, 200, 830	665, 014	8, 865, 844
Foreign loans on gold [1]	25	202, 000, 000	665, 014		
Total	[3] 9, 218	[3] 44, 894, 170, 288	[3] 8, 865, 844		

Foreign loans on gold are granted by the Federal Reserve Bank of New York on behalf of all banks. Earnings were allocated to the banks as indicated in col. 4.

[2] Per tables Nos. 6 and 10 of Board's annual report.

[3] Per tables Nos. 7 and 10 of Board's annual report.

STAFF MEMORANDUM

JANUARY 5, 1964.

Chairman, Committee on Banking and Currency, House of Representatives:

The Federal Reserve System and the 12 Federal Reserve banks, with their branches, are an entity of the U.S. Government. Misguided or uninformed individuals may believe that the 12 regional banks are owned by the member banks of the System, but the Board of Governors of the Federal Reserve System properly recognizes the ownership of the Federal Government. The Board stated in January 1945 "* * * the residual interest in the banks is in the Federal Government, which, therefore, may be regarded in effect as the owner of all of the common stock."

The enabling legislation granted considerable operating latitude to the Board of Governors and the directors of the several banks in the System. There have been indications that some of the banks have tended to make questionable expenditures and have been reminded gently, but pointedly that "The Board is confident that the Reserve banks will exercise their discretion with respect to expenditures * * * in full recognition of their responsibilities as stewards of public funds" and "Federal Reserve banks * * * were set up by Congress to perform functions prescribed by Congress for public purposes. * * *"

Some of the Reserve banks have taken their responsibility as "stewards of public funds" less seriously than others and the Board has questioned "* * * the appropriateness of expenditures for professional entertainment, tickets for the theater and similar outlays." Even charitable contributions have been questioned by the Board on several occasions. Specifically a letter from the Board, in 1945, addressed to the chairmen and all of the presidents of the Federal Reserve banks advised that, "The Board * * * cannot authorize expenditures of Federal Reserve bank funds by way of donations to further purposes, *no matter how worthy, which are not directly related to the conduct of the affairs of the Banks*." [Emphasis added.]

The principle that expenditures of Federal Reserve funds should be directly related to and for the benefit of the Federal Reserve System and the Federal Government has been enunciated many times by the Board. In 1956 the Chairman of the Board of Governors wrote to the chairman of all of the Reserve banks that, "Reserve bank expenditures for memberships should be limited to those organizations whose purposes are directly related to the work of the Reserve bank. * * * This principle applies regardless of whether the membership is in the name of the bank or an individual." Again in 1958 the Chairman of the Board of the Federal Reserve System advised that, "It is recognized that certain expenditures might be very appropriate in a purely private business but would be inappropriate in the case of a Federal Reserve bank, in view of the public nature of its funds and operations." Still again in 1958 the Chairman of the Board of Governors pointed out that "* * * the Board believes that due consideration should be given to the public interest aspect of the Federal Reserve System when use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve bank is contemplated, and that expenditures of this nature should be limited to those which can be justified by the benefits received by the Reserve bank and the Reserve System."

Since the Federal Reserve System carries out governmental functions and handles Government funds without annual congressional review and approval it may tend to use Government funds for inappropriate purposes. The official position of the Board of Governors is that, "The absence of other governmental controls and supervision under existing law places upon the Board and the Federal Reserve banks a peculiar responsibility to be certain that any expenditures are clearly authorized by law and to be able to justify fully any items which may be questioned." The Board of Governors has further suggested in effect that criteria set up for expenditures by U.S. Government agencies be used by the Federal Reserve banks. For example in May 1946 the Board stated that "* * * the policy to be followed in these matters that the limitations on local governmental offices should be borne in mind," and in 1952 "The residual interest of the Government is the assets of the Reserve banks and the disposition which is now being made of their earnings, raises further doubt as to the propriety of contributions by the Reserve banks which are not made by Government agencies."

Directors of the Federal Reserve banks are the responsible controlling individuals for the operations of the Federal Reserve System within the limitations of the Federal Reserve Act, as amended, and related statutes. The entire System has 108 directors, 9 at each Federal Reserve bank. At each bank there are three class A, three class B, and 3 class C directors. Class A and class B directors are elected by the member banks in each district. Class A directors are usually member bank officers, while class B directors cannot be actively associated with banking, but are actively engaged in commerce, agriculture, or industry within the bank's district. The class C directors are appointed by the Federal Reserve Board of Governors from the bank's district and may not have any financial interest in banking. One class C director is designated by the Board of Governors as Chairman and Federal Reserve Agent; a second as Deputy Chairman and the thirds acts as Chairman in the absence of the other two.

Federal Reserve bank directors are charged with many important responsibilities, the primary one being the economical and efficient operation of the Federal Reserve banks. This responsibility is carried out through prescription of the bylaws of the banks; selection of the President, First Vice President, and other officers of the banks subject to the approval of the Board of Governors; review and approval of semiannual budgets, and by maintaining and supervising all internal auditing systems.

The operating function of the banks which requires the greatest number of employees is the check collection or clearing activity. During 1962 the average number of persons employed in check collection was 6,441. Other major operating functions include currency and coin (1,965 average employees), accounting (1,020 average employees), research, public information, and bank relations (757 average employees), fiscal agency (2,072 average employees), provision of space (1,429 average employees), personnel, including cafeteria employees (833 average employees), and general service (2,723 average employees).

Provision of facilities for borrowing from the Federal Reserve banks by member commercial banks was a main objective of Reserve banking as established in this country. This function, referred to in the Federal Reserve System as discounts and advances, is no longer a major function of the System. During 1962 an average of less than 100 employees were engaged in this activity. Statistics of the number and amount of discounts and advances in recent years have been reported as follows.

An analysis of the distribution of the employees of the Federal Reserve System shows that the greater part of these employees are engaged in serving the banking community on a nonreimbursable or free basis. Since these services are free it is difficult to understand the necessity for the Reserve banks to engage in so-called public relations or sales activities. Are the free services so unattractive that the banks must sell them?

The board of directors of the 12 Reserve banks elect 5 presidents of the Reserve banks to the Federal Open Market Committee and each board of directors elects 1 member to the Federal Advisory Council. The directors are further charged with administering the general policies of the Board of Governors and the Federal Open Market Committee; meeting the currency needs of the country and regulating the extension of credit so that the objective of "* * * helping to stabilize the economy at the highest sustainable level of production and employment * * * through the exercise of monetary and credit influence" will be attained.

Director's fees, limited to $75 per day plus expenses, are the only remuneration attached to the position of director. Directors are usually men prominent in their community and ofttimes financially well off. The comparatively modest fees, in view of the responsibilities attached to the position, suggest that other considerations might include access to important information not generally available, but of considerable significance to the banking and general business community may be involved. Undoubtedly many of the directors are mainly motivated by an urge to serve their country.

A confidential report of expenses of the Federal Reserve banks and branches for the year 1962 revealed that substantial sums of Government money amounting to about $2 million annually were being expended for what we considered questionable purposes. We tested our belief by selecting thousands of items listed by the Federal Reserve banks and their branches from four expense categories. These categories were "Fees," "Printing and supplies," "Traveling expenses," and "All other." The banks and branches have been requested to provide descriptive material and justification for the items selected. Complete responses to the requests have not been received at this time. However, in an effort to accelerate the receipt of the information requested, and to conduct a firsthand survey of how the subject material might be expeditiously processed and forwarded, we visited the Federal Reserve Banks of New York, Cleveland, and Chicago. We were courteously received and given all reasonable cooperation by bank personnel in accomplishing our work.

At each location we scanned vouchers that supported the amounts selected from the lists supplied by the banks. This scanning enabled us to greatly reduce the overall number of vouchers to be explained and justified by the three banks that were visited. Many vouchers were eliminated from the list because they represented normal transactions which might be found in any Government agency, while other vouchers were repetitions of types of questionable transactions for which many similar type vouchers had been selected.

The survey was specifically directed toward obtaining examples of expenditures by the Federal Reserve banks not normally found in a U.S. Government agency, where receipts are substantial and destined for deposit in the U.S. Treasury. The U.S. post office is such an agency. A substantial type of expenditure found in the banks, but not in the post office, is a cafeteria subsidy that cost the banks about $2.75 million during the 18 months ended June 30, 1963.

In connection with cafeteria operations that are so costly, one of the banks retained a firm of food service consultants who advised the bank in part that:

> (1) With very few exceptions the cafeteria equipment * * * is antiquated and obsolete.
>
> (2) At least 75 percent of the equipment is not constructed and installed in accordance with standards of the National Sanitation Foundation and of State and local health departments.
>
> (3) The efficiency of the food service operation is severely handicapped * * *.
>
> (4) * * * even casual inspection reveals the bad condition of most equipment.
>
> (5) * * * the location of this operation (the scraping of soiled dishes) in the main dining area exposed to the view of all occupants is deplorable.
>
> (6) * * * the layout of the existing food service facilities is poorly conceived.
>
> (7) * * * (the handling of finished products) comprises four operations, and three of these operations could be eliminated if the preparation and serving areas were on the same floor.
>
> (8) * * * the size of the main dining room is more than adequate to provide seating capacity for the present load as well as any increase in load that might be anticipated in the future * * *. The second or auxiliary dining room appears to serve no real purpose. * * * there is actually no apparent need for this second dining room.
>
> (9) With very few exceptions, the existing equipment should be scrapped and new equipment provided * * *.
>
> (10) The menus offered in the cafeteria are diversified and extensive. * * * However, we believe the selectivity could be reduced * * *. The greater the selectivity of the menu, the more equipment and labor is needed to prepare and serve it. This tends to pyramid * * * costs to an extent where they are not proportionate to the prices which can be charged * * *.

In addition to the cafeteria subsidy there are many other types of expenditures which we would not expect to find in the accounts of a postmaster. Such expenditures fall into several groupings. Examples of such expenditures found by us in the selected and limited review of vouchers for 1962 and the first half of 1963 for the New York, Cleveland, and Chicago Federal Reserve Banks will be listed below.

The Board of Governors has specifically questioned the appropriateness of expenditures for theater tickets, hence we were mildly surprised to learn that about $4,000 had been spent for theater parties by one of the banks during the period reviewed. The listing below of the plays attended includes the cost of food and beverages before or after the performance.

Name of play	Number of tickets	Expense
Mary, Mary	3	$61.65
No Strings	5	183.50
A Man for All Seasons	4	81.50
How To Succeed In Business Without Really Trying	12	470.70
(Play not specified)	4	83.95
A Funny Thing Happened on the Way to the Forum	4	110.60
Bolshoi Ballet	6	184.00
How To Succeed In Business Without Really Trying	4	136.00
Do	4	142.40
Purlie Victorious	4	74.45
Ukranian Dancers	2	43.00
Shot in the Dark	3	53.15
Carnival	4	86.50
I Can Get It For You Wholesale	4	83.60
The Night of the Iguana	4	66.85
The Affair	3	55.70
Camelot	3	67.20
Calculated Risk	3	67.65
A Man for All Seasons	4	74.20
Bolshoi Ballet	3	65.90
Carnival	4	83.70
Do	4	80.93
(Play not specified)	4	86.33
Camelot	6	138.30
A Man for All Seasons	2	36.83
(A night club with a floor show)	4	96.00
Sound of Music	4	83.90
The Night of the Iguana	6	134.90
A Man for All Seasons	3	69.30
No Strings	2	49.55
Milk and Honey	8	164.90
No Strings	3	78.05
A Shot in The Dark	2	47.75
Carnival	4	86.20
I Can Get It For You Wholesale	9	212.25
Milk and Honey	5	122.75
No Strings	4	71.60
A Man for All Seasons	4	81.60
Opera	2	38.25
How To Succeed In Business Without Really Trying	4	114.25
Total	167	4,069.49

The several Federal Reserve banks spend substantial sums on luncheons and dinners for bankers and industrialists. For example, the New York bank gave a luncheon at the Waldorf-Astoria Hotel at a cost of $5,320.10 which averaged about $8 per person. Most of the guests were bankers but several represented securities brokerage and underwriting companies. The New York and Philadelphia banks sponsored jointly a luncheon at the Haddon Hall Hotel in Atlantic City, N.J., at a cost of about $5.40 per person.

The most fruitful of the four expense categories tested, for examples of questionable expenditures, was the "All other" category. During 1962 and the first half of 1963 the system total for this category was more than $4.5 million. Within this classification were several kinds of expenses.

The CHAIRMAN. And I would like to insert an elaboration of the statement put in this morning about the Federal Reserve Bank of Cleveland, preceding the statement of expenses and so forth. Without objection, that will be done.

The CHAIRMAN. Now, the questions I would like to ask are these:

Now, all of you gentlemen feel your expenses are justified.

Would you be willing for every agency of the Government to use the same discretion in its affairs, through debts or financing or otherwise and do exactly what you gentlemen are doing under the same circumstances?

What about you, Mr. Ellis?

Mr. ELLIS. Mr. Patman, I have listened carefully to the subjects of our activities that you question. I have been delighted to find that your questions have been directed to a minuscule portion of our total; that you have no question about the major operations that we are responsible for, the efficiency with which we——

The CHAIRMAN. You are not responding to my question. Now, we will not get through here this afternoon and we will have to have another session tomorrow morning if you——

Mr. ELLIS. My answer directly is because I feel we are doing an efficient job I would be very happy to have the Government agencies do the same thing.

The CHAIRMAN. You would be?

Mr. ELLIS. I would be very pleased to have them obtain the same efficiency.

Mr. WAYNE. I do not feel competent to answer as to what another Government agency should do, but I have no apologies for ours.

Mr. SHUFORD. I think I am in substantial agreement with Mr. Wayne, which is to the effect that I do not feel competent to pass on the other agencies.

I do think there is a distinction between the structure of the Federal Reserve and the other agencies, and I think that the Federal Reserve, as I have indicated in my statement, should be continued in this independent character with which we speak, and I shall not try to define that, Mr. Chairman, because I know that you know what I mean when I say that.

The CHAIRMAN. Yes, sir; I know what you mean. I do not think it is the same as I mean, however.

Mr. SHUFORD. That is entirely possible.

The CHAIRMAN. Yes, sir. However, your statement, I thought, was pretty good along the line that you have indicated there.

Mr. SHUFORD. Thank you, sir.

The CHAIRMAN. I want to ask you gentlemen this question: Who is the senior?

Mr. Wayne, are you the senior of the three gentlemen? I am sure you are.

Mr. SHUFORD. Yes, sir.

The CHAIRMAN. Are Presidents of Federal Reserve banks allowed to have other business interests?

Mr. WAYNE. No, sir.

The CHAIRMAN. You do not own stocks in any industrial concern?

Mr. WAYNE. No, sir.

The CHAIRMAN. You do not have the privilege of making money in any other way, by lectures or speeches or interest in commercial banks or savings and loans or anything else?

Mr. WAYNE. None whatever.

The CHAIRMAN. Do you gentlemen agree with that?

Mr. ELLIS. I agree.

Mr. SHUFORD. No, sir; I do not. I do own——

The CHAIRMAN. Do you have a statement that you have to sign each year or at a certain period of time about your personal affairs?

Mr. WAYNE. Yes, sir.

The CHAIRMAN. How often do you have to do that?

Mr. WAYNE. Well, I file a statement once a year, as of July 1, in which I have to certify to the chairman of our board any indebtedness which I may have and have to certify whether I have any outside interest or any investment of any kind or any obligation of any kind, and I am under obligation, if there is any change in the statement, to immediately notify the chairman of the board.

Mr. SHUFORD. I will have to modify that to the extent that there is no prohibition that I am aware of——

The CHAIRMAN. That is what I am getting at. I was talking about prohibitions.

Mr. SHUFORD. I say, there is none that I know of that would prevent me from owning stock, and I do own stock in corporations. I do not own any bank stock, and I do file the statement similar to the one that that Mr. Wayne stated, but I do own stock in private corporations. Otherwise, my statement is in accord with his.

The CHAIRMAN. There is no particular statement that each one of you have to sign, as Presidents of banks, and there is no regulation against outside business. Is that right?

Mr. SHUFORD. No, there is a regulation with respect to outside business——

The CHAIRMAN. That, I would like to see. Do you have a copy of that? Could you furnish it?

Mr. WAYNE. There is a statement of principles from the Board of Governors which specifies particularly that the officers of Reserve banks shall devote their full and entire interest to the affairs of the Reserve banks and shall not be engaged in any outside business of any kind.

I am sure a copy of this is readily obtainable. I do not have it with me.

The CHAIRMAN. Of course, the theory is that Presidents of banks are paid a pretty good salary. They are not supposed to have outside interests.

It has always been my contention that Members of Congress should be paid a salary which would justify them devoting their whole time and attention to their duties and not having any outside conflicting businesses. Now, that has not been done for the Members of the Congress. It should have been done, in my view.

But, in the case of you gentlemen, as Presidents of banks, you may earn up to $75,000—not one of you here but the New York Bank is the biggest bank and, of course, the President of the New York Bank gets the biggest salary; but the others get satisfactory salaries and I am glad they do.

Now, without objection, I will place in the record the salaries of the 50 highest paid in each of the 12 Federal Reserve——

Mr. ELLIS. Twenty-five, I believe.

The CHAIRMAN. Twenty-five, yes, of the Federal Reserve banks and the Board. That will get them all.

Mr. ELLIS. Mr. Chairman, could I volunteer that this same certification is applied to all of our employees in critical positions in the institution, and the same statement is supplied.

The CHAIRMAN. You mean the statement about outside interests?

Mr. ELLIS. Yes, sir.

Mr. WAYNE. Yes, sir; there are approximately 700 of our staff that file similar statements.

The CHAIRMAN. I think that is very fine, and I will ask the staff to get a statement from the Federal Reserve Board to the effect that they are required to be filed by these Presidents and have them put in the record at this point.

(The documents follow:)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

Washington, March 24, 1948.

DEAR SIR: Recently, in connection with a review of the policies in effect with respect to outside business affiliations and teaching activities of members of the Board's staff and officers and employees of the Federal Reserve banks, the Board expressed the view that, under established policies, such connections should be made by those occupying responsible positions only with the approval of the Board whenever a member of its own staff was involved and only with the approval of the appropriate committee or officers of a Federal Reserve bank whenever an officer or employee of the bank was involved. This letter is for the purpose of incorporating the above suggestion in existing policies and consolidating the Board's letters on this matter into a single communication. Accordingly, this letter supersedes the Board's letters of May 7, 1924 (X-4048, FRLS No. 9054), June 25, 1937 (S-8, FRLS No. 9055), July 26, 1937 (S-19a, FRLS No. 9056), and June 25, 1945 (S-855, FRLS No. 9054.1).

For many years the Board has taken the position that the good conduct and repute of the Federal Reserve System require that officers and employees occupying responsible positions in the Federal Reserve banks shall give their entire time and attention to the affairs of the banks and not be identified with any outside business interests. Stated as a general principle, it is important that officers and employees of a Federal Reserve bank refrain from being placed in any position which might embarrass the Federal Reserve bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions.

Question as to the applicability of this policy to teaching commitments has been raised and it has been urged that there is a definite distinction between the outside business connections contemplated by the above statement of policy and purely educational work, and that there should be no objection to an officer or a member of the research staff of a Federal Reserve bank having a teaching connection with a university which is also helpful in enabling him to keep in touch with current developments in his field and in establishing and maintaining relations between the bank and the university which would be of advantage to the bank. The Board is in agreement that such instances, as well as other teaching connections which are closely related to the work of the Federal Reserve banks, such as AIB classes, should not be regarded as coming within the scope of the policy stated above provided; (*a*) the teaching engagement is clearly secondary and in keeping wtih employment by the Reserve bank, and (*b*) the teaching engagement does not interfere with the work of the Reserve bank.

In the review of this policy, other questions have arisen about outside activities of members of the research staffs. Some time ago the Board had occasion to consider the question of the propriety of a member of the research staff receiving substantial pay for preparing for a semipublic agency a study peculiarly in the field of Federal Reserve interests. The Board expressed the view that an important principle was involved; namely, that a full-time employee or officer of a Reserve bank should not receive pay from another source for work being, or which should be, done by the Reserve bank as part of its public service, and that, in the case in question, if the study were one that the bank, as such, should make, it should be done by the bank without charge to the other agency, except possibly for out-of-pocket expenses. It may be added that frequently the person involved would not be called upon to render the outside service if he were not in position to utilize information and material accumulated in the conduct of the affairs of the bank.

The policy with respect to outside engagements applies only to officers and to full-time regular employees. It may not necessarily apply to individuals engaged as consultants on a fee basis, to those engaged as part-time employees, or to those employed for temporary periods, such as during vacations or for work on specific projects. Such cases should be considered individually by the Reserve banks in the light of the general principle involved. In this connection, it may be observed that a consultant for special services on a part-time basis should not be an officer of the bank nor should he be considered as a representative of the bank, except to such extent as he may be authorized for the specific purpose for which he is engaged.

It is expected that reports now being made to the boards of directors of the Federal Reserve banks regarding indebtedness and outside business activities of officers and employees occupying responsible positions will be continued. The Board's examiners have been instructed, in connection with each examination of a Federal Reserve bank, to review these reports and advise the Board of any situations which should be brought to its attention. In no event should an officer or an employee occupying a responsible position undertake any outside business activity or teaching engagement without first obtaining the approval of the appropriate committee or officer of the bank.

The Board also feels that, in accordance with the principle stated in this letter, officers of the Federal Reserve banks and employees occupying responsible positions should not purchase stock in a member bank or an affiliate thereof (except possibly in the case of affiliates where the actual relationship to the member bank is remote) and that they should dispose of any such stock which they may now have, or may hereafter acquire, as soon as practicable without undue hardship. It is requested, therefore, that the annual reports of officers and employees to the board of directors regarding indebtedness and outside business activities also include information regarding the ownership of bank stock and stock of affiliates of banks.

Very truly yours,

S. R. CARPENTER,
Secretary.

To the Presidents of all Federal Reserve banks.
To the chairmen of all Federal Reserve banks.

Board of Governors of the Federal Reserve System

Annual salary	Name	Title	Principal assignment
$20, 500	William McC. Martin, Jr	Chairman of the Board	
20, 000	C. Canby Balderston	Vice Chairman of the Board	
20, 000	J. Dewey Daane	Member of the Board	
20, 000	Abbot L. Mills, Jr	do	
20, 000	George W. Mitchell	do	
20, 000	J. L. Robertson	do	
20, 000	Chas. N. Shepardson	do	
27, 500	Ralph A. Young	Adviser to the Board	Board members.
26, 000	Guy E. Noyes	do	Do.
26, 000	Merritt Sherman	Secretary of the Board	Secretary.
26, 000	Howard H. Hackley	General Counsel	Legal.
25, 000	Daniel H. Brill	Director	Research and statistics.
25, 000	Frederic Solomon	do	Examinations.
24, 500	Robert C. Holland	Associate Director	Research and statistics.
24, 500	Albert R. Koch	do	Do.
24, 000	J. Herbert Furth	Adviser	International finance.
24, 000	John R. Farrell	Director	Bank operations.
23, 500	Charles Molony	Assistant to the Board	Board members.
23, 500	J. Charles Partee	Adviser	Research and statistics.
23, 000	David B. Hexter	Assistant General Counsel	Legal.
22, 500	Robert L. Cardon	Legislative counsel	Board members.
22, 000	Frank R. Garfield	Adviser	Research and statistics.
22, 000	A. B. Hersey	do	International finance.
22, 000	Robert L. Sammons	do	Do.
21, 500	Thomas J. O'Connell	Assistant General Counsel	Legal.
21, 500	Edwin J. Johnson	Director	Personnel.
21, 000	Kenneth B. Williams	Adviser	Research and statistics.
21, 000	Innis D. Harris	Coordinator	Defense planning.
20, 000	Lewis N. Dembitz	Associate adviser	Research and statistics.
20, 000	Robert Solomon	do	Do.
20, 000	Samuel I. Katz	do	International finance.
20, 000	Brenton C. Leavitt	Assistant Director	Examinations.

20, 000	Maurice H. Schwartz	Director	Data processing.
19, 500	Kenneth A. Kenyon	Assistant Secretary of the Board	Secretary.
19, 500	Jerome W. Shay	Assistant General Counsel	Legal.
19, 500	Glenn M. Goodman	Assistant Director	Examinations.
19, 500	Joseph E. Kelleher	Director	Administrative services.
19, 000	Ralph C. Wood	Associate adviser	International finance.
19, 000	Robert C. Masters	Associate Director	Examinations.
19, 000	J. J. Connell	Controller	Controller.
18, 755	Clayton Gehman	Chief, Business Conditions Section	Research and statistics.
18, 750	Gerald M. Conkling	Assistant Director	Bank operations.
18, 500	Arthur L. Broida	Assistant Secretary of the Board	Secretary.
18, 500	Henry Benner	Assistant Director	Examinations.
18, 500	James C. Smith	do	Do.
18, 500	Mortimer B. Daniels	do	Bank operations.
18, 250	H. F. Sprecher, Jr	do	Personnel.
18, 240	Mona E. Dingle	Senior economist	Research and statistics.
18, 240	James B. Eckert	Chief, Banking Section	Do.
18, 240	Harlow D. C. Osborne	Chief, Consumer Credit and Finance Section.	Do.

Federal Reserve Bank of Boston

Annual salary	Name	Title	Principal assignment
$35,000	George H. Ellis	President	Administrative.
27,500	E. O. Latham	1st vice president	Do.
22,000	D. Harry Angney	Vice president	Personnel.
22,000	Oscar A. Schlaikjer	Vice president and general counsel	Legal.
19,000	Ansgar R. Berge	Vice president	Loans and credits.
19,000	Charles E. Turner	do	Check collection.
19,000	G. Gordon Watts	do	Fiscal agency, currency.
18,000	Luther M. Hoyle, Jr	do	Examinations.
18,000	John E. Lowe	Special adviser	Special assignments.
17,500	Wallace Dickson	Assistant vice president	Public information.
17,500	Parker B. Willis	Vice president and economic adviser	Research.
17,000	Robert W. Eisenmenger	Director of research	Do.
16,500	Jarvis M. Thayer, Jr	Cashier	Accounting.
16,500	Louis A. Zehner	Assistant vice president	Bank relations.
16,000	Stanley B. Lacks	General auditor	Auditing.
16,000	Laurence H. Stone	Secretary and associate general counsel	Legal.
15,000	Loring C. Nye	Assistant vice president	Loans and credits.
14,500	Lee J. Aubrey	do	Examinations.
14,000	Daniel A. Acquilino	Assistant cashier	Planning.
14,000	Charles H. Brady	Assistant vice president	Currency.
14,000	Richard A. Walker	do	Personnel.
13,340	H. Wendell Chittim	Examiner	Examinations.
13,000	Paul S. Anderson	Financial economist	Research.
13,000	Ripley M. Keating	Assistant cashier	Building.
13,000	Harry R. Mitiguy	Bank relations officer	Bank relations.

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Federal Reserve Bank of New York

Annual salary	Name	Title	Principal assignments
$70,000	Alfred Hayes	President	Administrative.
40,000	William F. Treiber	1st vice president	Do.
37,500	Robert G. Rouse	Vice president and senior adviser	Special assignments.
35,000	Harold A. Bilby	Vice president	Government bond, accounting, loans, and credits.
32,500	Marcus A. Harris	do	Cash and collections.
31,500	Charles A. Coombs	do	Foreign.
29,000	Howard D. Crosse	do	Examinations.
28,500	John J. Clarke	Vice president and general counsel	Legal.
28,000	Insley B. Smith	Vice president	Administrative (branch).
27,500	Robert W. Stone	do	Open market operations.
27,500	Horace L. Sanford	do	Foreign.
26,000	Walter H. Rozell, Jr	do	Personnel.
25,500	Angus A. MacInnes, Jr	Assistant vice president	Check collection.
25,000	Edward G. Guy	Assistant general counsel	Legal.
24,250	Felix T. Davis	Assistant vice president	Fiscal agency.
24,000	Thomas O. Waage	Vice president	Public information.
23,000	George Garvy	Economic adviser	Research.
23,000	Alan R. Holmes	Vice president	Do.
23,000	Herman G. Sandvoss	Medical director	Medical.
22,000	Robert G. Link	Adviser	Research.
21,500	Spencer S. Marsh, Jr	Assistant vice president	Open market operations.
21,500	John P. Jensen	General auditor	Auditing.
21,000	Fred W. Piderit, Jr	Assistant vice president	Bank examinations.
21,000	William H. Braun, Jr	do	Accounting, planning, loans, and credits.
21,000	Norman P. Davis	do	Accounting, planning.

Federal Reserve Bank of Philadelphia

Annual salary	Name	Title	Principal assignments
$40,000	Karl R. Bopp	President	Administrative.
27,500	Robert N. Hilkert	1st vice president	Do.
25,000	J. V. Vergari	Vice president and cashier	Check collection.
21,500	David P. Eastburn	Vice president	Research.
19,500	Hugh Barrie	do	Planning.
19,500	John R. Bunting	do	Bank relations.
19,500	Joseph R. Campbell	do	Examinations.
19,500	Harry W. Roeder	do	Accounting.
18,500	Murdoch K. Goodwin	Vice president, general counsel and assistant secretary.	Legal.
18,500	Richard G. Wilgus	Vice president and secretary	Building.
18,500	G. William Metz	General auditor	Auditing.
18,000	Norman G. Dash	Vice president	Fiscal agency.
18,000	Clay J. Anderson	Economic adviser	Research.
17,500	Evan B. Alderfer	do	Do.
17,000	Joseph M. Case	Assistant vice president	Examinations.
15,500	E. A. Aff	do	Bank relations.
15,500	H. J. Nelson	do	Fiscal agency.
15,500	Fred A. Murray	Director of plant	Building.
15,000	R. E. Haas	Assistant vice president	Check collection.
15,000	Leonard Markford	Examining officer	Examinations.
14,000	Warren R. Moll	Assistant vice president	Check collection.
14,000	Kenneth M. Snader	do	Research.
14,000	Lawrence C. Murdoch, Jr	Business economist	Do.
14,000	James P. Giacobello	Chief examining officer	Examinations.
13,500	Jack P. Besse	Assistant cashier	Data processing.

Federal Reserve Bank of Cleveland

Annual salary	Name	Title	Principal assignments
$40,000	W. Braddock Hickman	President	Administrative.
25,000	Donald S. Thompson	1st vice president	Do.
23,000	Clyde E. Harrell	Vice president	Administrative (branch).
23,000	Fred O. Kiel	do	Do.
22,500	Martin Morrison	do	Fiscal agency.
21,000	Paul C. Stetzelberger	do	Examinations.
20,500	Roger R. Clouse	Vice president and secretary	Bank relations, public information.
20,500	Edward A. Fink	Vice president	Accounting, budget.
18,000	Maurice Mann	do	Research.
17,000	Addison T. Cutler	Special economist	Do.
16,500	Elmer F. Fricek	Vice president	Personnel.
16,500	Fred S. Kelly	Vice president and cashier	Cash.
16,500	Elfer B. Miller	General auditor	Auditing.
16,500	John A. Schmidt	Cashier	Administrative (branch).
16,000	Phil J. Geers	do	Do.
15,500	Paul Breidenbach	Counsel	Legal.
15,000	Clifford G. Miller	Vice president	Check collection.
15,000	George T. Quast	Chief examiner	Examinations.
14,500	George E. Booth, Jr	Assistant counsel	Legal.
14,500	Phillip B. Didham	Assistant vice president	Operating and circular letters.
14,000	Robert G. Hoover	do	Fiscal agency.
14,000	Charles E. Houpt	Assistant cashier	Check collection, building operations (branch).
14,000	John J. Hoy	Assistant vice president	Accounting.
14,000	Harry W. Huning	do	Examinations.
14,000	Walter H. MacDonald	Assistant cashier	Fiscal agency (branch).

Federal Reserve Bank of Richmond

Annual salary	Name	Title	Principal assignment
$40,000	Edward A. Wayne	President	Administrative.
27,500	Aubrey N. Heflin	1st vice president	Do.
25,000	Benjamin U. Ratchford	Vice president and senior adviser	Research.
22,000	D. F. Hagner	Vice president	Administrative (branch).
22,000	Upton S. Martin	do	Fiscal agency, check collection.
22,000	J. M. Nowlan	Vice president and cashier	Cash, accounting.
19,000	Robert P. Black	Vice president	Research, bank and public relations.
19,000	W. S. Farmer	Vice president and general counsel	Legal.
19,000	E. F. MacDonald	Vice president	Administrative (branch).
18,500	John L. Nosker	do	Examinations.
18,500	G. Harold Snead	General auditor	Auditing.
17,500	S. A. Ligon	Cashier	Administrative (branch).
17,500	A. A. Stewart, Jr	do	Do.
16,000	J. G. Dickerson, Jr	Vice president	Planning.
16,000	H. E. Ford	Assistant vice president	Cash, building.
16,000	R. E. Sanders, Jr	Vice president	Personnel.
15,000	John G. Deitrick	Assistant vice president	Fiscal agency.
15,000	James Parthemos	do	Research.
14,500	John C. Horigan	Chief examiner	Examinations.
14,000	V. E. Pregeant III	Assistant vice president and secretary	Special assignments.
13,500	E. L. Bennett	Examining officer	Examinations.
13,500	R. Henry Smart	do	Do.
13,500	Joseph F. Viverette	Assistant vice president	Data processing.
13,000	Stuart P. Fishburne	do	Planning.
13,000	W. B. Harrison III	do	Accounting.

Federal Reserve Bank of Atlanta

Annual salary	Name	Title	Principal assignment
$40, 000	Malcolm Bryan	President	Administrative.
27, 500	Harold T. Patterson	1st vice president and general counsel	Do.
21, 000	J. E. McCorvey	Vice president and cashier	Fiscal, loans, building.
20, 000	R. E. Moody, Jr	Vice president	Administrative (branch).
20, 000	M. L. Shaw	do	Do.
19, 500	T. A. Lanford	do	Do.
19, 500	Brown R. Rawlings	do	Check collections, personnel.
18, 000	E. C. Rainey	do	Administrative (branch).
17, 600	J. E. Denmark	do	Examinations.
16, 750	L. B. Raisty	do	Currency, accounting.
16, 750	Charles T. Taylor	Vice president and director of research	Research.
16, 200	Harry Brandt	Assistant vice president	Do.
15, 750	DeWitt Adams	General auditor	Auditing.
15, 750	R. M. Stephenson	Assistant vice president	Examinations.
15, 400	W. H. Sewell	do	Administrative (branch).
15, 250	Richard A. Sanders	Associate general auditor	Auditing.
15, 000	George W. Sheffer, Jr	Chief examiner	Examinations.
14, 500	W. M. Davis	Assistant cashier	Research.
14, 500	Theodore Walter	Assistant vice president	Administrative (branch).
14, 250	Beyrl E. Howard	do	General services.
14, 000	Dowdell Brown, Jr	do	Fiscal agency, check collections (branch).
13, 500	L. Y. Chapman	do	Check collection (branch).
13, 500	T. C. Clark	do	Acounting, cash (branch).
13, 500	John T. Harris	do	Fiscal agency.
13, 500	Arthur Kantner	Assistant cashier	Research.

Federal Reserve Bank of Chicago

Annual salary	Name	Title	Principal assignments
$55,000	C. J. Scanlon	President	Administrative.
27,500	Hugh J. Helmer	1st vice president	Administrative.
24,000	Paul C. Hodge	Vice president, general counsel, and secretary.	Legal.
24,000	R. A. Swaney	Vice president	Administrative (branch).
23,000	Ernest T. Baughman	Vice president	Research.
23,000	John J. Endres	General auditor	Auditing.
23,000	L. H. Jones	Vice president and cashier	Accounting.
21,000	C. T. Laibly	Vice president	Fiscal agency.
21,000	Leland M. Ross	Vice president	Examinations.
20,000	A. M. Gustavson	Vice president	Cash.
20,000	H. J. Newman	Vice president	Personnel.
19,500	Harry S. Schultz	Vice president	Check collection.
19,000	Bruce L. Smyth	Assistant vice president	Planning.
18,500	Richard A. Moffatt	Vice president	Credit, discount.
17,500	R. W. Bloomfield	Assistant vice president	Accounting (branch).
16,500	Fred A. Dons	Assistant general auditor	Auditing.
16,500	Elbert O. Fults	Assistant vice president	Examinations.
16,500	Ward J. Larson	Assistant counsel and assistant secretary	Legal.
16,250	G. W. Lamphere	Assistant general counsel	Legal (branch).
16,000	Carl E. Bierbauer	Assistant vice president	Check collection.
16,000	E. A. Heath	Assistant vice president and assistant secretary.	Publications.
16,000	James R. Morrison	Chief examiner	Examinations.
16,000	Carl W. Weiskpof	Assistant chief examiner	Examinations.
15,500	George W. Cloos	Senior economist	Research.
15,500	Joseph Srp, Jr	Assistant vice president	Building operations.

Federal Reserve Bank of St. Louis

Annual salary	Name	Title	Principal assignments
$35,000	Harry A. Shuford	President	Administrative.
27,500	Darryl R. Francis	1st vice president	Do.
23,000	Howard H. Weigel	Vice president and secretary	Building, Personnel.
22,500	Joseph C. Wotawa	Vice president	Check collection.
22,000	Dale M. Lewis	do	Cash, credit, discount.
21,500	Donald L. Henry	Vice president and manager	Administrative (branch).
21,000	Homer Jones	Vice president	Research.
20,000	E. Francis DeVos	Vice president and manager	Administrative (branch).
20,000	Orville O. Wyrick	Vice president	Examinations.
19,500	Fred Burton	Vice president and manager	Administrative (branch).
18,500	Marvin L. Bennett	Vice president	Fiscal agency.
18,500	George W. Hirshman	General auditor	Auditing.
17,000	Gerald T. Dunne	General counsel and assistant secretary	Legal.
17,000	Wilbur H. Isbell	Chief examiner	Examinations.
17,000	Stephen Koptis	Assistant vice president	Credit discount.
16,500	Earl R. Billen	do	Check collection.
16,500	Norman N. Bowsher	do	Research.
16,000	Willis L. Johns	do	Personnel.
15,000	Woodrow W. Gilmore	Planning officer	Planning.
15,000	John W. Menges	Cashier	Accounting, building (branch).
15,000	Paul Salzman	Assistant vice president	Operations, research.
14,500	Earl H. Chapin	Assistant chief examiner	Examinations.
14,000	John F. Breen	Cashier	Accounting, cash (branch).
14,000	James M. Geiger	Assistant vice president	Building services.
14,000	Clifton B. Luttrell	Manager, senior economist	Research.

Federal Reserve Bank of Minneapolis

Annual salary	Name	Title	Principal assignment
$40,000	Frederick L. Deming	President	Administrative.
25,000	M. H. Strothman, Jr	1st vice president	Do.
22,500	H. G. McConnell	Vice president and secretary	Examinations.
21,000	C. W. Groth	Vice president and cashier	Accounting, security safekeeping.
20,000	Kyle K. Fossum	Vice president	Bank and public services.
18,750	Franklin L. Parsons	do	Research.
18,000	A. W. Johnson	do	Check collection, cash.
17,000	R. K. Grobel	Chief examiner	Examinations.
17,000	M. B. Holmgren	Vice president	Fiscal agency.
16,000	Clement A. Van Nice	do	Administrative (branch).
15,000	Ralph J. Dreitzler	General auditor	Auditing.
14,500	Oscar F. Litterer	Assistant vice president	Research.
14,500	M. E. Lysen	do	Planning.
13,500	F. J. Cramer	do	Personnel.
13,500	John A. MacDonald	do	Budget, planning.
13,000	R. D. Graham	Assistant secretary and assistant counsel	Legal.
12,500	W. C. Bronner	Assistant cashier	Fiscal agency.
12,500	John J. Gillette	Assistant vice president	Check collection, cash.
12,500	W. A. O'Brien	Assistant cashier	Accounting.
12,000	Carl E. Bergquist	do	Bank and public services.
12,000	Christopher Bjork	Assistant general auditor	Auditing.
12,000	C. W. Nelson	Economist	Research
11,600	M. G. Anderson	Senior examiner	Examinations.
11,500	Earl O. Beeth	Assistant cashier	Discount credit.
11,500	Howard L. Knous	do	Check collection.

Federal Reserve Bank of Kansas City

Annual salary	Name	Title	Principal assignments
$37, 500	George H. Clay	President	Administrative.
30, 000	Henry O. Koppang	1st vice president	Do.
24, 500	Clarence W. Tow	Senior vice president, economic research	Research.
21, 000	John T. Boysen	Vice president	Planning, accounting, cash.
19, 500	Ray J. Doll	Vice president and senior economist	Research.
18, 600	L. F. Mills	Vice president	Examinations.
18, 500	Wilbur T. Billington	Vice president and senior economist	Research.
18, 500	H. W. Pritz	Vice president	Administrative (branch).
17, 000	George C. Rankin	do	Do.
17, 000	John W. Snider	do	Do.
16, 500	William H. Leedy	General counsel and secretary	Legal.
16, 000	J. R. Euans	Vice president	Fiscal agency, discounts.
15, 000	F. W. Alexander	Cashier	Accounting, cash (branch).
15, 000	William F. Fairley	General auditor	Auditing.
15, 000	H. L. Stempel	Cashier	Cash, building (branch).
14, 040	Leon F. Hesser	Agricultural economist	Research.
14, 001	George R. Wilkinson	Senior bank examiner	Examinations.
13, 500	Marvin L. Mothersead	Director of personnel	Personnel.
13, 500	J. T. White	Vice president	Bank relations.
13, 494	Harold E. Donovan	Trust examiner	Examinations.
13, 200	George D. Royer, Jr	Chief examiner	Do.
13, 000	John N. Blair	Assistant vice president	Check collection.
13, 000	James C. Craig	do	Cash.
13, 000	Carl F. Griswold, Jr	do	Planning.
12, 500	Walter L. Pleiss	Cashier	Check collection (branch).

Federal Reserve Bank of Dallas

Annual salary	Name	Title	Principal assignment
$40,000	Watrous H. Irons	President	Administrative.
25,000	Philip E. Coldwell	1st vice president	Administrative.
24,500	J. L. Cook	Vice president	Administrative (branch).
22,500	G. R. Murff	Vice president and secretary	Accounting.
21,000	T. W. Plant	Vice president and cashier	Cash, loans.
19,000	James L. Cauthen	Vice president	Check collection.
19,000	Ralph T. Green	do	Research.
19,000	T. A. Hardin	do	Fiscal agency.
18,500	Carl H. Moore	do	Administrative (branch).
18,000	Arthur H. Lang	General auditor	Auditing.
16,500	George F. Rudy	General counsel	Legal.
15,500	Thomas R. Sullivan	Vice president	Examinations.
15,000	Roy E. Bohne	do	Administrative (branch).
15,000	James A. Parker	do	Personnel.
14,100	W. H. Pritchett	do	Building.
14,000	J. Z. Rowe	Director of research	Research.
13,250	B. J. Troy	Cashier	Administrative (branch).
12,600	A. E. Mundt	do	Do.
12,600	Charles A. Gore	Senior examiner	Examinations.
12,500	James O. Russell	Chief examiner	Do.
12,000	T. C. Arnold	Cashier	Administrative (branch).
12,000	Robert H. Boykin	Assistant counsel and assistant secretary	Legal.
12,000	Fredric W. Reed	Assistant cashier	Loans.
12,000	Emmett A. Thaxton, Jr.	do	Cash, fiscal agency.
11,800	Leon W. Cowan	Assistant vice president	Examinations.

Federal Reserve Bank of San Francisco

Annual salary	Name	Title	Principal assignments
$40,000	Eliot J. Swan	President	Administrative.
27,500	H. E. Hemmings	1st vice president	Do.
26,500	David L. Grove	Vice president	Research.
22,000	A. B. Merritt	do	Check collection, credits.
20,000	E. R. Barglebaugh	Vice president and manager	Administrative (branch).
20,000	C. H. Watkins	do	Do.
18,000	E. H. Galvin	Vice president	Examinations.
17,000	J. L. Barbonchielli	do	Cash, fiscal agency.
17,000	P. W. Cavan	do	Personnel.
17,000	George D. Hartlin	General auditor	Auditing.
17,000	A. L. Price	Vice president and manager	Administrative (branch).
17,000	W. F. Scott	General counsel	Legal.
16,500	William M. Burke	Senior economist	Research.
16,000	D. M. Davenport	Vice president	Administrative (branch).
16,000	Gault W. Lynn	Director of research	Research.
15,000	E. J. Martens	Cashier	Accounting.
15,000	W. R. Sandstrom	Assistant vice president	Administrative (branch).
14,000	J. F. Ahlf	Chief examiner	Examinations.
14,000	W. M. Brown	Assistant vice president	Administrative (branch).
14,000	George F. Dimmler	Economist	Research.
14,000	R. Maurer, Jr	Assistant vice president	Check collection.
14,000	J. R. Robinson	Assistant manager	Accounting (branch).
13,000	T. M. Simmons	Assistant vice president	Administrative (branch).
12,900	J. Norman Aamodt	Senior examiner	Examinations.
12,900	Herbert R. Runyon	Economist A	Research.

The CHAIRMAN. Now, the Open Market Committee, all of you attend that. Let's see, there are three of you——

Mr. WAYNE. Mr. Ellis and I are associated along with Mr. Bopp, of Philadelphia.

The CHAIRMAN. Yes. Well now, Mr. Ellis and you—there are you and Mr. Ellis and there are three from your area or from your Federal Reserve district, are there not?

Mr. WAYNE. Yes.

The CHAIRMAN. Now, when you have matters to be voted on, do you three get together and decide how you will vote on that in case there is a controversy or do you do it by majority vote of the three or how do you do it?

Mr. WAYNE. Mr. Patman, I have never caucused with anyone as to the position I would take in the open market discussions.

It is my understanding that we would approach it as individuals and attempt to bring a variety of independent judgments.

I have never caucused with Mr. Ellis or any other member of the Committee.

The CHAIRMAN. Although you do express your views at the meetings?

Mr. WAYNE. Frequently and frankly.

The CHAIRMAN. Frequently and frankly?

Now, that being true, there are three of you there and only one is a member.

So I assume that the one that is a member just votes his conviction, like you stated you vote yours?

Mr. WAYNE. That is correct.

The CHAIRMAN. Now, do you tell anybody about these meetings, Mr. Wayne?

To whom do you impart the knowledge that you receive at an Open Market Committee meeting?

Mr. WAYNE. There is present at the meeting of the Open Market Committee a number of my staff, the Vice——

The CHAIRMAN. A number of your staff?

Mr. WAYNE. The Vice President and senior adviser, Dr. Ratchford——

The CHAIRMAN. From each bank?

Mr. WAYNE. That is from each bank. He is present in order that he may be familiar with discussions that transpire at the Federal Open Market Committee meetings.

The CHAIRMAN. Now, these meetings are secretive, I assume, because if the information were to get out it could be disastrous to your program?

Mr. WAYNE. It would be disastrous to the United States.

The CHAIRMAN. Well, of course, you assume that your program is such that it is helpful to the United States and, of course, it could be disastrous to your program——

Mr. WAYNE. My comments there are intended to say that if there were leaks as to what was being done at the Open Market Committee meeting it would open up speculative opportunities which would be inimicable to the public interest.

The CHAIRMAN. People could make millions over night?

Have you ever known of a leak of the Open Market——

Mr. WAYNE. No, sir.

The CHAIRMAN. Have you?

Mr. ELLIS. No, sir.

The CHAIRMAN. Have you?

Mr. SHUFORD. No, sir.

Mr. BOLTON. How far in advance would you feel that the decisions made at the Open Market Committee could affect speculative interests?

In other words, if a decision or a discussion at the meeting, and recorded in the minutes, took place in June, how far in *x* year?

Is this a matter that would only affect the market in June or would it affect it in October, December, January, or——

Mr. WAYNE. My answer would be that it would vary under certain circumstances.

The decisions under the Open Market Committee are made for a 3-week period or until the Committee meets again, if they are on call.

For this particular 3-week period any knowledge of it would have an immediate possible impact on the market. If the knowledge were made available subsequently, perhaps as far into the future as 3 months at times, where there had been a continuing thrust of policy without change and in which they have been pursuing the same general thing, it would leave the impression that one can anticipate and count on this being done.

If what you are getting at, Mr. Bolton, is a question of a lag before these things could be freely discussed, I would feel that 6 months would be an absolute minimum because of this danger that you refer to. That is a personal opinion.

Mr. BOLTON. Mr. Chairman, may I just pursue this point a little further?

The CHAIRMAN. Surely, go ahead.

Mr. BOLTON. In other words, you would set 6 months as the minimum of time that the disclosure of the conferences and the discussions at this meeting or as a time that this would not have a speculative effect if it were known?

Mr. WAYNE. I am speaking of the entire discussions. I see no reason in the world why a record of policy actions cannot be made available with 90 days' lapse after the concluding time. I am speaking now personally and not for the Open Market Committee.

I believe that the policy which has been in effect in the United Kingdom for the last several years has much to commend it. At the end of each quarter there is issued by the Bank of England a discussion of the circumstances and conditions as they prevailed one quarter back, and a discussion is made of this particular thing in relation to the actions of the bank.

Mr. BOLTON. Well, let me be a little more specific.

If the minutes of the Open Market Committee were made public for the year 1963 would this hold any threat of speculative benefit from the knowledge gained thereby?

Mr. WAYNE. You mean now or when?

Mr. BOLTON. Now.

Mr. WAYNE. I would be reluctant to have them in the public domain now.

I would like to repeat one point that was made this morning by Mr. Hickman, that there are in these minutes confidential discussions involving foreign governments and banks which I hesitate——

Mr. BOLTON. I understand this, sir, and I was dealing purely with the domestic rather than the international.

Mr. WAYNE. I would there feel, too, that this whole knowledge of the thrust of power—a statement of policy actions can be made earlier than the release of the total record.

The total record would indicate the trend of minds of the various members of the Committee, and one can watch a changing trend and begin to anticipate.

This is the dangerous thing, but the whole statement of policy action, on that I see no reason why they can't be made available after the passage of 3 months' time.

I feel that the full minutes of the Open Market Committee are historic documents which, after a lapse of time, and here I would have in mind a couple of years, should be made available to everyone who is interested and wants to study them.

That is a personal opinion, and I am not sure that my colleagues follow it.

Mr. BOLTON. Frankly, I am only interested in the lapse of time, sir, which is the reason why I opposed the chairman's original motion for the submission of the minutes, and I appreciate the chairman yielding to me at this point.

The CHAIRMAN. Now, I want to ask you this: You make a daily statement, do you not, Mr. Wayne?

Mr. WAYNE. You mean the bank?

The CHAIRMAN. Yes.

Mr. WAYNE. Yes, sir.

The CHAIRMAN. And each one of you make one?

Mr. WAYNE. Yes, sir.

The CHAIRMAN. Now, where do you get the information to base that statement on?

Mr. WAYNE. The comparative—what we call our daily statement or comparative statement is prepared from the books of the Federal Reserve Bank of Richmond.

Your question, I presume, points to the participation of the Federal Open Market Committee——

The CHAIRMAN. That is right. Does not the Federal Open Market Committee furnish you that information every day about the purchases and sales of bonds?

Mr. WAYNE. The only time that it is furnished on a daily basis is where there is a change in participation.

These participations in account are on a formula which would continue for a period of time unless there was a necessity for changing it.

The CHAIRMAN. How do you arrive at the amount that you get? How is that arrived at?

Mr. WAYNE. I wish I was able to answer it precisely. It is a very involved formula which is worked out in the instructions of the Federal Open Market Committee.

I couldn't recite it.

The CHAIRMAN. Yes; I think we have that available, but the point is that the Federal Reserve Bank in New York handles 99 percent of your money, do they not?

Mr. WAYNE. The Federal Reserve Bank in New York is the agent of all of the banks.

The CHAIRMAN. And 99 percent of your income comes from that source, does it not?

Mr. WAYNE. That is correct.

The CHAIRMAN. In other words, the amount of money you make, under the discount system, is insignificant and practically nothing in comparison to your expenses, is it not?

Mr. WAYNE. Yes, sir.

Mr. BOLTON. Will you yield, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. BOLTON. Historically, has this been brought about by the growth of the Federal debt?

In other words, were the activities of the discount window far larger when the debt was smaller, as contrasted to the present situation, where the commercial banks themselves find it advantageous to hold a large portfolio of Government bonds on their own account?

Mr. WAYNE. When the Federal Reserve bank was established the outstanding Federal debt was infinitesimal, consisting primarily of issues in connection with national bank notes and the Panama Canal. As I read the record, it was assumed so that it would operate in bankers' acceptances and trade acceptances and papers arising out of commercial transactions.

With the growth of the Federal debt, the debt provided a ready instrument in the Federal bill which became "near money" and was available for this particular operation, and with the transfer of banking resources heavily into the bond account, this was a perfectly natural development.

As a matter of fact, when I entered a bank in South Carolina, and looking at all of the banks there in 1919, the total deposits of all of the banks in South Carolina then, there were $131 million, and the total loans were $137 million.

Mr. VANIK. If you will yield, what you are saying, in effect, if the gentleman will yield, Mr. Chairman, is that the great profitable business of the Fed has been a profitable result of our incurrence of this tremendous debt. This is about the only useful purpose that I see for it.

Mr. WAYNE. Well, I wouldn't, I am not sure that I could agree with that, but what the Fed has done is to use the instruments which it finds.

The CHAIRMAN. I do not think Mr. Bolton is exactly clear on his suggestion.

No, the national debt—directly it does not——

Mr. BOLTON. Not directly, Mr. Chairman, but——

The CHAIRMAN. Of course if the debt is larger than $33 billion it makes it possible, but I do not think that it is related to the subject matter, but I will leave that up to you.

Mr. BOLTON. Well, if the chairman would allow me, the Fed owns approximately little more than a tenth of the Federal debt.

In the past, prior to enlarged Federal debts, which we are presently saddled with, the discount window was a major part of the Fed's operation.

The CHAIRMAN. I do not think they are related to this.

Mr. BOLTON. But today the commercial banks, on their own account, in their own system, have a sufficient number of Federal bonds which they have by themselves and which they do engage in daily transactions on, so that they do not need to go to the Federal Reserve for.

In fact, some of the members of the Federal Reserve have complained to me that the Federal Reserve System, in some of their banks, are sufficiently worried that they are not able to meet the demands of the local banks, and the banks are forced to go out in the market and, therefore, sell or to purchase their own securities as contrasted to going to the discount window in the Fed.

The CHAIRMAN. Well, that is away from anything I had in mind at all. You see, what I had in mind was that the Fed's ownership of the $33 billion is really the only support that the Federal Reserve System has. Ninety-nine percent of every dollar that they spend comes from interest on that portfolio. And they keep the books in New York. They have got 12 sets of books, you might say, 1 for each bank.

They keep your books for you. They give you notice at the end of every day as to what the situation is and, really, 99 percent of the Federal Reserve bank business is done in the New York bank, and I often wonder why we have these big buildings all over the country that are used just for clearing checks and things like that.

Why should the Congress and the Government pay the expenses of the private banks?

It was contemplated in the Federal Reserve Act that the banks would pay for that under section 16, but when the Feds commenced to acquire a lot of bonds and making money, they started paying it.

Mr. BOLTON. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. BOLTON. Will you yield for a question?

The gentleman is exceedingly worried about the interest rates which a small depositor and small investor has to pay and rightly so, and we all are, and so is the gentleman from Ohio, and certainly the chairman would not suggest that we would assume the responsibility for the national check-cashing system and pass it on because this would raise the cost to every user of the commercial bank's facilities.

The CHAIRMAN. I consider your argument extremely illogical. Interest is never lower to the public because of this.

Now, I have here the expenses of the Federal Reserve banks which our investigators obtained from the Richmond bank and the Boston bank and the St. Louis bank, and I will just scan through them now, but I would like to put them in the record.

The Richmond bank: "The Federal Observer" which is a "house" publication is about $4,900; Richmond hotels and bills for expenses in connection with employees' annual dinner and the bank-sponsored employees' athletic activities come to about $308.

In employee relations, on that you have a number of expenses and in training and education, $1,278 for reimbursement of tuition and enrollment fee of 40 employees in an American Institute of Banking.

And the point I am getting at there is that your employees are so remotely connected with banking—you see, they are clearing checks and doing mechanical duties and things like that.

They are not making—even the presidents of the banks do not make as many judgments, I would not think, in connection with money and credit because you do not have the opportunity to. And then we have the educational features, and the bank-sponsored dinners held outside the banks. That runs into a lot of money.

And the membership dues are $2,042 in the Richmond chapter of the American Institute of Banking. Why should a Federal Reserve bank join the banking association?

Mr. WAYNE. I would like to speak to that.

The CHAIRMAN. Why should you join that and take money out of the Treasury down here to be used to join that association?

Mr. WAYNE. We have felt, and have found, that by maintaining continued contact through the associations of banks that we have been able to achieve a closer working relationship that results in a more effective functioning of our organization.

Mr. VANIK. Why could you not have a closer relationship with Congressmen?

Mr. BOLTON. What is that?

Mr. VANIK. I suggest that they should have a closer relationship with the parties——

The CHAIRMAN. They have a closer relationship with the parties. How many banks do you have in Richmond?

Mr. WAYNE. 881 banks in early last year. It is changing so fast that I would suggest it is about 840 or 850 now.

The CHAIRMAN. Well, in 1960 you only dealt with 104 banks.

Mr. WAYNE. In what respect?

The CHAIRMAN. In discounts and advances.

Mr. WAYNE. That is right.

The CHAIRMAN. And in 1961 it was 73 banks, in 1962 it was 67, and in 1963 you only dealt with 64 banks.

Mr. WAYNE. I interpret this, Mr. Patman, to mean your implication is that the only purpose for our existence is to carry——

The CHAIRMAN. Well, discounts and advances were originally one of the major purposes of the System, but you have kind of gotten out of that business these days.

You used to make a lot of money through discounts because the banks had to come to you for funds, but now they have organized the Federal funds market which takes money away from the Treasury and you do not make money like you did heretofore that way, because it is practically nil.

Mr. WAYNE. I am a little puzzled over this statement that the Feds organized the Federal fund market.

The CHAIRMAN. Well, you are cooperating in it very——

Mr. WAYNE. As a matter of fact, it existed long before we really became aware of it, and all we really do is the transactions—they come through our books.

The CHAIRMAN. Well, you have not done anything else, have you?

Mr. WAYNE. We think it is a good thing——

The CHAIRMAN. That is what I say. You are helping them to do this and you are not making much.

The taxpayers are paying everything on this thing.

Mr. BOLTON. Will the chairman state what the Federal fund market is?

The CHAIRMAN. It is where certain banks have reserves and they are not using them and they can transfer them into other banks to use during certain periods of time. Is that right?

Mr. WAYNE. Yes, sir; banks have an excess of reserves over required amount, but this is not uniform.

Throughout the country some banks will be in excess and banks which are deficient, rather than coming to the Federal to borrow, will in effect borrow from the bank which has excess reserves in order to cover its own deficiencies.

Mr. BOLTON. In other words, if Charlie and I were in the banking business, and I had a loan to make and did not have sufficient reserves and he had overreserves and I wanted to borrow some of his reserves, I could do it at a half of 1 percent or——

The CHAIRMAN. You can do it within 24 hours or usually it is 24 to 48 hours.

Mr. BOLTON. Well, why is this called a Federal market?

The CHAIRMAN. Federal funds market. Well, it used to be that the Feds made quite a bit of money——

Mr. WAYNE. On that?

The CHAIRMAN. No, not on that, but on a similar thing.

Mr. WAYNE. This is called a Federal fund market because what transfers is balances on the books of the Federal Reserve bank, and that is Federal Reserve funds.

Mr. BOLTON. These funds are already in being?

Mr. WAYNE. Right. The advantage of the Federal fund market is that it makes more effective the funds available.

The CHAIRMAN. That is right. I only brought it up because on account of it the banks now very rarely use the discount window, and so you let the Government pay 99 percent of your operating expenses.

Mr. WAYNE. This is a matter of definition. I wouldn't agree——

The CHAIRMAN. Now, you have travel expenses to conventions and meetings, and so forth. There are quite a few charges for that. And, myself——

Mr. WAYNE. May I speak to the one on the American Institute of Banking?

The CHAIRMAN. Yes, sir.

Mr. WAYNE. That is an educational organization, as I am sure you are aware, and we do encourage all of our employees to try to improve their education in ways that will enhance their value to us and our membership in that organization is for that purpose.

The CHAIRMAN. Mr. Wayne, you are in the banking business and you do practically nothing at the discount window.

Mr. WAYNE. But banking consists of much more than discounts——

The CHAIRMAN. And you are teaching them something that would apply to commercial banks, but does not help them in your business because your business is clearing checks and things like that.

Mr. WAYNE. They teach some commercial law and negotiable instruments, which has a direct effect on us.

The CHAIRMAN. All right. Now, the next one is St. Louis, and you have the Thanksgiving dinner in the bank dining room for all the officers and employees, and then the Christmas dinner, birthday luncheons and flowers for the birthdays, annual dues to the American Institute of Banking, and the tuition for Vanderbilt University, and so forth——

Mr. VANIK. Here is an item that I do not understand: Fruit and flowers sent to Hill employees. Now, I pay for my own flowers.

Mr. BOLTON. But you do pay for it?

Mr. VANIK. Yes, but I do pay for it and I do not know why the Federal Government should get into that sort of thing.

Mr. SHUFORD. May I reply to that?

The CHAIRMAN. No, that is about Richmond.

Mr. VANIK. Would you suggest that the General Accounting Office would ever approve this sort of thing? I am sure it would not.

The CHAIRMAN. And here is tuition for the University of Wisconsin and training and education, several of them sponsored, and sponsored dinners and luncheon meetings, $686, at the Statler Hilton; $425 to the Statler Hilton, and $1,250—you are paying dues there to the American Banking Association and $5 to the Missouri Banking Association; $115 to the Illinois Banking Association; $528 to the Chamber of Commerce of Metropolitan St. Louis, and the Better Business of St. Louis, $450; $300, Robert Morris Associates; $350 to the Committee of Economic Development, and luncheons and so forth and expenses to conventions.

In all of them the per diem that you give them is several dollars more than the top for Government employees.

I think the top for Government employees is $16, and you indicate here that yours is from $23 to $27.

And I will just put this in the record like it is.

(The St. Louis account follows:)

St. Louis

EMPLOYEE RELATIONS

Reference No.	Date	Amount	
9126	Nov. 23, 1962	$1, 332. 00	Thanksgiving dinner in bank dining room for all officers and employees.
9126	Dec. 27, 1962	1, 336. 00	Christmas dinner in bank dining room for all officers and employees.
20	Jan. 3, 1962	30. 25	Birthday luncheons; a weekly luncheon is held in bank dining room attended by officers and employees whose birthday occurs during that week.
170	Jan. 10, 1962	30. 25	
295	Jan. 17, 1962	38. 50	
434	Jan. 24, 1962	30. 25	
579	Jan. 31, 1962	38. 50	
105	Jan. 9, 1962	18. 25	Flowers for birthday luncheons.
9101	May 10, 1962	120. 00	Annual banquet of St. Louis Chapter, American Institute of Banking, attended by 20 employees who were enrolled in AIB classes or were local or national officers or committeeman.
1080	Feb. 26, 1962	93. 99	Leather-bound engrossed testimonial document presented as a testimonial from the directors of the bank in connection with the retirement of President Delos C. Johns.
910	Nov. 29, 1962	12. 24	Floral offering in connection with the death of an employee.
9154	July 6, 1962	33. 00	Annual dinner in bank dining room for all employees who have completed 10 years of service during the preceding 12-month period.
			Employees who are officers of the local chapter of the American Institute of Banking or who have been elected as delegates are sent to the annual convention of AIB. The following payments were for traveling expenses:
9143	June 5, 1962	176. 77	To convention in Atlanta, Ga.
9120	June 6, 1962	179. 41	Do.
9173	June 17, 1963	248. 78	To convention in Denver, Colo.
9147	June 21, 1963	261. 24	Do.

St. Louis—Continued

TRAINING AND EDUCATION

Reference No.	Date	Amount	
9101	Apr. 25, 1963	$584.00	Tuition, thesis binding, and microfilming, expenses at Vanderbilt University, Nashville, Tenn.; thesis was entitled "An Evaluation of the Consistency of the Defensive and Dynamic Objectives of Federal Reserve Policy."
9101	Jan. 4, 1963	400.00	Tuition for 2 employees attending the Stonier Graduate School of Banking.
9101	Apr. 1, 1963	210.00	Registration and tuition for 1 employee at the 1963 session of the National Trust School, American Bankers Association.
9117	Apr. 2, 1963	250.00	Registration fee and tuition for 2 employees attending the NABAC School for Bank Audit and Control.
9101	Mar. 7, 1963	692.50	Tuition for 5 employees attending the Graduate School of Banking at the University of Wisconsin.
9124	June 17, 1963	135.00	Cost of night course entitled "Topics in Statistics," at Washington University, St. Louis, Mo.
			Employees who enroll in courses offered by the American Institute of Banking, who attend 80 percent of the class sessions, and who successfully complete the course are refunded tuition costs; the following are refunds to:
9101	May 18, 1962	131.00	5 employees.
9101	June 8, 1962	468.00	18 employees.
9101	Dec. 12, 1962	394.00	Do.
9101	Jan. 25, 1963	252.00	9 employees.
9101	Feb. 19, 1963	887.00	32 employees.
			Advance payments of charges for room and board for employees to attend schools, as follows:
9101	Jan. 4, 1963	320.00	For 2 employees to attend Stonier Graduate School of Banking at the University of Rutgers, June 9–20, 1963.
9117	Apr. 2, 1963	250.00	For 2 employees to attend NABAC School for Bank Audit and Control at the University of Wisconsin, Aug. 4–17, 1963.
9101	Mar. 7, 1963	562.50	For 5 employees to attend Graduate School of Banking at the University of Wisconsin, Aug. 12–23, 1963.
9101	Apr. 1, 1963	190.00	For one employee to attend National Trust School at Northwestern University, Aug. 5–24, 1963.

St. Louis—Continued

RESERVE BANK SPONSORED DINNER AND LUCHEON MEETINGS HELD OUTSIDE THE BANK

Reference No.	Date	Amount	
9101	May 25, 1962	$668.89	At Statler Hilton, attended by 14 officers of bank and branches, 25 directors of head office and branches, and 21 other guests—annual affair.
9101	Oct. 30, 1962	233.37	At Statler Hilton, attended by 8 directors, 10 representatives of St. Louis Clearing House Bankers, and 12 officers of bank.
9147	Feb. 14, 1963	143.56	At Motor Hotel in Columbia, Mo., attended by 22 members of the University of Missouri faculty and 3 officers of the bank.
9101	Mar. 11, 1963	175.44	At Lennox Hotel, for the system committee on computers in research, attended by 5 representatives from the bank and 14 persons from other Reserve banks and the Board of Governors.
9101	Apr. 9, 1963	425.21	At Statler Hilton, attended by a member of the Board of Governors, 6 bank directors, 10 officers, and 22 St. Louis area businessmen.

MEMBERSHIP DUES, ETC.

9101	Aug. 28, 1962	$1,250.00	American Bankers Association.
9136	Jan. 9, 1963	500.00	Missouri Bankers Association.
9129	June 11, 1963	115.00	Illinois Bankers Association.
9101	Mar. 8, 1963	528.00	Chamber of Commerce of Metropolitan St. Louis—for 7 officers.
9101	Jan. 3, 1963	250.00	Better Business Bureau of Greater St. Louis.
9101	Nov. 27, 1962	400.00	National Industrial Conference Board, Inc.
9101	Aug. 10, 1962	300.00	Robert Morris Associates—for 2 officers.
9101	May 2, 1962	250.00	Committee for Economic Development.
9101	Dec. 18, 1962	75.00	National Bureau of Economic Research, Inc.

LUNCHEONS IN BANK DINING ROOM OR CAFETERIA

9162	Mar. 29, 1962	$111.52	Incident to seminar on the uniform commercial code; attended by 28 representatives of Metropolitan St. Louis member banks and 11 officers of the bank.
9142	June 8, 1962	427.50	Similar to above; attended by 137 officers of Illinois member banks, AIB executive secretary, a local attorney, 21 officers of the bank, and 11 staff members of the bank.
9145	Aug. 28, 1962	27.50	United fund, division planning committee; attended by 9 united fund representatives and 1 officer of the bank.
9157	Oct. 17, 1962	55.00	13 guest bankers and 7 officers of the bank.
9158	Oct. 19, 1962	51.70	11 member bankers and 7 officers of the bank.
9146	Oct. 30, 1962	53.10	Do.
9159	Mar. 1, 1963	46.75	15 members of the agricultural committee of the chamber of commerce, 1 officer and 1 employee of the bank.
9151	May 17, 1963	123.75	43 members of the St. Louis Convention Board and 2 officers of the bank.

St. Louis—Continued

TRAVELING EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

Reference No.	Date	Amount	
25	Jan. 3, 1962	$182.10	Annual meetings of Allied Social Science Association in New York City, Dec. 27–29, 1961.
47	Jan. 4, 1962	192.88	Meetings of American Economic Association in New York City, Dec. 26–29, 1961.
47	do	199.10	Same as above, except Dec. 26–30, 1961.
829	Feb. 12, 1962	172.08	Mid-Winter Trust Conference, American Bankers Association, in New York City, Feb. 4–7, 1962.
829	do	189.22	Same as above, except Feb. 3–7, 1962.
829	do	186.48	Same as above, Feb. 3–7, 1962.
9162	Sept. 17, 1962	165.45	Meetings of American Statistical Association in Minneapolis, Minn., Sept. 6–10, 1962.
9154	Sept. 24, 1962	156.90	Same as above.
9165	do	261.40	Convention of National Association of Supervisors of State Banks, Bretton Woods, N.H., Sept. 16–21, 1962.
9164	Sept. 28, 1962	391.89	Same as above (Bretton Woods) and American Bankers Association Convention in Atlantic City, N.J., Sept. 16–26, 1962.
9142	Nov. 1, 1962	205.43	38th National Convention of NABAC in Bal Harbour, Fla., Oct. 21–26, 1962.
9142	do	202.78	Same as above, except Oct. 21–25, 1962.
9131	Nov. 15, 1962	123.68	Southern Economics Association meeting in Atlanta, Ga., Nov. 8–10, 1962.
9117	Nov. 20, 1962	123.18	Do.
9130	June 28, 1963	359.22	Annual Conference of National Association of Accountants in San Francisco, Calif., June 23–27, 1963.
			Federal Reserve System meetings, etc., where meals and lodging averaged considerably more than $16 a day:
9134	Apr. 17, 1962	163.25	Washington, D.C., almost $26.50 a day for 5 days.
9101	May 10, 1962	101.74	
229	Jan. 12, 1962	142.43	Washington, D.C., $27.83 for 1 day.
229	do	164.26	Washington, D.C., over $23.50 a day for 2 days.
229	do	165.00	Washington, D.C., $23.50 a day for 2 days.
471	Jan. 25, 1962	149.60	Washington, D.C., $24.75 for 1 day.
9139	June 22, 1962	281.85	Washington, D.C., over $23 a day for 2 days; the fare for this trip was $215.50 whereas fares for other trips were $103.10, $106.20, or $109.30.
9148	Oct. 2, 1962	205.57	New York City, almost $27 a day for 2 days.
9152	Dec. 14, 1962	225.96	New York City, over $23 a day for 3 days.
9107	Apr. 24, 1963	225.95	New York City, over $24 a day for 3 days.
9156	Apr. 8, 1963	197.95	New York City, over $23.50 a day for 2 days.
9127	Mar. 12, 1963	201.20	Washington, D.C., over $23.50 a day for 3 days.
9150	June 3, 1963	170.68	Washington, D.C, over $25 a day for 2 days.

St. Louis—Continued

DINNER MEETINGS OF VARIOUS ASSOCIATIONS

Reference No.	Date	Amount	
984	Feb. 19, 1962	$80.00	Chamber of commerce annual dinner, 8 reservations.
832	Feb. 13, 1962	10.09	Robert Morris Associates dinner meeting, attended by 3.
833	-----do-------	10.09	
834	-----do-------	10.09	
			American Statistical Association dinner meetings:
382	Jan. 22, 1962	19.25	On Jan. 18, 1962, attended by 7.
1522	Mar. 20, 1962	16.50	On Mar. 15, 1962, attended by 6.
9158	May 28, 1962	22.00	On May 25, 1962, attended by 8.
9164	Sept. 28, 1962	35.75	On Sept. 27, 1962, attended by 13.
9144	Mar. 28, 1963	30.25	On Mar. 27, 1963, attended by 11.
9153	May 17, 1963	19.25	On May 16, 1963, attended by 7.

PUBLIC INFORMATION

9000	Mar. 30, 1962	$2,407.99	Printing of February 1962 Monthly Review.
9000	June 29, 1962	2,345.67	Printing of May 1962 Monthly Review.
9101	Sept. 6, 1962	1,621.32	Printing of August 1962 Monthly Review.
9101	Oct. 4, 1962	2,209.94	Printing of September 1962 Monthly Review.
9000	Dec. 31, 1962	1,830.60	Printing of November 1962 Monthly Review.
9000	Jan. 31, 1963	2,379.69	Printing of December 1962 Monthly Review.
9101	Mar. 5, 1963	3,204.54	Printing of February 1963 Monthly Review (16,500 copies).
9101	June 24, 1963	1,800.88	Printing of June 1963 Monthly Review.
			Booklets entitled "Your Money Supply" and "History of Coinage and Currency" are distributed to students, teachers, bankers, and other visitors taking conducted tours of the bank. On request, booklets are also furnished to schools. The following represent typical monthly removals from stock of supplies:
9000	Jan. 31, 1962	74.30	January 1962.
9000	Apr. 30, 1962	202.46	April 1962.
9000	Aug. 31, 1962	93.85	August 1962.
9000	Sept. 28, 1962	243.05	September 1962.
9000	Jan. 31, 1963	128.48	January 1963.
9000	June 27, 1963	109.68	June 1963.

MISCELLANEOUS

1694	Mar. 30, 1962	$215.56	First monthly payment to Delos C. Johns, retired President, as supplemental retirement allowance; same amount was paid each month end thereafter according to expense listings furnished by the bank to the Committee staff.
0123	Jan. 9, 1962	160.00	Dow Jones news service for the month of January; same amount is paid each month.

Mr. BROCK. Mr. Chairman?

The CHAIRMAN. And here is the public information.

You pay the Monthly Review, $2,400.

Mr. SHUFORD. That is our economic review, yes, sir, the local district publication.

The CHAIRMAN. Yes, I can see where that would be justified. In fact, I do not say that all of these are unjustified at all, but some of them, as deserving as some of them are, and as much as we would like to give to them, I think they are clear out of line.

Mr. VANIK. Mr. Chairman.

The CHAIRMAN. This is just as though the Postmaster was spending stamp money for things like this.

Mr. VANIK. Mr. Chairman, I wonder if it would not be well to send these items over to the General Accounting Office and just to ask for an opinion as to which of these items would stand approval under Federal laws and regulations?

Mr. BROCK. May I ask a question at this juncture, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. BROCK. What members of the staff compiled this list?

The CHAIRMAN. The two investigators, Mr. Schremp and Mr. Geist.

Mr. BROCK. Are they employed by the committee?

The CHAIRMAN. Yes, sir.

Mr. BROCK. And reimbursed by the committee?

The CHAIRMAN. Yes, sir, they are.

Mr. BOLTON. Mr. Chairman, at that point——

The CHAIRMAN. They are on loan from the General Accounting Office.

Mr. BROCK. And we are paying their salary?

The CHAIRMAN. No, we are not paying their salary. We borrowed them.

Mr. BROCK. Well, the GAO is paying their salary?

The CHAIRMAN. Yes, and we will adjust it.

Mr. BROCK. Because I think that might be possible, because there might be a conflict of interest——

The CHAIRMAN. All of it that I know of is reimbursed agency work. There might be an exception and there might not.

Mr. BOLTON. At that point, Mr. Chairman——

The CHAIRMAN. Yes, sir?

Mr. BOLTON. With due respect, I regret very much, because of prior plans, I must leave at a quarter of 4 to leave for Ohio, and I am exceedingly glad that there are no members here at the press table because I would like to register a small complaint:

No. 1, if you remember, the chairman and I had a small dissertation on this point at the last meeting of the committee in which our memories did not jibe and, therefore, I ask the counsel of the committee to get a copy of the resolution of the full committee which, I am under the impression, specifically directed the chairman not to make any inquiries of the Federal Reserve unless it was authorized by the full committee, and that that had not been done.

The chairman's memory did not jibe with mine and I recognize this, and I asked the counsel for the committee to obtain a copy of the resolution, and this he has not been able to do because I believe the minutes are in the hands of the chairman.

There has been a change in the staff and I am not meaning that the chairman has been trying to sit on the minutes and, frankly, I am very glad, and I want to underline this, I am very glad that any and all information regarding the Fed or any of its operation came out in the open.

The only point I was trying to make was that, as a member of this committee, I did not know of this investigation, I did not know that it was being conducted, nor did I have any of the figures.

I have not seen the reports that are in the hands—that are on the other side of the table and, frankly, I have felt a little—granted I am a first-term member of this committee, at least under present ratings—but I have felt a litle slap on the wrist, shall I say, Mr. Chairman.

The CHAIRMAN. Well, let me state to the gentleman that he has no right to feel that way.

You know, the chairman has certain responsibilities and certain privileges, and if I know anything about the rules of Congress and the traditional policies of the committees, the chairman has the right to do this.

And if the gentleman will remember, last year when this 7½ million came up, why, Mr. Geist and Mr. Schremp were right down here.

They answered all questions. They were over at the New York Federal Reserve Bank.

What they were doing there was going through the books, according to my instructions, and I assume the gentleman was there.

I know it was a full committee meeting, and there is nothing secret about it, nothing.

Mr. BOLTON. And, Mr. Chairman, the point of my entire—perhaps you would refer to it as a diatribe, comes from the fact——

The CHAIRMAN. No, nothing is a diatribe.

Mr. BOLTON. My memory of the meeting at that time, which was when the full committee considered this whole question.

The CHAIRMAN. I know, but only insofar as I went beyond my power as chairman.

Mr. BOLTON. Mr. Chairman——

The CHAIRMAN. And that is where the committee would come in.

Mr. BOLTON. I am perfectly willing to recognize, and do so not unwillingly—I want it understood—the full rights of the chairman, nor do I wish to impinge on them, but it was my understanding that in this instance, and again I want to emphasize that the chairman's and my memory disagreed, and this was why I asked the counsel for a copy of the minutes.

We disagreed on the feelings and the instructions to the chairman of the entire committee.

The CHAIRMAN. Well, nothing has been done here so far, Mr. Bolton, that the chairman does not have permission to do, nothing.

Now, of course, if this committee wanted to meet and pass the resolution or vote, a majority vote, asking me not to do something I wouldn't do it; certainly, I would not.

But there are certain things that the chairman has a right to do. The chairman gets up the program. The chairman calls the witnesses.

The chairman directs the type of investigation and to whom——

Mr. VANIK. Mr. Chairman, if the gentleman will yield, I would recommend that any discussion further along this line be reserved for executive session.

The CHAIRMAN. Yes, I think so.

Mr. HARVEY. But he is entitled to say that. He has not seen these at all.

The CHAIRMAN. This is the first time I have seen it.

Mr. VANIK. It is the first time I have seen it. It is being rotated.

Mr. BROCK. Well, we were told that we would see advance copies of testimony.

Mr. VANIK. Well, Mr. Chairman, I make a recommendation that these items be referred over to the General Accounting Office for an opinion as to whether they are the type of things——

The CHAIRMAN. Let's see them in this record first and then we will pass on them.

We will put all three in the record.

(The accounts of the Richmond bank and the Boston bank follow:)

Richmond

EMPLOYEE RELATIONS

Voucher No.	Voucher Date	Voucher Amount	
			"The Federal Observer" is a house publication written, edited, and published by employees for employees. The following represent typical monthly charges for bank printshop expense:
	Jan. —, 1962	$1,391.01	1,800 copies.
	June —, 1962	951.90	Do.
	July —, 1962	1,826,13	Do.
	Sept. —, 1962	969.39	Do.
	Nov. —, 1962	1,389.65	Do.
	May —, 1963	1,836.40	1,600 copies.
	June —, 1963	1,170.82	1,700 copies.
9767	Jan. 5, 1962	200.00	Wilbert Williams, Virginia Union University.[1]
10132	Feb. 1, 1962	160.00	George Greene.[1]
10315	Feb. 13, 1962	940.00	Wilbert Williams.[1]
10665	Mar. 7, 1962	285.00	Kenneth A. Henderson, Jr.[1]
11201	Apr. 11, 1962	4,917.40	Richmond Hotels, Inc.[1]
10581	Mar. 5, 1962	60.68	Harris, Flippen & Co.[2]
10967	Mar. 29, 1962	52.50	Broad Street Amusement Corp.[2]
11406	Apr. 25, 1962	308.95	John Marshall Hotel.[2]
11645	May 14, 1962	72.80	Broad Street Amusement Corp.[2]
11843	May 25, 1962	48.00	Fruit sent to employees during extended illnesses.
13710	Nov. 12, 1962	20.00	Flowers sent to employees during extended illnesses.
12795	Aug. 7, 1962	129.80	Expenses of bank-sponsored employees' social function.
13442	Sept. 24, 1962	150.00	
13952	Oct. 30, 1962	74.90	
14777	Dec. 21, 1962	40.50	Expenses of Bank-sponsored Christmas program.
14695	Dec. 17, 1962	21.71	
14787	Dec. 21, 1962	69.50	
15899	Mar. 12, 1963	36.00	

[1] Expenses in connection with employees' annual dinner.
[2] Expenses in connection with bank sponsored employees' athletic activity.

Richmond—Continued

TRAINING AND EDUCATION

Voucher			
No.	Date	Amount	
10924	Mar. 26, 1962	$1,278.00	Reimbursement of tuition and enrollment fees to 40 employees successfully completing courses offered by American Institute of Banking, 1st semester of 1961–62 session.
12542	July 18, 1962	860.00	Same as above, except 27 employees for 2d semester.
12367	July 9, 1962	620.00	Fees and charges for 3 employees attending ABA's Stonier Graduate School of Banking at Rutgers University.

RESERVE BANK-SPONSORED DINNERS HELD OUTSIDE THE BANK

12268	June 27, 1962	$91.74 142.71 132.51	At the Country Club of Virginia, annual dinner in connestion with joint meeting of the Richmond, Baltimore, and Charlotte boards of directors.
14694	Dec. 17, 1962	77.15 17.15 111.45	At the Commonwealth Club; dinner for retiring directors at the conclusion of their 3-year or 6-year terms of office, attended by the bank's directors and senior officers.

LUNCH EXPENSE IN BANK DINING ROOM OR CAFETERIA

16680	Apr. 25, 1963	$37.45	For guests on official business.
17213	June 5, 1963	44.01	
15268	Jan. 30, 1963	77.20	Annual recognition lunch for 25 employees who voluntarily conduct visitor tours of the bank.
16769	May 3, 1963	161.11	Lunch in connection with operations and policy seminars for bankers.

MEMBERSHIP DUES, ETC.

13565	Oct. 3, 1962	$2,043.00	Richmond chapter of American Institute of Banking.
13030	Aug. 24, 1962	1,600.00	American Bankers Association.
9835	Jan. 8, 1962	750.00	Virginia Bankers Association.
9840	do	350.00	West Virginia Bankers Association.
12636	July 24, 1962	320.00	NABAC, the Association for Bank Audit, Control, and Operation.
13203	Sept. 11, 1962	310.00	Robert Morris Associates.
10394	Feb. 16, 1962	400.00	Richmond Chamber of Commerce.
14266	Nov. 20, 1962	250.00	Committee for Economic Development.
11214	Apr. 21, 1962	187.50	National Industrial Conference Board.
12419	July 10, 1962	105.00	Systems and Procedures Association.
10046	Jan. 25, 1962	80.00	Old Dominion Purchasing Agents Association, Inc.

Richmond—Continued

TRAVELING EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

Voucher			
No.	Date	Amount	
10566	Mar. 2, 1962	$408.46	ABA Midwinter Trust Conference in New York City, and participate in open market training program, Feb. 3 to Feb. 15, 1962; meals and lodging averaged over $24 a day for the 12 days.
10566	-----do-------	188.27	ABA Midwinter Trust Conference and Conference of Trust Examiners in New York City, Feb. 4 to Feb. 8, 1962; meals and lodging averaged over $32 a day for the 4 days.
10566	-----do-------	228.01	Same as above, except Feb. 4 to Feb. 10, 1962, and meals and lodging averaged over $27 a day for the 6 days.
11701	May 15, 1962	175.37	Maryland Bankers Association Annual Convention in Atlantic City, N.J., May 4 to May 8, 1962; meals and lodging averaged about $30 a day for the 4 days.
11701	-----do-------	148.12	Same as above, except meals averaged about $28.
11701	-----do-------	240.23	Annual International Convention of the National Association of Purchasing Agents in Chicago, Ill., May 5 to May 10, 1962.
11930	June 5, 1962	562.98	National Office Management Association Convention in San Francisco, Calif., May 15 to May 24, 1962.
12649	July 26, 1962	145.12	Annual convention of West Virginia Bankers Association in White Sulphur Springs, W. Va., July 19 to July 22, 1962; meals and lodging averaged over $36 per day for the 3 days.
12649	July 26, 1962	56.50	Summer meeting of Old Dominion Purchasing Agents Association, in Hot Springs, Va., July 19 to July 21, 1962.
12649	-----do-------	55.35	Do.
13537	Sept. 28, 1962	216.35	Annual convention of National Association of Supervisors of State Banks in Bretton Woods, N.H., Sept. 16 to Sept. 21, 1962.
13952	Oct. 30, 1962	262.99	National convention of NABAC in Bal Harbour, Fla., Oct. 21 to Oct. 25, 1962; meals and lodging averaged about $20 a day for the 4 days.
14035	Nov. 5, 1962	290.56	Same as above, except meals and lodging averaged over $25 a day.
14035	-----do-------	300.96	Same as above, except meals and lodging averaged over $27 a day.
14035	-----do-------	80.61	Fall meeting of Virginia chapter of Robert Morris Associates in White Sulphur Springs, W. Va.; Nov. 2 to Nov. 4, 1962; meals and lodging averaged about $24 a day for the 2 days.
15305	Jan. 31, 1963	223.97	ABA national credit conference in Chicago, Ill., Jan. 20 to Jan. 23, 1963.

Richmond—Continued

TRAVELING EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.—Continued

Voucher No.	Date	Amount	
16994	May 14, 1963	$285.33	AIB national convention in Denver, Colo., May 27 to May 31, 1963, as delegate from Richmond chapter.
16995	do	285.33	Do.
16996	do	285.33	Do.
16680	Apr. 25, 1963	63.70	South Carolina Young Bankers convention in Litchfield Beach, S.C., Apr. 19 to Apr. 21, 1963; meals and lodging average almost $25 a day for the 2 days.
16680	do	52.35	Same as above, including the $25 a day.

PUBLIC INFORMATION

	Jan. —, 1962	$1,597.08	Bank printshop expense for 2,700 copies of "Fifth District Figures."
	Sept. —, 1962	1,508.80	Same as above, except 2,600 copies.
	Mar. —, 1962	1,299.06	Bank printshop expense for 3,000 copies of "Business Forecasts 1962."
	May —, 1962	277.91	Same as above, except 1,000 copies.
	Apr. —, 1962	535.73	Bank printshop expense for 2,000 copies of "Operating Ratios of Fifth District Banks."
	Apr. —, 1962	1,997.20	Bank printshop expense for 3,000 copies of "Virginia, an Economic Profile."
	June —, 1962	976.22	Same as above, except 2,000 copies.
	Sept. —, 1962	1,948.25	Bank printshop expense for 4,000 copies of "Maryland, an Economic Profile."
	Apr. —, 1963	2,071.47	Bank printshop expense for 5,000 copies of "North Carolina, an Economic Profile."
	Jan. —, 1962	685.97	Bank printshop expense for 5,000 copies of "You and Your Money."
	Oct. —, 1962	1,096.62	Same as above, except 10,000 copies.
	Nov. —, 1962	2,067.00	Same as above, except 20,125 copies and they were printed outside the bank.
	May —, 1962	4,710.00	Outside printing of 35,150 copies of "Readings on Money."
	Dec. —, 1962	915.53	Outside printing of 15,000 copies of "Your Money Supply."
	Dec. —, 1962	5,550.00	Outside printing of 35,050 copies of "The Federal Reserve at Work."
	Apr. —, 1963	2,127.70	Outside printing of 8,034 copies of "Notes on Central Banking."

Richmond—Continued

MISCELLANEOUS

Voucher			
No.	Date	Amount	
11019	Mar. 29, 1962	$355.00	Payment to Central Richmond Association to cover the expense of a luncheon for U.S. savings bond volunteers group, attended by local businessmen, the Secretary of the Treasury, and other Treasury Department officials. The bank was requested by the Treasury Department and authorized by the Board of Governors to incur this expense.
	Jan. —, 1962	175.00	Rental of Dow Jones news service for 1 month; same amount was paid each month through May 1963.
	June —, 1963	195.00	Same as above, except increased rate.
15867	Mar. 11, 1963	2,122.56	Aluminum frames for currency and coin exhibits:
	May —, 1963	518.79	Bank printshop expense for 17,500 facsimile sheets describing currency and coin exhibits.
16871	May 9, 1963	240.69	Mementos for retiring directors.

Boston

ANNUAL MEETINGS OF STOCKHOLDERS

Voucher No.	Voucher Date	Voucher Amount	
777	Feb. 1, 1962	$1,049.65	Printing of 500 books—"Proceedings of the 37th Annual Meeting of Stockholders." The stockholders of the Federal Reserve Bank of Boston have met annually at the bank since 1923 (except for the war years of 1942–1943) in joint session with Federal Reserve Board directors and officers to discuss mutual problems and matters of common interest. The proceedings of these meetings are published at the specific request of member banks and distributed to them.
7392	Oct. 30, 1962	300.00	Services rendered by a professor in conducting a seminar for member bankers attending the annual meeting of stockholders on Oct. 25, 1962.
7603	Nov. 6, 1962	82.66	Reimbursement for transportation charges of stockholder delegates (1 from each member bank) to and from the meeting held on Oct. 25, 1962—custom since 1923.
7687	Nov. 8, 1962	430.91	
7688	do	377.25	
7689	do	780.80	
7690	do	578.84	
7742	Nov. 9, 1962	101.84	
7782	Nov. 13, 1962	69.58	
7847	Nov. 15, 1962	123.85	
7871	Nov. 16, 1962	30.00	
7939	Nov. 20, 1962	29.16	
7612	Nov. 7, 1962	164.57	11 guests entertained at Algonquin Club of Boston, cocktails and dinner, by the President of Federal Reserve Bank in connection with the annual meeting of stockholders on Oct. 25, 1962.
7579	Nov. 6, 1962	2,059.20	Catering service: 429 lunches for stockholder delegates attending the Oct. 25, 1962, meeting ($4.80 each).
8708	Dec. 19, 1962	113.60	Stenographic transcript of Oct. 25, 1962, meeting—71 pages, 3 copies.

Boston—Continued

CENTRAL BANKING SEMINAR

Voucher No.	Date	Amount	
			For 9 successive years, the Federal Reserve Bank of Boston has run a 3-day central banking seminar for officers of member banks and teachers of money and banking in New England colleges and universities. The Reserve bank pays the expenses of those attending the seminar. 15 bankers and 17 teachers attended the 1963 seminar (Apr. 3-5):
2689	Apr. 12, 1963	$372.37	Apr. 3, 1963, banquet at the International House of New England.
2683	-----do-------	594.08	Apr. 4, 1963, dinner at the Algonquin Club of Boston.
2998	Apr. 26, 1963	418.39	Apr. 3-5, 1963, luncheons in bank dining room.
2341	Apr. 2, 1963	62.00	Room, transportation, meals, etc., for 1 banker member of seminar group.
2349	-----do-------	83.00	Same as above for 1 academic member.

LUNCHEONS TO STIMULATE SALES OF SAVINGS BONDS

Voucher No.	Date	Amount	
			The Federal Reserve Bank of Boston was advised by the Board of Governors that an arrangement had been worked out between the Board and the Treasury whereby Federal Reserve bank funds would be used to a limited extent in assisting in a program of luncheons for the purpose of stimulating sales of savings bonds in cases where the costs of the luncheons could not be underwritten privately:
1069	Feb. 13, 1962	$44.00	Montpelier, Vt., 16 luncheons.
1070	-----do ------	504.60	Boston, Mass., 102 luncheons.
1071	-----do-------	111.20	Augusta, Maine.
1379	Feb. 27, 1962	141.45	New Haven, Conn., 40 luncheons.

Boston—Continued

MEMBERSHIP DUES AND CONTRIBUTIONS

Voucher No.	Voucher Date	Voucher Amount	
4255	June 18, 1963	$1,493.75	Boston chapter, American Institute of Banking, 1963–64 budget.
4985	July 18, 1962	1,250.00	American Bankers Association, year ending Aug. 31, 1963.
60	Jan. 3, 1963	1,000.00	Massachusetts Bankers Association, year 1962–63.
4968	July 17, 1962	750.00	Connecticut Bankers Association, year ending May 31, 1963.
6059	Sept. 5, 1962	200.00	Maine Bankers Association, year 1962–63.
150	Jan. 7, 1963	150.00	Vermont Bankers Association, year 1963.
58	Jan. 3, 1963	520.00	Greater Boston Chamber of Commerce, year 1963.
114	Jan. 4, 1963	450.00	New England Council, year 1963.
5503	Aug. 9, 1962	350.00	American Management Association, renewal.
5613	Aug. 14, 1962	330.00	Robert Morris Associates, year ending Aug. 31, 1963.
4496	June 27, 1963	310.00	NABAC, the Association for Bank Audit, Control & Operation, year 1963–64.
410	Jan. 16, 1963	300.00	Boston Municipal Research Bureau, year 1963.
113	Jan. 4, 1963	300.00	National Industrial Conference Board, year 1963.
2904	Apr. 27, 1962	150.00	Algonquin Club of Boston, 50 percent, year ending Apr. 30, 1963.
7095	Oct. 17, 1962	150.00	Do.

MISCELLANEOUS

7589	Nov. 6, 1962	$2,772.00	Payment for 2 duplicate currency exhibits with 2 sets of 2 shipping cases to permit shipment to member banks.
8270	Dec. 4, 1962	720.00	14 aluminum frames for currency display.
			Rental of Dow Jones ticker tape machine:
5283	Aug. 1, 1962	77.42	July 17–30, 1962.
5521	Aug. 9, 1962	160.00	August 1962.
4129	June 11, 1963	180.00	June 1963 (new monthly rate, effective June 1, 1963.
			Programing service by CEIR in connection with study of the functional cost of member banks in the range of $3.5 to $50 million in deposits:
7012	Oct. 11, 1962	216.75	September 1962.
7801	Nov. 14, 1962	834.75	October 1962.
8529	Dec. 12, 1962	642.63	November 1962.
			(Resulting reports give participating banks information which guides management decisions as to pricing of bank services and as to efficiencies of bank operations.)

Boston—Continued

PUBLIC INFORMATION AND RESEARCH GRANTS

Voucher No.	Voucher Date	Voucher Amount	
2585	Apr. 12, 1962	$11,669.30	Printing of 7,000 copies of 1961 annual report (40 pages) and 5,000 annual report envelopes.
295	Jan. 12, 1962	1,432.13	Printing of 14,000 copies of the New England Business Review, a monthly publication, for December 1961 (8 pages) and 14,000 copies of the 1961 Index of Articles and mailing of 12,020 copies.
2721	Apr. 18, 1962	1,215.26	15,000 copies of New England Business Review, March 1962.
6393	Sept. 18, 1962	1,265.15	15,500 copies of New England Business Review, August 1962.
1167	Feb. 14, 1963	1,606.82	14,500 copies of New England Business Review, January 1963, plus mailing.
4197	June 13, 1963	1,712.18	15,000 copies of New England Business Review, May 1963, plus mailing.
745	Jan. 31, 1962	505. 32	Printing of 8,000 copies of New England Farm Finance News, a monthly publication, for December 1961 (4 pages).
4495	June 27, 1962	210. 82	Cost of work done by the duplicating unit from May 19, 1962, through June 19, 1962, on the Quarterly Inventory of Economic Research on New England; this publication, issued 4 times a year, is a compilation of current economic research studies; about 1,300 copies are mailed to libraries, firms, and individuals who have requested it.
5187	July 26, 1962	2, 931. 69	Cost of work done by the Duplicating Unit from June 20 to July 20, 1962, re reports of the Greater Boston Economic Study Committee, including $1,873.47 for printing 3,250 copies of report "Land Use in Greater Boston, 1960" and $1,043.06 for 3,250 copies of "Industrial Land Needs Through 1980."
5818	Aug. 23, 1962	696. 95	Duplicating unit (July 21–Aug. 20, 1962): $477.12 for printing 1,550 copies of Greater Boston Economic Study Committee report "Projection of Greater Boston Population to 1970 and 1980" and $219.83 for 375 copies of Research Department report dealing with impact of minimum wage legislation on manufacturing industries in New England and other regions of the country.
6639	Sept. 27, 1962	804. 36	Duplicating unit (Aug. 21–Sept. 19, 1962), for 650 copies of Research Report No. 20, "A Study of Intercity Wage Differentials."
7384	Oct. 30, 1962	1, 110. 74	Printing of 15,200 copies of 12-page booklet "Assuring the Free World Liquidity," written by Robert V. Roosa, Under Secretary of the U.S. Treasury for Monetary Affairs.

Boston—Continued

PUBLIC INFORMATION AND RESEARCH GRANTS—Continued

Voucher No.	Voucher Date	Voucher Amount	
8133	Nov. 28, 1962	$207.57	Duplicating unit (Oct. 20–Nov. 19, 1962), for 300 copies (3d printing) of Research Report No. 11 "The Ski Lift Business in New England."
720	Jan. 29, 1963	231.91	Duplicating unit (Dec. 20, 1962–Jan. 20, 1963), for 200 copies (3d printing) of Research Report No. 3 "Problems of Financing and Managing New Research-Based Enterprises in New England."
2198	Mar. 27, 1963	462.83	Duplicating unit (Feb. 20–Mar. 19, 1963), for 500 copies of Research Report No. 23 "New England Manufacturers and European Investments" and 400 copies of Research Report No. 21 "The Lightweight Aggregate Industry in New England."
3023	Apr. 29, 1963	204.56	Duplicating unit (Mar. 20–Apr. 19, 1963), for 450 copies of Research Report No. 22 "Interview Reports on the Effects of Trade Liberalization on New England Manufacturing." Research grant payments to consulting firm for above report:
1273	Feb. 21, 1962	1,140.00	Research grant.
1826	Mar. 15, 1962	1,726.62	Do.
2688	Apr. 17, 1962	129.92	Do.
8848	Dec. 26, 1962	303.46	Do.
5405	Aug. 6, 1962	4,100.00	Research grant for study "The Effect of Proposed Railroad Mergers on the New England Economy."
5928	Aug. 29, 1962	1,000.00	1st payment of research grant ($3,000 total) for study "The Fiscal Effects of State and Federal Aids and Tax Structures on Local Government Finance in New England."
7364	Oct. 29, 1962	300.00	1st payment of research grant ($1,000 total) for study "Trailer-on-Flatcar: An Economic Analysis of Piggyback Transportation in New England."
8734	Dec. 19, 1962	11,300.00	Commitments for research grants as of Dec. 14, 1962 including $4,000 for study of "Competition in Commercial Banking"; $400 for "Long-Run Unemployment in a Depressed Area"; $2,700 for the above 2 studies for which 1st payments had been made, and $4,200 for studies under negotiation but canceled subsequently because negotiations were not completed.

Boston—Continued

EMPLOYEE RELATIONS

Voucher No.	Date	Amount	
48	Jan. 3, 1962	$720. 05	Printing of 1,650 copies of the East Wind, an employee-bank news publication that is published 10 times a year—8 pages (11 by 8½) plus cover, printed in black and green ink on white coated offset.
3818	May 31, 1962	704. 20	Printing of 1,600 copies of East Wind.
7482	Nov. 1, 1962	748. 60	Printing of 1,700 copies of East Wind.
8497	Dec. 11, 1962	1, 013. 30	Printing of 1,675 copies of East Wind.
3932	June 4, 1963	747. 65	Printing of 1,685 copies of East Wind.
628	Jan. 25, 1962	1, 000. 00	Charge for 1 month's share of annual contribution; the Federal Reserve Bank of Boston contributes $12,000 a year to the Federal Reserve Society, or club, which is a voluntary organization for all members of the staff. This contribution, about $9 per staff member, provides about 60 percent of the funds used by the society to carry on its functions; annual dues of $2 per member and nominal fees charged for attendance at some functions provide the remainder of the society's funds.
			Annual dinner (May 7, 1962) for Quarter Century Club, the group of active and retired staff members each of whom has 25 or more years of service with the FRB of Boston:
4173	June 13, 1962	1, 892. 80	175 dinners, etc., at Statler Hilton.
3523	May 17, 1962	168. 00	Music.
3526	-----do-------	260. 00	Entertainment.
4172	June 13, 1962	417. 00	Printed matter.
4204	June 14, 1962	130. 00	Flowers.
			Annual dinner (May 6, 1963) for Quarter Century Club:
3962	June 5, 1963	1, 767. 02	182 dinners, etc., at Statler Hilton.
3442	May 14, 1963	300. 00	Entertainment.
3446	-----do-------	175. 00	Music.
3459	-----do-------	15. 00	Photographs of new members.
3520	May 16, 1963	15. 70	Gavel for outgoing president of club.
3958	June 5, 1963	117. 50	Flowers.
3961	-----do-------	410. 00	Printing of invitations, reservation cards, programs, etc.
			In recognition of 35 years of service, the FRB of Boston presents a Revere bowl, a silver tray, or a wristwatch, with suitable engraving to staff members and officers who qualify for this award:
2700	April 17, 1962	306. 00	5 wristwatches.
8819	Nov. 28, 1962	390. 50	6 wristwatches.
8584	Dec. 14, 1962	110. 00	1 bowl and 1 tray.
3216	May 6, 1963	272. 50	4 wristwatches.
3586	May 20, 1963	110. 00	2 bowls.

Boston—Continued

REGISTRATION FEES FOR MEETINGS, CONFERENCES, ETC.

Voucher No.	Voucher Date	Voucher Amount	
7522	Nov. 2, 1962	$150.00	Midwinter meeting of the Massachusetts Bankers Association on Dec. 4, 1962, in Boston; 10 officers attended.
3484	May 15, 1963	75.00	Massachusetts Bankers Association, June 6–8, 1963; 1 officer and 1 staff member attended this annual meeting.
6964	Oct. 10, 1962	153.00	New England bank management conference (New England Council) on Oct. 26, 1962 in Boston; 18 officers and staff members attended.
7670	Nov. 8, 1962	187.00	New England Council's 38th annual New England conference, Nov. 15–16, 1963, attended by various officers.
447	Jan. 17, 1963	280.00	28 tickets for the AIB, Boston chapter, annual banquet, Feb. 8, 1963.
3166	May 7, 1962	90.00	National convention of AIB; 3 staff members.
4742	July 9, 1962	105.00	7 tickets for AIB regional conference at Mount Snow, Vt.
5112	July 24, 1962	21.00	
5138	July 25, 1962	21.00	
1984	Mar. 16, 1962	150.00	American Management Association 3-day seminar at Hotel Astor, New York City, May 14–16, 1962, attended by 1 officer.
908	Feb. 5, 1963	66.00	11 reservations for the annual meeting awards dinner for the United Fund; the bank received a silver award because of the generous contributions of its staff and officers in the 1963 fund campaign.

GUESTS AT LUNCHEONS IN BANK DINING ROOM

763	Jan. 31, 1962	$132.50	53 business guests during January—banks, attorneys, universities, 4–H Foundation, insurance companies, brokerage house, etc.
3802	May 29, 1962	35.56	Stockholders advisory committee (6) and bank officers, on May 3, 1962.
3802	---do---------	89.54	Greater Boston Economic Study Committee (33), on May 24, 1962.
762	Jan. 31, 1962	41.59	Greater Boston Economic Study Committee (15), on Jan. 25, 1962.
2941	Apr. 27, 1962	223.46	Representatives of member banks participating in Apr. 24–26, 1962, workshop groups re functional analysis of income and expenses of member banks (101 attended).
3802	May 29, 1962	123.37	Same as above, except date (May 2) and number (52).
4512	June 27, 1963	109.04	3 from Inter-American Development Bank, 33 financial and business leaders in Boston district, and 2 officers of Reserve bank—given at the suggestion of the Board of Governors to acquaint these leaders with the purposes and accomplishments of the Inter-American Development Bank.

Boston—Continued

TRAINING AND EDUCATION

Voucher			
No.	Date	Amount	
958	Feb. 8, 1962	$210.00	Reimbursement of tuition fees and cost of textbooks to 7 staff members who successfully completed approved American Institute of Banking courses.
1985	Mar. 22, 1962	285.00	114 tickets to AIB seminar program; members of staff who are interested in and who derive benefit from these annual seminars on banking and related topics attend at the bank's expense. Reimbursement of tuition costs for particular courses taken and successfully completed outside of working hours by staff members with prior approval of the rotation and training committee:
1297	Feb. 23, 1962	210.00	Courses in microeconomic theory and statistical inference for economists.
1767	Mar. 13, 1962	270.00	Courses in introductory mathematical analysis, development of modern business society, and general economics.
4132	June 12, 1962	200.00	Courses in punched card data processing and policy formulation.
6354	Sept. 17, 1962	105.00	Course in writing for planned readership.
8237	Dec. 3, 1962	150.00	Supplementary secretarial training.
4529	June 28, 1963	150.00	Courses in industrial organization and history of economic thought.
222	Jan. 10, 1962	1,000.00	Registration and other expenses in connection with staff members' attendance at the Greater Boston executive program in business management at MIT, 1962.
112	Jan. 4, 1963	1,100.00	Same as above, except that payment is for 2 officers, Feb. 1–May 24, 1963.
66	Jan. 3, 1963	1,220.00	Registration, diploma, and tuition fees and cost of instructional materials for 6 staff members enrolled at the Stonier Graduate School of Banking at Rutgers University (each year, 2 begin the 3-year program).
66	-----do-------	960.00	Dormitory and dining hall expenses for the above 6 staff members.
2806	Apr. 24, 1962	350.00	Registration fees for 2 employees enrolled at the School of Banking at Williams College (each year, 1 begins the 2-year program).
2630	Apr. 13, 1962	225.00	Tuition for 3 employees enrolled for the 1st session of a 2-year program at the Bankers School of Agriculture at Cornell University.
3017	May 1, 1962	225.00	Same as above, except that payment is for 3 employees attending the 2d and final session.

Boston—Continued

TRAINING AND EDUCATION—continued

Voucher No.	Date	Amount	
2376	Apr. 2, 1963	$230.00	Tuition, room and board, text materials, and university fee for 1 bank examiner attending the NABAC School for Bank Audit and Control at the University of Wisconsin in 1963; he will complete the course at sessions in 1964 and 1965.

TRAVEL TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

No.	Date	Amount	
3940	June 5, 1962	$367.15	American Institute of Banking national convention in Atlanta, May 26–June 2, 1962; meals and lodging averaged over $22 a day for 7 days.
993	Feb. 7, 1963	150.68	New York Chapter AIB banquet and regional civil defense meetings, Feb. 1–4, 1963; meals and lodging averaged over $27 a day for 3 days.
2780	Apr. 23, 1962	260.14	20th annual industrial health conference in Chicago, Apr. 9–13, 1962; meals and lodging averaged over $27 a day for 4 days.
6216	Sept. 11, 1962	127.31	Special briefing for Public Relations Society of America members at the Pentagon, Sept. 5–7, 1962; meals and lodging for the 1 full day totaled $33.61.
7178	Oct. 19, 1962	155.30	Robert Morris Associates annual convention in New York City, Oct. 13–17, 1962; meals and lodging averaged almost $26 a day for 4 days.
7941	Nov. 20, 1962	154.16	Agricultural outlook conference in Washington, D.C., Nov. 12–16, 1962; meals and lodging averaged almost $22 a day for 4 days.
1113	Feb. 12, 1963	148.49	American Bankers Association midwinter trust conference in New York City, Feb. 3–7, 1963; meals and lodging averaged almost $27 a day for 4 days.
3188	May 3, 1963	148.20	Conference of the National Association of Business Development Corporations in Washington, D.C., Apr. 28–May 1, 1963; meals and lodging averaged over $22 a day for 3 days.
4317	June 19, 1963	104.35	The New England Council midyear meeting at West Harwick By-The-Sea, Mass., June 12–14, 1963; meals and lodging amounted to $30.40 a day for 3 days.

Boston—Continued

TRAVEL TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.—continued

Voucher No.	Voucher Date	Voucher Amount	
4408	June 24, 1963	$353.12	Special Libraries Association conference in Denver, June 8–12, 1963; meals and lodging averaged almost $24 a day for 3 days.
6973	Oct. 10, 1962	478.21	NCR Programing School in New York City, Sept. 16–Oct. 5, 1962; meals and lodging averaged over $23 a day for 17 days.
6974	do	458.15	Same as above, except that average was about $22.75 a day for 15 days.
			Federal Reserve System meetings, etc., where meals and lodging averaged considerably more than $16 a day:
715	Jan. 30, 1962	130.46	Washington, D.C., 2 days at about $25.50.
3344	May 10, 1962	133.18	Washington, D.C., 2 days at about $25.
7785	Nov. 13, 1962	199.98	Washington, D.C., 2 days at about $25.50.
1087	Feb. 12, 1963	225.05	New York City, 8 days at over $23.
4211	June 13, 1963	115.10	New York City, 3 days at about $21.50.
4238	June 14, 1963	108.93	New York City, 3 days at about $21.50.

Statement of condition of the Federal Reserve Bank of Boston, at the close of business Dec. 31, 1963

[In thousands of dollars]

Assets:	
Gold certificate account	$719,874
Redemption fund for Federal Reserve notes	80,825
Total gold certificate reserves	800,699
Federal Reserve notes of other banks	37,225
Other cash	9,182
Discounts and advances:	
Secured by U.S. Government securities	40
Other	1,536
Acceptances:	
Bought outright	
Held under repurchase agreement	
U.S. Government securities:	
Bought outright	1,571,172
Held under repurchase agreement	
Total loans and securities	1,572,748
Cash items in process of collection	741,814
Bank premises	3,066
Other assets:	
Denominated in foreign currencies	7,326
All other	11,736
Total assets	3,183,796

Statement of condition of the Federal Reserve Bank of Boston, at the close of business Dec. 31, 1963—Continued

[In thousands of dollars]

Liabilities:	
Federal Reserve notes	$1,925,993
Deposits:	
Member bank reserves	690,567
U.S. Treasurer—General account	36,598
Foreign	7,680
Other	4,615
Total deposits	739,460
Deferred availability cash items	443,665
Other liabilities	3,829
Total liabilities	3,112,947
Capital accounts:	
Capital paid in	23,616
Surplus	47,233
Other capital accounts	---------
Total liabilities and capital accounts	3,183,796
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined ... percent	30
Contingent liability on acceptances purchased for foreign correspondents	4,411

Federal Reserve note statement of Federal Reserve Bank of Boston, at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and	$2,003,971
Less held by issuing bank, and forwarded for redemption	77,978
Federal Reserve notes, net [1]	1,925,993
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	483,000
Eligible paper	---------
U.S. Government securities	1,530,000
Total collateral	2,013,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of Boston—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	11	49	6	58	----	----	1	125
1916	43	237	57	79	----	41	34	491
1917	571	502	95	5	6	88	18	1, 286
1918	3, 068	932	108	----	18	60	290	4, 475
1919	6, 003	1, 078	369	----	28	----	19	7, 498
1920	10, 031	1, 613	554	----	42	----	33	12, 273
1921	6, 007	515	416	----	14	----	17	6, 969
1922	1, 544	592	1, 392	----	10	----	5	3, 541
1923	2, 321	741	420	----	9	----	16	3, 507
1924	783	599	1, 050	----	5	----	122	2, 559
1925	1, 198	1, 493	455	----	6	----	136	3, 289
1926	1, 464	1, 279	402	----	8	----	167	3, 319
1927	1, 242	1, 025	607	----	7	----	93	2, 975
1928	2, 465	1, 486	454	----	13	----	47	4, 465
1929	3, 449	1, 284	302	----	21	----	106	5, 161
1930	596	438	1, 202	----	9	----	123	2, 368
1931	416	461	826	----	5	----	93	1, 801
1932	932	205	1, 547	----	19	----	73	2, 774

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Boston—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		303	227				2, 135	110	2, 774
1934		28	27	16	2		2, 934	49	3, 056
1935		13	3	120	24		2, 560	8	2, 727
1936		8	2	141	26		2, 394	3	2, 574
1937		18	2	136	18		2, 839	5	3, 017
1938		9		106	11		2, 558	6	2, 690
1939		3		77	6		2, 708	16	2, 809
1940		1		54	2		3, 046	8	3, 112
1941		2		54	3		2, 964	23	3, 045
1942		4		39	3		3, 810	16	3, 871
1943		12		30	3		4, 857	16	4, 919
1944		37		23	1		6, 714	15	6, 791
1945		88		6			9, 132	7	9, 234
1946		136		3			9, 509	11	9, 659
1947		151					10, 388	15	10, 555
1948	254						20, 050	18	20, 322
1949	181						21, 419	10	21, 611
1950	106						18, 806	20	18, 933
1951	147						27, 040	9	27, 197

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Boston—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	271				30,745		10	31,026
1953	418				32,346		12	32,776
1954	194				23,951		10	24,155
1955	498				21,966		14	22,478
1956	788	10			31,364		17	32,179
1957	1,229	15			40,017		18	41,278
1958	341		15		39,933		16	40,304
1959	1,100				46,406		22	47,528
1960	552				58,236		28	58,815
1961	120				49,919		21	50,059
1962	211				53,178	165	15	53,569

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Boston—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$32, 851	$317, 787	$893, 600	$3, 546, 802	$5, 869, 506	$10, 262, 175
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						38, 666
Depreciation on U.S. bonds						
All other						26, 621
Total additions						65, 287
Deductions from current net earnings:						
Bank premises—depreciation				200, 000		
Furniture and equipment	1, 752	21, 852	14, 974	41, 622	43, 748	24, 585
Reserve for Federal Reserve Board expenses					38, 666	
Reserve for depreciation, U.S. bonds			138, 267			28, 162
All other					9, 711	2, 151
Total deductions	1, 752	21, 852	153, 241	241, 622	92, 125	54, 898
Net deductions from current net earnings	1, 752	21, 852	153, 241	241, 622	92, 125	[1] 10, 389
Net earnings	−34, 603	295, 935	740, 359	3, 305, 180	5, 777, 381	10, 272, 564
Distribution of net earnings:						
Dividends paid		249, 735	601, 756	384, 180	414, 447	447, 266
Transferred to surplus account			75, 100	2, 921, 000	5, 362, 934	7, 351, 799
Franchise tax paid U.S. Government			75, 100			2, 473, 499
Balance to profit and loss	−34, 603	46, 200	−11, 597			

	1921	1922	1923	1924	1925
Current net earnings	$4, 803, 347	$1, 519, 207	$1, 372, 429	$585, 515	$1, 262, 691
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds	43, 681	32, 100	5, 290	15, 870	
All other	3, 894	9, 200	20, 559	4, 686	3, 207
Total additions	47, 575	41, 300	25, 849	20, 556	3, 207
Deductions from current net earnings:					
Bank premises—Depreciation	489, 000	328, 215	122, 048	122, 048	122, 048
Furniture and equipment	73, 692	133, 106	20, 309	11, 650	2, 179
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	6, 877	1, 784	3, 786	1, 951	1, 009
Total deductions	569, 569	463, 105	146, 143	135, 649	125, 317
Net deductions from current net earnings	521, 994	421, 805	120, 294	115, 093	122, 110
Net earnings	4, 281, 353	1, 097, 402	1, 252, 135	470, 422	1, 140, 581
Distribution of net earnings:					
Dividends paid	473, 109	481, 951	480, 267	477, 798	502, 648
Transferred to surplus account	772, 324	[2] −170, 782	77, 187	[3] −7, 376	637, 933
Franchise tax paid U.S. Government	3, 035, 920	[2] 786, 233	694, 681		
Balance to profit and loss					

[1] Net additions.

[2] After charging surplus and crediting franchise tax with $247,350 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $76,568 and $538,883, respectively.

[3] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Boston—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$1, 149, 024	$834, 548	$2, 430, 190	$2, 778, 498	$159, 116
Additions to current net earnings:					
Profit on U.S. Government securities sold					180, 927
Other additions	8, 531	3, 708	2, 532	19, 752	6, 196
Total additions	8, 531	3, 708	2, 532	19, 752	187, 123
Deductions from current net earnings:					
Reserve for losses					
Reserve for self-insurance					
Building for Board of Governors					
All other deductions	682	644	116, 200	32, 116	92, 462
Total deductions	682	644	116, 200	32, 116	92, 462
Net deductions	+7, 849	+3, 064	113, 668	12, 364	+94, 661
Net earnings	1, 156, 873	837, 612	2, 316, 522	2, 766, 134	253, 777
Dividends paid	525, 023	550, 446	590, 830	634, 112	705, 949
Franchise tax paid U.S. Government	45, 962				
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	585, 888	287, 166	1, 725, 692	2, 132, 022	[1] −452, 172

	1931	1932	1933	1934	1935
Current net earnings	−$276,208	$832,078	$639,132	$961,269	$425,944
Additions to current net earnings:					
Profit on U.S. Government securities sold	150,484	187,612	60,953	521,658	355,512
Other additions	3,551	18,718	29,691	45,963	31,819
Total additions	154,035	206,330	90,644	567,621	387,331
Deductions from current net earnings:					
Reserve for losses			702,323	595,609	64,932
Reserve for self insurance		350,000			
Building for Board of Governors					72,083
All other deductions	18,057	1,769	1,836	489	5,695
Total deductions	18,057	351,769	704,159	596,098	142,710
Net deductions	+135,978	145,439	613,515	28,477	+244,621
Net earnings	−140,230	686,639	25,617	932,792	670,565
Dividends paid	709,139	675,511	645,681	644,075	621,553
Franchise tax paid U.S. Government			(2)		
Paid U.S. Treasurer (sec. 13b)					46,503
Transferred to surplus (sec. 13b)				−3,155	2,509
Transferred to surplus (sec. 7)	[1]−849,369	11,128	[1]−620,064	291,872	

[1] Deficit in earnings after payment of dividends, charged to surplus account.

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of Philadelphia—Profit and loss account, 1946–55—Continued

	1936	1937	1938	1939	1940
Current net earnings	$425, 357	$855, 946	$524, 515	$697, 141	$942, 545
Additions to current net earnings:					
Profits on sales of U.S. Government securities	478, 125	172, 173	594, 408	319, 978	851, 604
Recoveries of and withdrawals from allowances for losses on industrial advances (net)					
All other	3, 106	461	57, 864	50, 651	149, 405
Total additions	481, 231	172, 634	652, 272	370, 629	1, 001, 009
Deductions from current net earnings:					
Reserves for contingencies	57, 500				
Losses and reserves for losses on industrial advances (net)		102, 000	69, 145	32, 475	31, 378
Chargeoffs and special depreciation on bank premises					
Chargeoffs on bank premises					
Prior service contributions to retirement system	178, 800	178, 800	357, 600		
Assessment for building for Board of Governors	147, 601	103, 465			
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
All other	565	1, 229	515	18	570
Total decuctions	384, 466	385, 494	427, 260	32, 493	31, 948
Net additions or deductions (−)	96, 765	−212, 860	225, 012	338, 136	969, 061
Net earnings	522, 122	643, 086	749, 527	1, 035, 277	1, 911, 606
Paid U.S. Treasury (sec. 13b)	34, 488	6, 648	1, 544	51	23
Dividends paid	563, 728	562, 652	564, 369	563, 982	560, 433
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	−76, 094	73, 786	183, 614	471, 244	1, 351, 150
Surplus (sec. 7) Jan. 1	9, 902, 045	9, 825, 951	9, 899, 737	10, 083, 351	10, 404, 596
Addition, as above	−76, 094	73, 786	183, 614	471, 244	1, 351, 150
Transferred to reserves for contingencies				−150, 000	−850, 000
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	9, 825, 951	9, 899, 737	10, 083, 351	10, 404, 595	10, 905, 746

	1941	1942	1943	1944	1945
Current net earnings	$534, 794	$938, 229	$1, 865, 225	$3, 535, 018	$6, 037, 665
Additions to current net earnings:					
Profits on sales of U.S. Government securities	96, 645	244, 396	2, 629, 096	243, 000	241, 116
Recoveries of and withdrawals from allowances for losses on industrial advances (net)			27, 060	44, 800	185, 721
All other	17, 187	18, 873	107, 166	6, 325	9, 419
Total additions	113, 832	263, 269	2, 763, 322	294, 125	436, 256
Deductions from current net earnings:					
Reserves for contingencies					637, 740
Losses and reserves for losses on industrial advances (net)	39, 254	27, 836			
Chargeoffs and special depreciation on bank premises			1, 000, 099		
Chargeoffs on bank premises					201, 650
Prior service contributions to retirement system					
Assessment for building for Board of Governors					
Retirement system (interest base adjustment)		279, 461			
Retirement system (interest base and increased benefits adjustments)			542, 442		
All other	1, 419	4, 602	11, 024	85, 173	179, 130
Total deductions	40, 673	311, 899	1, 553, 565	85, 173	1, 018, 520
Net additions or deductions (−)	73, 159	−48, 630	1, 209, 757	208, 952	−582, 264
Net earnings	607, 953	889, 599	3, 074, 982	3, 743, 970	5, 455, 401
Paid U.S. Treasury (sec. 13b)	3, 134	12, 982	55, 807	57, 502	57, 502
Dividends paid	561, 233	566, 010	573, 065	595, 572	618, 318
Transferred to surplus (sec. 13b)				6, 569	131, 402
Transferred to surplus (sec. 7)	43, 586	310, 607	2, 446, 110	3, 084, 327	4, 648, 179
Surplus (sec. 7) Jan. 1	10, 905, 746	10, 949, 332	11, 159, 938	13, 206, 048	15, 238, 712
Addition, as above	43, 586	310, 607	2, 446, 110	3, 084, 327	4, 648, 179
Transferred to reserves for contingencies		−100, 000	−400, 000	−1, 051, 663	
Transferred from reserves for contingencies					2, 551, 663
Surplus (sec. 7) Dec. 31	10, 949, 332	11, 159, 939	13, 206, 048	15, 238, 712	22, 438, 554

Federal Reserve Bank of Boston—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$5, 803, 406	$6, 132, 503	$15, 235, 565	$16, 138, 664	$13, 072, 825
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	129, 579	185, 598	424, 725	2, 125, 355	2, 519, 085
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	565	728			
All other	1, 381	314	704	51, 347	10, 815
Total additions	131, 525	186, 640	425, 429	2, 176, 702	2, 529, 900
Deductions from current net earnings:					
Reserves for contingencies	33, 735	37, 862			47, 676
Retirement system (salary computation adjustment)	126, 378				
Charge-offs and special depreciation on bank premises				218, 696	
Retirement system (adjustment for revised benefits)				158, 177	
Losses on U.S. Government securities sold (net)					
All other	4, 259	17, 064	4, 511	203, 729	153, 195
Total deductions	164, 372	54, 926	4, 511	580, 602	200, 871
Net additions or deductions (−)	−32, 847	131, 714	420, 918	1, 596, 100	2, 329, 029
Net earnings before payments to U.S. Treasury	5, 770, 559	6, 264, 217	15, 656, 483	17, 734, 764	15, 401, 854
Transferred to reserves for contingencies			2, 675, 977	2, 733, 910	
Paid to U.S. Treasury (sec. 13b)	2, 150				
Paid U.S. Treasury (interest on Federal Reserve notes)		5, 034, 646	11, 071, 200	12, 877, 827	13, 206, 117
Net earnings after reserves and payments to U.S. Treasury	5, 768, 409	1, 229, 571	1, 909, 306	2, 123, 027	2, 195, 737
Dividends paid	649, 743	671, 129	679, 032	692, 023	728, 220
Transferred to surplus (sec. 13b)		−1, 214			
Transferred to surplus (sec. 7)	5, 118, 666	559, 656	1, 230, 274	1, 431, 004	1, 467, 517
Surplus (sec. 7) Jan. 1	22, 438, 554	27, 557, 220	28, 116, 876	29, 347, 150	30, 778, 154
Surplus (sec. 7) Dec. 31	27, 557, 220	28, 116, 876	29, 347, 150	30, 778, 154	32, 245, 671

	1951	1952	1953	1954	1955
Current net earnings	$20,481,928	$23,369,439	$24,011,466	$16,186,668	$14,551,906
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	------	137,396	132,962	32,661	------
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	------	------	------	------	------
All other	301,388	59,958	116,422	538	270
Total additions	301,388	197,354	249,384	33,199	270
Deductions from current net earnings:					
Reserves for contingencies	56,014	40,516	51,301	38,512	35,397
Retirement system (salary computation adjustment)	------	------	------	------	------
Chargeoffs and special depreciation on bank premises	299,939	27,586	------	------	------
Retirement system (adjustment for revised benefits)	------	------	140,403	------	------
Losses on U.S. Government securities sold (net)	115,977	------	------	------	83
All other	105,633	12,154	53,756	3,768	6,953
Total deductions	577,563	80,256	245,460	42,280	42,433
Net additions or deductions (—)	—276,175	117,098	3,924	—9,081	—42,163
Net earnings before payments to U.S. Treasury	20,205,753	23,486,537	24,015,390	16,177,587	14,509,743
Transferred to reserves for contingencies	------	------	------	------	------
Paid to U.S. Treasury (sec. 13b)	------	------	------	------	------
Paid U.S. Treasury (interest on Federal Reserve notes)	17,513,810	20,426,366	20,857,523	13,765,123	12,221,591
Net earnings after reserves and payments to U.S. Treasury	2,691,943	3,060,171	3,157,867	2,412,464	2,288,152
Dividends paid	745,812	790,381	840,331	882,897	930,218
Transferred to surplus (sec. 13b)	------	------	------	------	------
Transferred to surplus (sec. 7)	1,946,131	2,269,790	2,317,536	1,529,567	1,357,934
Surplus (sec. 7) Jan. 1	32,245,671	34,191,802	36,461,592	38,779,128	40,308,695
Surplus (sec. 7) Dec. 31	34,191,802	36,461,592	38,779,128	40,308,695	41,666,629

Federal Reserve Bank of Boston—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$23,810,203	$32,154,829	$30,778,197	$37,445,773
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	16,548	9,848	9,137	10,414
Reimbursement for fiscal agency expenses incurred in prior years		94,314		
Transferred from reserves for contingencies (net)				6,786,590
All other	5,350	982	291	3,063
Total additions	21,898	105,144	9,428	6,800,067
Deductions from current net earnings:				
Reserves for contingencies	37,017	37,011	35,312	
Retirement System (adjustment for revised benefits)		543,884		
All other	1,831	1,307	1,280	113,088
Total deductions	38,848	582,202	36,591	113,088
Net additions or deductions (−)	−16,950	−477,058	−27,164	6,686,980
Net earnings before payments to U.S. Treasury	23,793,253	31,677,771	30,751,033	44,132,753
Paid U.S. Treasury (interest on Federal Reserve notes)	20,531,028	27,583,697	26,710,224	54,795,062
Dividends paid	981,028	1,029,223	1,073,009	1,121,379
Transferred to surplus (sec. 7)	2,281,197	3,064,850	2,967,800	−11,783,688
Surplus (sec. 7) Jan. 1	41,666,629	43,947,826	47,012,677	50,115,888
Transferred from surplus (sec. 13b)			135,411	
Surplus (sec. 7) Dec. 31	43,947,826	47,012,677	50,115,888	38,332,200

	1960	1961	1962	1963
Current net earnings	$48, 535, 419	$39, 274, 196	$41, 715, 933	$45, 548, 147
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	131, 058	184, 956	102, 782	15, 896
Reimbursement for fiscal agency expenses incurred in prior years	-----	-----	-----	-----
Transferred from reserves for contingencies (net)	1, 112, 404	-----	-----	-----
All other	2, 026	842	42, 533	34, 153
Total additions	1, 245, 488	185, 798	145, 315	50, 049
Deductions from current net earnings:				
Reserves for contingencies	-----	-----	-----	-----
Retirement system (adjustment for revised benefits)	-----	-----	-----	-----
All other	2, 637	2, 835	208, 816	10, 822
Total deductions	2, 637	2, 835	208, 816	10, 822
Net additions or deductions (—)	1, 242, 851	182, 963	—63, 501	39, 227
Net earnings before payments to U.S. Treasury	49, 778, 271	39, 457, 259	41, 652, 432	45, 587, 374
Paid U.S. Treasury (interest on Federal Reserve notes)	46, 597, 203	36, 439, 253	37, 797, 780	41, 648, 032
Dividends paid	1, 183, 068	1, 236, 205	1, 296, 552	1, 376, 442
Transferred to surplus (sec. 7)	1, 998, 000	1, 781, 800	2, 588, 100	2, 562, 900
Surplus (sec. 7) Jan. 1	38, 332, 200	40, 330, 200	42, 112, 000	44, 670, 100
Transferred from surplus (sec. 13b)	-----	-----	-----	-----
Surplus (sec. 7) Dec. 31	40, 330, 200	42, 112, 000	44, 670, 100	47, 233, 000

Mr. BOLTON. As a matter of fact, to keep the record straight, Mr. Chairman, I would like to repeat my observation of this morning.

The chairman and I are not very far apart as to Federal funds, but I gather from the chairman's approach that it is his feeling that there should be an audit so that there can be a control of policy decisions.

The CHAIRMAN. Oh, no, no, no, not at all, not at all.

Mr. BOLTON. And the gentleman would not feel——

The CHAIRMAN. You think I would want a subcommittee, an appropriation committee, to determine policy for the Federal Reserve? Of course not.

Mr. VANIK. The GAO never determines any policy. This arm of Congress has an exemplary record of developing accountability without policy interference. I think it would be terrible to make that sort of charge against the GAO. This is the audit we seek and want here.

Mr. BOLTON. If the gentleman will apologize—I mean I will—allow me to apologize for taking the time——

The CHAIRMAN. No, I wanted the Fed to make policy.

Mr. BOLTON. The recommendations of the GAO with regard to Erieview certainly had to do with policymaking matters. They were not purely accounting matters. They were doggone well policy, decision matters. And this is not said in criticism of the GAO at all. This is purely said in the framework of the discussion with the Fed.

Mr. VANIK. The difference, the gentleman will recall—it is not that the GAO dictates policy. It reports on the effect of policy.

Mr. BOLTON. And, therefore, puts the decision of the agency into the political arena.

Mr. VANIK. Puts it——

The CHAIRMAN. Unless they are doing something wrong.

Mr. VANIK. It puts it on the table.

Mr. BOLTON. I will accept the gentleman's phrase.

Mr. VANIK. I think it is a good place to put it—right on the table—so the whole country can look at it.

Mr. BOLTON. Mr. Chairman, just before I leave, may I apologize first for leaving. And, secondly, request that if we are going to have afternoon meetings, in the future, could the staff let us know ahead of time, because I am exceedingly interested in these hearings.

The CHAIRMAN. Well, Mr. Bolton, you have no complaint there. Yesterday we had our meeting at 10 o'clock. Obviously——

Mr. BOLTON. I understand.

The CHAIRMAN. But in the afternoon we didn't know when the House would adjourn so we could meet. We had a time set at 2:30, then 3:30, then 4 o'clock. We didn't know either. But the very minute we found out we notified the members.

Mr. BOLTON. Mr. Chairman, I am completely understanding of your problems in scheduling. I am sympathetic. And I am merely saying that where possible, if the staff could even give us 12 hours' notice, I will cancel my plans in order to be here, because I am exceedingly interested in these very fine hearings.

The CHAIRMAN. And we want the gentleman to be here. He has been very fair. And we appreciate it.

Mr. WILSON. Mr. Chairman, in line with this, what is our schedule for the rest of the week?

The CHAIRMAN. Tomorrow we have two more Federal Reserve Presidents, and Friday we have two more.

Mr. WILSON. These will be morning hearings?

The CHAIRMAN. Morning hearings.

Mr. WILSON. We will be meeting tomorrow afternoon?

The CHAIRMAN. No, I don't think so.

Mr. VANIK. Mr. Chairman, I would like to make one request of the three Presidents while they are here. I raised a question this morning about the cost of checking account services by banks in the Cleveland district.

I wonder if each of the gentlemen would provide the committee with a report of the variation in checking account costs in their respective districts, both in the urban areas and from the rural and outlying areas. It has been said that this is a competitive matter. But in the Cleveland area, there seems to be considerable uniformity on these charges.

In some rural areas the checking accounts are a free service, or almost free. And in the urban centers, where we are supposed to have greater volume of business, and more efficiency, the charge runs up to 10 cents an item or even higher.

So I would appreciate it if the gentlemen would provide the committee with the chairman's consent and the consent of my colleagues with this information, so that we can make some comparison, as to the cost of checking account services across the country.

The CHAIRMAN. Will you gentlemen agree to furnish that information?

Mr. WAYNE. Mr. Vanik, speaking only for Richmond, we don't have the information, but perhaps we can obtain it.

Mr. VANIK. I understand that. Because you belong to all of these various things, you have a ready access to the information which I want.

Mr. WAYNE. This is highly individual information from all of the 800 banks in the district. And I am not at all sure they will disclose it. We don't have it.

Mr. VANIK. If I desire this information, how would you suggest that we obtain it?

The CHAIRMAN. You do the best you can.

Mr. WAYNE. We will make an effort. My point is we don't have it.

Mr. VANIK. It is very valuable public information and would be very helpful to the committee.

Mr. SHUFORD. Are you speaking of each individual bank?

Mr. VANIK. I want a variation—the low and the high, and where the low is and where the high is.

Mr. SHUFORD. We will make every effort to get it on a sample basis.

Mr. VANIK. And what variation is there in Richmond, and what variation is there in Norfolk.

Mr. WAYNE. This would be a sampling basis.

Mr. VANIK. Yes.

(The information requested was subsequently submitted as follows:)

FEDERAL RESERVE BANK OF BOSTON,
February 10, 1964.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives,
Longworth House Office Building,
Washington, D.C.

DEAR MR. PATMAN: Enclosed you will find materials describing service charges on checking accounts for a sample of banks in the First Federal Reserve District. This material is supplied in response to a request originated by Representative Vanik during the course of my appearance before the Subcommittee on Domestic Finance on January 29, 1964.

We have relied upon two sources of information. First, we selected seven communities distributed geographically throughout the district encompassing both small and large banks. In those 7 communities, 34 banks supplied information on their service charges. Their responses are indicated in table I.

In five of these cities, there were banks who had previously participated in our income and expense survey, so we had at hand their information of service charges in relation to expenses of checking accounts. Table II, together with its covering memorandum reveals that for the 10 banks in 5 of the 7 cities, service charges ranged from a low of 19 to a top of 45 percent of average expenses of maintaining that checking account. This situation is more fully explained in the memorandum attached to table II.

Sincerely,

GEORGE H. ELLIS, *President.*

TABLE I.—*Basic service charges on checking accounts, banks in selected communities* [1]—*First Federal Reserve District*

	Size group [2]	Regular checking accounts					Special checking accounts	
		Monthly credit allowance per $100 of collected balance	Charges				Charges	
			Each check paid	Each deposit received	Each item deposited	Monthly maintenance charge	Each check paid	Monthly maintenance charge
Boston metropolitan area (population over 1,000,000):								
Bank A-1	5	$0.15	$0.08	$0.15	$0.02	$0.70	----------	----------
A-2	3	.12	.06	.12	.015	.60	----------	----------
A-3	5	.15	.08	.12	.02	.70	$0.15	None
A-4	1	.15	.08	.15	.02	.70	.10	$0.50
A-5	6	.15	.08	.15	.02	.70	.10	.50
A-6	3	.10	.06	.06	.02	.60	----------	----------
A-7	6	.15	.08	.15	.02	.70	.10	.50
A-8	4	.15	.08	.15	.02	.70	.10	.50
A-9	2	.15	.08	.06	.03	.60	.133	None
A-10	6	.15	.08	.15	.02	.70	.10	.50
A-11	2	.15	.08	.10	.02	.70	.10	.25
A-12	6	.15	.08	.15	.02	.70	.125	None
A-13	6	.15	.08	.15	.02	.70	----------	----------
A-14	6	.15	.08	.12	.02	.70	.10	.50
A-15	4	.15	.08	.15	.02	.60	.10	.50
A-16	2	.10	.06	.08	.02	.50	.10	.25
A-17	4	.15	.07	.07	.02	.70	.10	.25

See footnotes at end of table, p. 389.

TABLE I.—*Basic service charges on checking accounts, banks in selected communities* [1]—*First Federal Reserve District*—Contined

	Size group [2]	Regular checking accounts					Special checking accounts	
		Monthly credit allowance per $100 of collected balance	Charges				Charges	
			Each check paid	Each deposit received	Each item deposited	Monthly maintenance charge	Each check paid	Monthly maintenance charge
City B (population 162,000):								
Bank B–1	6	$0.10	$0.05	None	$0.02	$0.50	$0.10	$0.25
B–2	4	.10	.06	None	.03	.75	.11	.25
B–3	6	.10	.05	None	.02	.50	.10	.25
B–4	2	(3)	(3)	None	None	(3)	----------	----------
B–5	1	.10	.05	None	.02	.50	.10	None
Town C (population 18,000):								
Bank C–1	3	.10	.06	$0.07	.02	.50	.10	.25
C–2	3	.10	.06	.07	.02	.50	.10	None
City D (population 88,000):								
Bank D–1	4	.10	.06	.08	.02	.60	.10	.33
D–2	2	.10	.06	.08	.02	.60	(4)	None
D–3	3	.10	.06	.08	.02	.60	.10	.33
D–4	3	.10	.06	.08	.02	.60	.10	.33
Town E (population 800): Bank E–1	1	.15	.05	None	.05	.50	.10	None
City F (population 35,000):								
Bank F–1	3	.15	.06	.12	.03	.60	.10	None
F–2	4	.15	.06	.12	.03	.60	.125	None
F–3	5	.15	.06	.12	.03	.60	.10	None
City G (population 4,000):								
Bank G–1	1	.10	.05	.05	.02	.50	.10	None
G–2	2	.10	.05	.05	.02	.50	.15	None

[1] Communities, other than the Boston metropolitan area, were selected on a random basis and all commercial banks located therein are included. Boston metropolitan area sampling includes all commercial banks in the city of Boston and selected representative banks in the suburban cities and towns.

[2] Size groups:

Group:	*Deposits*
1	up to $5, 000, 000
2	$5, 000, 000 to 10, 000, 000
3	$10, 000, 000 to 25, 000, 000
4	$25, 000, 000 to 50, 000, 000
5	$50, 000, 000 to 100, 000, 000
6	over $100, 000, 000

[3] Service charge plan on checking accounts is based on the lowest balance carried in any calendar month and the number of checks paid in that month. Credit is given for the low balance by allowing 1 check free of charge for each $10 of that low balance. Checks in excess of the so-called "free" checks are subject to a service charge of 10 cents each. Where the low balance is lower than $100 any calendar month a $1 maintenance charge is made but 1 "free" check is allowed without further charge for each $10 of the balance, and 10 cents is charged for each check in excess of the "free" ones. Thus, low balance of $70 would cost $1 with 7 "free" checks; a balance of $80 would carry 8 "free" checks, etc.

Any account under $100 which has been inactive for 1 month or more, will be subject to a 50-cent monthly service charge.

No charge is made for deposits or items deposited.

[4] Also 0.05 cent per item deposited.

SERVICE CHARGES PAID BY DEPOSITORS IN RELATION TO PROCESSING COSTS INCURRED BY BANKS

FEBRUARY 10, 1964.

The accompanying table relates activity charges paid by depositors to processing costs incurred by banks. The data are drawn from the functional cost analysis in the First Federal Reserve District and cover 1962. These observations are in order:

1. The income to banks arising from activity charges on regular checking accounts represents only fractional reimbursement of the costs of processing the checks and deposits associated with these acounts. The range in the 10 banks cited in their recovery through activity charges of the regular account handling expenses was from a low of 19 percent to a high of 45 percent. This was after credit was given for collected balances in the regular checking accounts. The reason the banks can charge depositors much less than the actual costs of maintaining their checking accounts is because of the investment of the balances in the banks' loan and investment portfolios. The average balance per account ranged from $776 to $4,989. After required reserves, working cash and correspondent balances were deducted, the remainder was available for investment. Without this source of interest income, activity charges would have to be from two to five times higher than they are if the banks were to recover their expenses.

2. By contrast, average balances in special checking accounts were markedly smaller, ranging from an average of $136 to an average of $254. Because the opportunity was reduced for the bank to derive a profit from investment of such small balances, it was generally necessary for the banks to charge more for processing the special checks.

They thus tend to recover a higher percentage of their special account processing costs than is true for regular acounts.

3. Activity charges tend to uniformity between banks in the same community as to regular accounts, with more of a tendency for variations in charges as respect special accounts. Special accounts, however, are not moneymakers and are offered mostly as part of a "complete service" by the bank. Some banks do not have special checking accounts and some of those which do are indifferent as to whether the number increases or decreases. They fear competition less as to special accounts and this may account for variations in charges.

Income from activity charges on regular checking accounts is significant but proportionately income from interest on loans and investment is far more so. With competition for balances as intense as it is, it is a fair question to ask if the tendency toward uniformity of activity charges on regular accounts arises from an unwillingness of individual banks to raise their charges lest their competitors who hold to existing charges solicit their accounts away from them.

L. A. ZEHNER,
Assistant vice president.

TABLE II.—*Service charges paid by depositors in relation to processing costs incurred by banks—regular and special accounts; calendar year 1962, 5 communities having 10 banks participating in functional cost study of Federal Reserve Bank of Boston*

Bank identification	C1	C2	D1	D3	D4	E1	F1	F2	G1	G2
Population	18,000	18,000	88,000	88,000	88,000	800	35,000	35,000	4,000	4,000
Size of bank (millions of depositors)	10 to 25	10 to 25	25 to 50	10 to 25	10 to 25	Under 5	10 to 25	25 to 50	Under 5	5 to 10
	(In cents)									
Schedule of credits and charges (regular accounts):										
Monthly charge per $100 call balance	0. 10	0. 10	0. 10	0. 10	0. 10	0. 15	0. 15	0. 15	0. 10	0. 10
Charge for each check aid	. 06	. 06	. 06	. 06	. 06	. 05	. 06	. 06	. 05	. 05
Charge for each deposit	. 07	. 07	. 08	. 08	. 08	None	. 12	. 12	. 05	. 05
Charge for each item deposited	. 02	. 02	. 02	. 02	. 02	. 05	. 03	. 03	. 02	. 02
Monthly maintenance charge	. 50	. 50	. 60	. 60	. 60	. 50	. 60	. 60	. 50	. 50
	(In cents)									
Schedule of activity charges (special accounts):										
Each check paid	0. 10	0. 10	0. 10	0. 10	0. 10	0. 10	0. 10	0. 125	0. 10	0. 15
Monthly maintenance charge	. 25	None	. 33	. 33	. 33	None	None	None	None	None
	(In cents)									
Cost to bank per item (handled):										
Processing 1 home debit	12. 68	15. 72	12. 07	10. 01	15. 23	16. 31	11. 55	13. 10	14. 94	17. 10
Processing 1 deposit	8. 45	10. 48	8. 05	6. 67	10. 15	10. 87	7. 70	8. 73	9. 96	11. 40
Processing 1 transit check	4. 22	5. 24	4. 02	3. 33	5. 07	5. 43	3. 85	4. 36	4. 98	5. 70

TABLE II.—*Service charges paid by depositors in relation to processing costs incurred by banks—regular and special accounts; calendar year 1962, 5 communities having 10 banks participating in functional cost study of Federal Reserve Bank of Boston*—Continued

Bank identification	C1	C2	D1	D3	D4	E1	F1	F2	G1	G2
Population	18,000	18,000	88,000	88,000	88,000	800	35,000	35,000	4,000	4,000
Size of bank (millions of depositors)	10 to 25	10 to 25	25 to 50	10 to 25	10 to 25	Under 5	10 to 25	25 to 50	Under 5	5 to 10
	(In dollars except where percent is indicated)									
Regular accounts (per month):										
Average expense to bank per account	$4. 32	$5. 54	$6. 77	$6. 94	$6. 65	$4. 20	$4. 94	$4. 18	$4. 06	$2. 17
Average activity increase per account	$1. 52	$1. 43	$2. 20	$3. 14	$2. 42	$1. 29	$1. 93	$1. 41	$0. 78	$0. 67
Percent of recovery	35. 2	25. 8	32. 5	45. 2	36. 4	30. 7	39. 1	33. 7	19. 2	30. 9
Balance per account	$3, 535	$3, 688	$4, 989	$4, 596	$3, 002	$1, 297	$2, 254	$1, 870	$1, 426	$776
	(In dollars except where percent is indicated)									
Special accounts (per month):										
Average expense to bank per account	$1. 39	$1. 37	$1. 27	$0. 95	$1. 31	$0. 99	$1. 14	$1. 20	$1. 13	$1. 03
Average activity charge per account	$1. 13	$1. 06	$1. 03	$1. 04	$0. 79	$0. 59	$0. 95	$0. 76	$0. 67	$0. 48
Percent of recovery	81. 3	77. 4	81. 1	109. 5	60. 3	59. 6	83. 3	63. 3	59. 3	46. 6
Balance per account	$254	$241	$177	$161	$136	$157	$220	$171	$141	$148

The CHAIRMAN. I just want to ask the gentlemen one more question. I understood you to say, Mr. Wayne—that film your bank put out certainly was very fine, certainly an educational picture. And it stated the truth as far as it went.

But I thought you failed to tell some things that were important.

Did I understand you to say on that film that the Federal Reserve banks are owned by the member banks?

Mr. WAYNE. Mr. Patman, that film was recorded in 1952. I must confess I don't recall. All the capital stock is provided by the member banks. But they don't own it in a normal sense.

The CHAIRMAN. It is not a proprietary interest, Mr. Wayne.

Mr. WAYNE. No.

The CHAIRMAN. And they don't own it.

Mr. WAYNE. Not in a proprietary sense at all.

Mr. VANIK. Can that movie be corrected to say it is owned by the people of America?

The CHAIRMAN. I am sure they will make that clear.

Mr. WAYNE. I didn't even know the movie was still in circulation.

The CHAIRMAN. We had several of the movies here. They are very good, very fine.

Mr. HARVEY. Mr. Chairman, I would just like to state without the benefit of looking at these expense accounts that we are talking about, it seems to me that the conclusion is obviously that looking at an expense account is a painful duty at all times. I think there have been so many examples of very painful expense accounts shown among Members of Congress themselves, among members of the executive department, in other branches of Government, and among private industry as well. I recall one fellow that I knew in private industry who always referred to an expense account as a swindle sheet. But I never agreed with him in that regard.

But, nevertheless, that is the way many people look at them today.

I just have these thoughts, after hearing these things read off. But it seems to me there may be some cases of bad judgment on there. But I have not heard anything that seems to be a real flagrant abuse.

I haven't heard of any kickbacks, or any hi-fi's being handed out, or anything that would——

Mr. VANIK. Will the gentleman yield?

Perhaps you can pay for flowers out of the vending machine funds. Vending machine operators pay for that privilege.

Mr. HARVEY. That begs the question, because this morning—I know Mr. Ellis was here when Mr. Taft was asking a line of questioning, and I don't know if the other two gentlemen were here or not. But if they were, I would be interested in their observations as well.

Mr. Taft was asking Mr. Ellis—I think he asked Mr. Hickman at the time—what his feelings were with regard to an outside audit by GAO, and about present audit procedures. And I would be interested in your observation on that, and the others as well.

Mr. ELLIS. Yes, sir. If the purpose of the audit is to again verify the numbers of bonds we have, the numbers of bills we have, if it is a technique of verification of our honesty, then my reaction is certainly if somebody wishes to go to that expense, all right.

But it would be wasteful. Because we would continue our own audit, and the Board would require continuation of their own audit.

And there has been, as far as I am concerned, no demonstrated need——

Mr. HARVEY. Would it impede your actions in any way?

Mr. ELLIS. This, I suggest, is the principal purpose of establishment of the GAO audit. As I understand it, if it is not simply verification—it would be an effort to replace our judgment with somebody else's judgment as to the appropriateness of a particular expenditure.

And this, to my mind, simply says that the person who advocates it says that the presidents, the boards of directors, and the Board of Governors cannot be trusted with their judgment, their sense of public responsibility, and that somebody else must supervise——

Mr. HARVEY. Of course that is true throughout Government. In other words, wherever GAO does that, they always have 20–20 hindsight vision, and it is remarkable in that regard. Other branches of Government complain in the same capacity in that regard.

But my question to you is would it impede your actions at all? I gathered from Mr. Hickman this morning that it would not.

Now, do you feel the same way he did, or did I misunderstand him, do you think?

Mr. ELLIS. If I understood him correctly, he was urging if there were to be an audit it would be ex post facto, an examination of what we did, simply as you are engaged here now in an examination of what we did.

And I feel an agency such as ours must always be open to scrutiny as to what it did. I would object to any insertion of a judgment as to what we should do. I think we should always, as has been suggested, have our results on the table, and any time you gentleman ask for them, you get our information.

We feel that this is the agency to which we report.

Mr. HARVEY. Of course this is the first time in 50 years, and that is not very often.

Mr. ELLIS. I disagree with you. You will find almost the identical type of question and material in the 1952 hearings and subsequent hearings—three volumes of this sort are to be created again. Apparently it happens every 6 or 8 or 10 years.

So it is not in effect a new inquiry.

Mr. HARVEY. Could I just very quickly ask Mr. Wayne and Mr. Shuford.

Mr. WAYNE. My only concern is what has been expressed by Mr. Ellis; namely, the purpose of the so-called audit—whether it is a substitution of judgment as against simply a verification of expenditures.

It seems to me that the Board of Governors of the Federal Reserve System was set up by Congress as an instrumentality of Congress, and charged with this very responsibility, and this substitutes another for it. I have no objection to an ex post facto audit.

Mr. SHUFORD. This is substantially my position, Mr. Chairman. I would simply say that all of us have the highest regard for the work which the GAO does, and some of their men have been assigned to this committee, and have been into some of the Federal Reserve banks, and have done a fine job, I am sure, from your standpoint, and certainly from ours, in the work in which they performed.

My observation is somewhat—repeating what these gentlemen said, but perhaps in a different way—that certainly we would not object to an ex post facto procedure.

This matter of the independence of the Federal Reserve I think is very important in the framework of our Government. The independent central bank. And I am reluctant to do anything which would interfere, unless it is necessary, unless there is an error being made, unless there is big breach somewhere—of making changes which may seem minute at the time, but which might tend to wear away this matter of the independence, the independent judgment on the part of the central bank.

I say I am reluctant to take any steps which would wear away this area.

So I would say that I would prefer the type of audit that is now being done, and it is the kind that certainly this committee and this Congress is entitled to do—wherever you get your personnel, it is being done by a committee of Congress. We are responsible to Congress. We know that we are.

And, as a result of that, I would like to see the type of audit being made as the one that is being made now.

Now, we are always delighted to make available to this committee and its duly constituted representatives—and I think that the chairman and you gentlemen will bear us out, that we have attempted, when requested to do so, to furnish any information—this is the Board and the banks—as rapidly as we possibly can in order to facilitate your work.

In these matters that are being under consideration now, we have tried to be helpful.

I know, these gentlemen have told me, as members of your staff have come into the banks we have given them anything they wanted, made all of our records available to them, our audits.

I understand the Board's examiners' working papers have been made available. I know there are a lot of matters they have seen that I have not seen, that are in the hands of the Board's examiners.

So I would say we are anxious to work with this committee, and we have nothing to hide.

I feel that all of these expenses of the Federal Reserve Bank of St. Louis are justified—though this is area for question, as you have indicated, sir. There are always areas of judgment here.

But under the policies as set up by the Board, and under the policies of our board of directors, and under my personal scrutiny, I have not felt that these areas are subject to criticism.

So what I am saying, I welcome, as I indicated a few minutes ago, an audit—where more people can check the securities and money and valuables, the happier I am. But I would urge that as far as my personal view is concerned, that this matter of independence of the central bank, this independent judgment, be adhered to—it is really an important part of the functioning of our governmental setup.

And I would with reluctance move away from it.

Therefore, I subscribe to the type of audit that you gentlemen are conducting now.

Mr. HARVEY. Thank you.

I have no further questions.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Mr. Chairman—thank you.

We appreciate the cooperative spirit you gentlemen are showing this afternoon.

The CHAIRMAN. Would you yield, Mr. Reuss, for me to state that they have been extremely cooperative—the 12 Presidents of the 12 Federal Reserve banks, and the Federal Reserve Board—they have been extremely cooperative on furnishing information we have requested.

Mr. REUSS. I would like to ask each of you three gentlemen how many stockholders you have respectively in your three banks.

Mr. ELLIS. 252 member banks.

Mr. REUSS. Mr. Wayne?

Mr. WAYNE. I believe it is 421, Mr. Reuss, member banks.

Mr. REUSS. And Mr. Shuford?

Mr. SHUFORD. Right at 475 member banks—147 State member banks.

Mr. REUSS. Now, let me ask each one of you gentlemen. How many copies of your annual report you have printed?

Mr. ELLIS. If I may reach into memory, I think it is about 4,000. My annual report, I am sure you know, is not simply a listing of the numbers. It is a report on economic subjects of interest, of public information value to the whole region. And it is distributed throughout the world.

Mr. REUSS. Mr. Wayne?

Mr. WAYNE. I don't recall, Mr. Reuss, exactly how many were printed, but it had to be reprinted, the last one, because of requests for it.

The annual report, our last one, as you may recall, contained a rather detailed discussion of the central bank and the concept of the central bank. It was distributed not only to member banks, but I think to most of the directors of member banks, to schools and colleges, to libraries, and throughout the world.

Mr. REUSS. Mr. Shuford?

Mr. SHUFORD. I don't have the exact figure, but it goes out—ours goes out in our Federal Reserve Monthly Review, Mr. Reuss. And it is published as part of the regular monthly publication, and it goes out to approximately 12,000. That is our mailing list, monthly mailing list of this regional publication.

Mr. REUSS. I should know the answer to this, but I will have to ask you.

Does each of your banks get out a monthly bulletin, as my bank, the Chicago Federal Reserve, does?

Mr. ELLIS. Yes, sir.

Mr. WAYNE. Yes, sir.

Mr. SHUFORD. Yes, sir.

Mr. REUSS. I would like to say at this time the one I see, which is my own regional one, is a superb economic document, with all kinds of helpful material in it.

A question to Mr. Ellis: Am I right in thinking that the New England Council is an organization from New England whose purpose it is to expand the industrial development of the New England area?

Mr. ELLIS. The full title is the New England Council for Economic Development, thereby revealing itself by its title as a composition of those individuals and organizations in New England devoted to the region's economic development in all characteristics.

Mr. REUSS. I am in general familiar with it, and in its success in the past in attracting development oftentimes—though I say this in no mean or niggardly spirit—from companies which are either located or which had contemplated development in Michigan or Ohio or Wisconsin or California or Texas, Tennessee, or some other place.

It is a fact, it is not, that your Federal Reserve bank contributes annually several hundreds of dollars to the New England council?

Mr. ELLIS. Our Reserve bank carries five or six memberships, individual memberships in the New England council. This is to permit and entitle those people to work through the organizations of the council in the accomplishments of our objectives.

Mr. REUSS. And who pays for those memberships?

Mr. ELLIS. The Federal Reserve bank pays for those memberships. It is in effect representation of the bank in that organization's work.

I would like very much to describe that, if you would permit me.

Mr. REUSS. Yes, sir. Please describe it, in the light of the question which I shall ask. Do you think it is proper that funds which come very close to being public funds in the sense that if they are not spent, 90 percent or more of them find their way into the Treasury, and thus to the relief of the hard-pressed taxpayer? Do you think it is proper that quasi-public funds be used in support of an organization which, however worthy it may be from the standpoint of New England, and I think it does a magnificent job from the standpoint of New England, is nevertheless an essentially regional industry-beckoning organization?

There is nothing wrong with that. We all have to do that. But I am wondering whether this is a legitimate use of public funds.

Mr. ELLIS. Mr. Reuss, I start with a thank you for a testimonial to the effectiveness of the New England council, perhaps to a degree it does not deserve, because their interest is not directed primarily at locating individual firms and seeking them to come to the region.

Our region, as you know, has had a serious economic problem. Since the war, it has lost some 200,000 of its manufacturing jobs it had in two industries alone, textile and shoes. That is some 14 percent of our manufacturing base. As you know, the Full Employment Act applies to the Federal Reserve System, and, therefore, applies to the Federal Reserve Bank of Boston.

By the process of developing new products, new processes, by developing new development techniques, the region has been able to recover some 140,000 of those jobs.

I think it is fair to say that the Reserve bank has played an important part in the research that has supported the work of the development agencies in New England. True, this is done through the New England council.

Mr. REUSS. I think it is entirely proper for each of our regional Reserve banks, by its research activities, and by all its legitimate bank activities, to contribute to the economic development of that region. And I am not taking any narrow view that I, as a midwesterner, don't want other regions of the country developed.

My specific question, however, is whether it is proper that hundreds of dollars each year—I don't know how many—of essentially public funds be devoted to an entirely private regional economic expansion agency.

I am inclined to think that such an expenditure should not be made, either by a Federal Reserve bank or by, let us say, the Department of

Commerce office in Boston—their job, too, is to help develop the New England area. But I would be most upset if I found they were contributing to the bigger and better Boston bureau, or whatever the booster agency is called.

Mr. Ellis. Mr. Reuss, we have on our staff, as you know, a variety of highly competent economists. We have an economist who has a specialty in labor force, retraining, redevelopment, who has studied this, published articles on this in our business review. He is in high demand throughout the region for his advice on how best to research the problems of communities.

The way that his services are made available are through that committee of the New England Council where his counterparts in the six-State area get together and direct their attention to the problems of that particular area—retraining. And he serves as a member of the New England Council, of that particular committee.

This is true of resource development, of the problems of transportation, of the problems of the bankers in New England.

In short, each one of them fills a particular capacity in relation to his own skills.

Mr. Reuss. Now, let me ask you this question: Are you telling me, Mr. Ellis, that the New England Council refuses to make available throughout the region the services of your excellent Federal Reserve employees without extracting several hundreds dollars each year from the association?

I should think they would be paying you, rather than the other way around.

Mr. Ellis. Mr. Reuss, I think you want our institution to be an institution of leadership, in whatever it is we are responsible for doing. I could point to the same direction of our industrial nurses, for example. We have a nurse who is a participant in the Industrial Nurses Association. We expect her, through that association, to learn the developments in her field. We expect her to participate as an active member of our community in this respect.

This is true of each of our individual categories. We expect our credit man to be an active member of the Robert Morris Association, and participate in that activity, both learning from their activities, and contributing through their membership and through their meetings to that activity.

And I suggest simply to you that our research department makes its contribution toward employment in our region, its development and growth, in this particular respect. And this is a well-justified area of interest of the Federal Reserve.

Mr. Reuss. Well, I wish you would record my skepticism about this particular expenditure of semipublic funds.

It seems to me that the Federal Reserve could do its job with complete success if it simply used the good offices of the New England council to arrange lecture tours for its people. And it could do this quite as well without spending several hundreds of dollars a year in memberships—particularly since the inevitable effect of the New England council, as of any regional council, is to attempt to give that particular region an economic advance over the rest of the country. This is a perfectly legitimate function of that council. I am all for that.

And I would be surprised if New England did not have such a council. And I think it is a healthy thing that they do.

But whether a national organization like our Federal Reserve bank should contribute to the performance or the function of a private agency like the New England council is something that I have grave doubts about.

Would you review what I have said, and determine whether you wish to continue your annual contributions to that council, in the light of my observations?

Mr. ELLIS. Mr. Reuss, from your counterparts in other sections of the House, I hear precisely the reverse. "Will you kindly accelerate your activities in this field," we are requested by other Representatives.

Mr. REUSS. In what field—in spending your money to join private organizations?

Mr. ELLIS. In the subject of economic development of our region.

Mr. REUSS. Well, I am all for that, don't misunderstand me. That is your function. And I would like to have you accelerate your efforts there, too. But by your activities, rather than a contribution of your funds to other organizations which are not governmental agencies.

Mr. ELLIS. You would urge our professional people not to be members of their professional associations in the district? Do I understand you correctly?

Mr. REUSS. Not to be members of an organization whose purpose is the development of that particular region. If they want to do so as individuals, that, of course, is their privilege—just as joining Rotary is something that is up to them.

But I question whether a bank is justified in using what are essentially taxpayers' funds to make such a contribution.

Mr. ELLIS. Might I inquire, please?

This obviously is a difference in judgment, between yours and mine, between yourself and my board of directors.

Mr. REUSS. If I may interrupt, I would feel the same way about my own Federal Reserve bank contributing to the Wisconsin Boosters Association, or any organization which tried to get more industry in Wisconsin.

I think that is a good purpose. But I don't think the taxpayers' funds ought to be spent in that particular activity.

However, I interrupted you.

Mr. ELLIS. I was just curious. We have identified this as a difference in judgment.

Might this be illustrative of the kind of judgment that the Government Accounting Office might apply to the judgments that the Federal Reserve had reached in matters of this sort? For example—I am reaching for this area in which the GAO would operate and would not operate in response to the discussion here today.

Is it suggested that GAO might suggest the kind of judgment you have reached, and, therefore, the Federal Reserve would be blocked out from this kind of activity as a result of this judgment of the GAO?

Mr. REUSS. There are two points to make. One—the GAO's audit would be entirely ex post facto, after the fact.

It would not attempt to talk about the future—as I am talking about it.

Secondly, the GAO would have not business criticizing an item unless it, after full deliberation, concluded that that item was an illegal expenditure, one that was not within——

Mr. ELLIS. This clearly is legal, however. It is authorized by our board and the Board of Governors.

Mr. REUSS. I am not in a position now to say whether it is legal or illegal. What I am suggesting is that even though it is a legal expenditure, and hence not one reachable by the GAO or any other auditor, it seems to me a possibly questionable one. I don't lay this down as a piece of dogma. I simply am taking advantage of the situation here and the opportunity to exchange ideas, to ask you about it, and to express my own views on the matter.

So I would be interested whether any of my colleagues agree or disagree with me on this point. I did want to get your views on it. Thank you.

The CHAIRMAN. Questions?

Mr. Brock?

Mr. BROCK. I might just comment in view of my colleague's questioning along this line, being concerned about the expenditures of funds for employees in professional organizations, particularly the one for industrial, or regional development—I might look with interest upon his next vote on ARA, where we don't spend a hundred, but several hundred million dollars for regional development, to the detriment of other regions.

The CHAIRMAN. Congress authorized it. But the Congress did not authorize this. The two are not at all comparable.

Mr. BROCK. I think it is a similar expenditure of the taxpayers' money.

Along the line of this questioning on expenditures specifically relating to employee relations, as I think Mr. Hickman referred to—I don't know what your category is along this line—I think the thing that I have noticed and been concerned about is that we seem to be making quite a degree of stir over the fact that we spend $25 for a minister to deliver the invocation at one of the banquets, or we do have employee banquets or other services for our employees.

I look at the salary table under the Federal Reserve bank in Cleveland, and the employee relations category amounts to only two-tenths of 1 percent of the total payroll—$19,000.

Is this experience comparable with the three banks you gentlemen represent?

Mr. ELLIS. Yes, sir.

Mr. WAYNE. Yes, sir.

Mr. SHUFORD. That is right.

Mr. ELLIS. Could I respond a little further to that question?

We were asked, as you know, in advance to prepare statements of justification for these expenditures, and there has been entered in the record today a statement about our expenditures.

I would like to ask for an opportunity to enter into the record my statement in response in justification for our educational program.

The CHAIRMAN. Without objection, all three of you may do that.

Mr. WAYNE. I don't have one.

Mr. SHUFORD. I don't have one.

The CHAIRMAN. If you desire to do so.

(The statements referred to follow:)

Educational Program at Federal Reserve Bank of Boston

(In Response to Questions Submitted by Representative Wright Patman, Chairman, Committee on Banking and Currency, Dec. 14, 1963)

The principal objective of the Boston Federal Reserve Bank's educational program is the continued development of greater staff competence at all levels. The program incorporates on-the-job training for all employees and participation in certain advanced courses of study at outside educational facilities by those with demonstrated professional, technical, and managerial potential. It provides, also, the opportunity for those employees with less advanced educational backgrounds, but a high degree of initiative, to further their career development by successful completion of courses offered by the Boston chapter of the American Institute of Banking and other bank-approved courses at local colleges, universities, and specialized schools. The program applies only to employees of the bank.

Formulation of the educational policy for the bank is the responsibility of the rotation and training committee, which is made up of the First Vice President, the personnel officer, and an operations Vice President. The committee reports directly to the President. The board of directors approves the training and education sections of the personnel department budget. Day-to-day administration of the program is the responsibility of the personnel officer in cooperation with all department heads.

The total program has no single origin in point of time, but has been developed as necessary to keep pace with the bank's needs for a wide variety of skills and abilities. The practice of sending selected individuals to advanced or graduate schools was begun in 1945 when the man who was then assistant vice president in the bank examination department and who is presently the bank's First Vice President attended his first 2-week resident session at the Stonier Graduate School of Banking at Rutgers University. Since that time 26 of our employees have graduated from the Graduate School of Banking at Rutgers University. In 1950, our first employee attended the Bankers' School of Agriculture at Cornell University. In 1954, the advanced study program was broadened to include the school conducted by the National Association for Bank Auditors & Comptrollers at the University of Wisconsin, and the Williams School of Banking at Williams College was added in 1956. In 1958 the bank began participation with 15 other Boston firms in an executive development program at the Massachusetts Institute of Technology.

In the following year, the bank's program was further modified to provide leave of absence at one-half pay to certain employees holding graduate degrees for a period not to exceed 9 months during which residence requirements for the Ph. D. degree could be completed. Only one man has participated in this phase of the program. He completed Ph. D. residence requirements at Harvard University in 1960.

Occasionally since 1950 selected employees have attended special courses or seminars conducted by the American Management Association and the Industrial Conference Board. Bank-sponsored employee participation in locally conducted American Institute of Banking educational programs dates from 1920 and since 1953 tuition reimbursements have been made to those employees who successfully complete bank-approved, work-related courses at local colleges, universities, and specialized schools.

The educational policy has been developed around one basic consideration—the immediate and future benefits expected to accrue to the bank in the form of greater operating efficiencies, more capable handling of all responsibilities, and orderly succession of management. The bank can realize these benefits only through the efforts of a well-trained, competent, and ambitious staff.

Training is not a static concept, but a continuous process in any progressive organization. It is necessary to keep abreast of rapidly changing procedures, technology, and other developments in various fields; for example, the introduction of high-speed, complex computer equipment. Basic procedural training often can be handled best on the job. More advanced professional, technical, and administrative competence can be developed more effectively by a combination of on-the-job training, experience, and participation in outside programs designed and conducted by highly qualified personnel at recognized institutions. Without adequate staff training no organization can realistically expect to enjoy first-rate administration and operating efficiencies. It is an important management responsibility to see that an effective training program is an integral part of current and future plans.

A summary of outside training costs for bank staff during the years 1960, 1961, and 1962 accompanies this material. Salary allocations represent portions of annual salaries paid to employees during the time they were attending graduate or specialized schools. Also included are catalogs and brochures describing various programs in which members of the staff participated.

We are convinced that the bank's educational program is achieving the results anticipated at a nominal cost. It has helped to broaden the academic background and experience of employees and provided specialized training in newly developed or rapidly changing procedures and techniques; served to test the abilities of our employees outside the day-to-day work situations and in competition with representatives of other financial, commercial, and industrial firms; fostered the incentive of employees to equip themselves for more demanding and responsible positions and, most important, has helped the bank to meet its staffing requirements with the most highly qualified personnel.

Review of the progress of those employees who participated in the educational program during 1960, 1961, and 1962 may be used to illustrate the manner in which the bank has been able to meet critical staffing requirements in orderly fashion through promotion of well-trained and experienced personnel. For example, 7 of the 10 men who attended the Stonier Graduate School during the 3-year period (see accompanying cost summary) have since been promoted to positions of greater responsibility. The promotions may be summarized as follows:

Name	Position and grade when he began Stonier program	Date of most recent promotion	Current position and grade
Lacks, Stanley	Assistant general auditor, 14	Dec. 1, 1960	General auditor (officer in charge of internal auditing).
Mitiguy, Harry	Economist, 15	Jan. 1, 1964	Bank relations officer (junior officer in charge of bank relations program).
Walker, Richard	Assistant cashier (officer)	Jan. 3, 1961	Assistant Vice President (junior officer in charge of personnel function).
Aquilino, Daniel	Bank examiner A, 15	Jan. 1, 1964	Assistant cashier (junior officer in charge of data processing, planning, protection, safekeeping, operating letters).
Tangney, Eugene	Planning analyst, 12	Aug. 1, 1962	Assistant cashier (junior officer in charge of check and noncash collections).
Barrett, John	Supervisor—expense, 12	Jan. 1, 1964	Assistant cashier (junior officer in charge of accounting, expense, wire transfer, budget).
Wells, George	Planning analyst, 12	Aug. 1, 1962	Manager, planning department, 14.

Of the 19 men selected to attend other graduate-level schools during 1960, 1961, and 1962, 6 were promoted during or after the period to more responsible positions. Their advancements are summarized in the following table:

Name	Program(s) attended, position and grade when attendance began	Date of most recent promotion	Current position and grade
Pelletier, Donald	Williams School of Banking, NABAC School: Auditor A. 12.	Dec. 1, 1960	Assistant general auditor, 14.
Andrews, Earl	Bankers' School of Agriculture: Research assistant, 10.	Jan. 2, 1964	Acting supervisor expense, 11.
Clapp, Robert	Bankers' School of Agriculture: Assistant bank examiner A, 12.	Jan. 23, 1963	Bank examiner B, 13.
Sahagian, Fred	Bankers' School of Agriculture: Credit analyst 10.	Oct. 1, 1962	Chief credit analyst, 11.
Thayer, Jarvis	MIT executive development: Assistant cashier officer.	Jan. 1, 1964	Cashier (senior officer in charge of accounting, expense, wire transfer, budget, planning, data processing, protection, safekeeping, building, purchasing and telephone).
Hoyle, Luther	MIT executive development: Assistant vice president, officer.	Jan. 1, 1963	Vice president (senior officer in charge of bank examinations).

In addition, 3 of the remaining 13 men who were selected to attend schools in the graduate category during the period have been assigned new responsibilities in other departments to broaden their experience and overall usefulness to the bank.

Mr. Robert Eisenmenger, who completed residence requirements for his doctorate degree at Harvard University during 1960, became director of research in 1963.

Instances of assignment to more responsible and demanding positions are numerous, also, among those employees who were selected to attend other specialized and technical schools, participated in the evening course program of the American Institute of Banking or successfully completed approved courses under the tuition reimbursement program. To cite a few examples, those men who underwent intensive training in electronic data processing and computer programing were assigned to the planning and operating teams responsible for the introduction of electronic computer procedures in check processing and general accounting. Mr. George Harris, who completed approved advanced accounting and commercial law evening courses at Bentley College during 1960 and 1961 was qualified to fill a critical vacancy as assistant manager of the noncash collection department in 1963. Mr. Thomas Vangell completed approved accounting and mathematics courses at the Boston College evening division in 1960 and in the same year completed an American Institute of Banking securities and investment course. In 1961, he completed advanced accounting and money and banking courses at the Boston College evening division. He was promoted to assistant supervisor in the check collection adjustment division in 1962 and is currently assisting in the development and testing of computer procedures for check processing.

Mr. SHUFORD. We have justified ours in the replies we have sent in.

Mr. BROCK. I don't think many of us would question continuing the expenditures for employee education. I can't imagine anybody questioning that, because they do, by furthering their education, contribute much more, as individuals, to the System, to the Federal Reserve System, and to your capability of service to the country.

So I think we are talking about a fairly minor point when we talk about two-tenths of 1 percent of just the payroll expenditures of the Fed. There may be some areas of judgment which might be questioned. But I cannot see too much to worry about.

I think the point that I would like for you to address yourself to is the overall question of where these hearings are headed as it relates to the changing in the constitution of the Federal Reserve itself, by placing the Secretary of Treasury on the Board, and the question of the constitution or makeup of the Open Market Committee.

I think each one of you expressed at one point or another the belief that you should have the five presidents still represented on the Board, did you not?

Mr. ELLIS. We would.

Mr. SHUFORD. I did.

Mr. BROCK. I would imagine you would.

Would you comment, Mr. Ellis, a little more on your feeling toward the placing of the Treasury, the Secretary of the Treasury, on the Board?

Mr. ELLIS. I mentioned that in my opening remarks, and I think this is, of the various proposals, the most critical.

It is, in effect, an opportunity, if the Treasury wished to do so, to issue bonds which it could guarantee the market for, at any particular rate of interest that it wanted to guarantee, by virtue of its control over the Federal Reserve System.

This, just by way of a label, would be certainly the biggest backdoor financing in history, as a technique. This is the technique in history which has undermined national economies.

I have been interested to note, also, that the argument that foreign countries have found this a successful technique does not carry too much logic in the sense that they have likewise found it possible, in the case of the United Kingdom, to nationalize their steel industry, the railroad industry, the electric power industry, as a technique, if you will, in their general program of socialization. And to put the central bank in that category is simply another step.

I might add that even in the case of the United Kingdom they are not now presently subject to an annual appropriation or an audit from the Government office.

Mr. BROCK. Pursuing the thought a little further, when the Secretary of the Treasury has to refinance his debt through the issuance of bonds, and he wants to maintain the lowest possible cost for that debt, he has to maintain a lid, in effect, on the bonds—on interest.

Now, what effect would that have upon—if we were in a period of rising prosperity, if we tried to maintain a lid on the interest rate—what effect would it have on the economy?

Mr. ELLIS. I can remember an illustration of Senator Douglas, pouring water perpetually into a glass until it flooded over and covered the entire table as an illustration of how liquidity flows into the economy.

In my judgment, in this situation, to attempt to hold an individual interest rate would, in effect, be opening the tap for an unending flow of injection of credit into the system.

Mr. BROCK. And inflation?

Mr. ELLIS. And inflation, therefor.

Mr. BROCK. You would create certainly large inflationary tendencies.

In other words, then, what you are saying is that the function of the Secretary of the Treasury in refinancing the debt is completely incompatible in the functioning of the Fed in maintaining a stable currency.

Mr. ELLIS. And they have said so very specifically, and I quoted it in the conclusion of my opening statement this morning.

Mr. BROCK. You other gentlemen would agree?

Mr. WAYNE. Completely.

Mr. SHUFORD. Yes, sir.

Mr. BROCK. Thank you.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Mr. Ellis, why are you concerned about the General Accounting Office? As I understood your remarks earlier, you are just concerned they might make recommendations. This is a recognized arm of the Government. Why shouldn't they come in there? Why couldn't you answer that question yes or no?

Mr. ELLIS. Excuse me. Do you have a question now you would like me to answer yes or no?

Mr. MINISH. The General Accounting. Why do you continue to go around the merry-go-round on your answer of whether you would welcome an audit by the GAO?

Mr. ELLIS. I would not welcome it, because of what I understand would be a concept of why it is being introduced—as a first step toward the diminution of the independence of the Federal Reserve.

Mr. MINISH. At least you are specific now.

Mr. SHUFORD. I see in your statement that on the expenses that you spent $528 for seven officers in the chamber of commerce. For what purpose would this be spent?

Mr. SHUFORD. Mr. Chairman, you know the function of the chamber of commerce. And these are individual memberships. It was rounding it off actually at $500, which doesn't seem an unreasonable amount for the Federal Reserve to participate.

We get a lot of information from the chamber of commerce. We work closely with those people—not specifically in the interests of St. Louis, necessarily. But we do get their publication, we do get a lot of information from them with respect to the St. Louis metropolitan area. We think that—I might say that really I personally do not regard the Federal Reserve as being identical with the Post Office Department. I think that we are somewhat different, and that we do have to participate in some of these activities, and do want to, in order to reap the benefits and the help which they can give us.

Mr. MINISH. Do you consider other sectors of the economy, such as the labor organization out there—do you think about talking with those people?

Mr. SHUFORD. I am sure we have. I have only been there—I came from the Dallas bank—I have only been there for about a year and a half. I have visited with some of those people casually, and I am sure during the years gone by we have talked with them with respect to the situation. But I could not verify that, sir. Personally, I have not.

Mr. MINISH. Thank you.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

I noted in the testimony this morning—and I thought I could tell from what you were saying here today—that your expenditures are more or less legalized because they are approved by the Board ultimately—all of your expenses.

Mr. ELLIS. Absolutely legalized, I would say.

Mr. HANNA. Which was rather interesting to me, because getting to the specific, then—I noted that, for instance—this is just an example of one aspect of how each of you might treat the authorization in a rather wide difference of application.

I note that the Richmond banks spent $11,424 on their employee magazine, and the St. Louis bank paid $73 for the same thing.

Now, that is a rather wide application. And I wondered if that—is that generally true in the way that you might actually apply an authorization within a broad framework of your own specific policies, within your own systems?

Mr. Wayne, you can answer first, and then Mr. Shuford, and then Mr. Ellis.

Mr. WAYNE. I don't know whether I can answer yes or no to your question. This falls within what is referred to in the regulations of the Board of Governors as discretionary expenditures.

And I believe the act provides that the Federal Reserve Board, or the Board of Governors, shall fix by general regulation the range of operations of the Federal Reserve bank.

And so it does provide that these employee-development and employee-relations expenditures are subject to the review and approval of the Board of Directors.

One board of directors may accept one point of view and another board of directors may accept another.

I presume you are asking me to address myself to these differences rather than to the question of the item.

Mr. HANNA. That is right.

Mr. WAYNE. There are differences of opinion.

Mr. HANNA. In other words, the authorization is pretty broad, and the discretion is left in the local board as to how you really apply yourself, and it would appear from this there is quite a range of differences.

Mr. SHUFORD. That is right, Mr. Chairman.

I think under the way that this very unique operation that Congress has set up—this is following, as I see it—my background as a lawyer, coming through the Federal Reserve bank as counsel, and on up through the Dallas bank, and finally up to St. Louis.

So this is a followup, it seems to me, of the checks and balances, the separation of powers, but certainly the checks and balances that has been inherent in our type of government. It was in the setting up of the Constitution.

And when Congress set up the Federal Reserve, this same principle of checks and balances was followed. And then when they went further and authorized the Open Market Committee, they still had this blending of checks and balances, the public and the private.

The point is that the banks do have an independence. But it is under close supervision by the Board of Governors in Washington, who do coordinate and who do set broad, basic policies. But still you have the banks, which are each separate entites, which are authorized by Congress, and find their powers there.

The board of directors of the bank—there is a provision in the statute with respect to the responsibility of these men, which is to supervise the functions of the Federal Reserve bank, or words to that effect.

So these men—these banks do have the responsibility to exert the initiative, to carry out their own responsibilities in their areas.

And it is the responsibility of these banks, through the management, to the boards of directors, to closely watch their expenditures. So that you will find this variation. But all of it is within the framework of general instructions, policies that have been fixed by the Board of Governors. And these were entered in the record this morning.

Now, within that framework, we can look at our individual districts, and reach some judgment in our own minds as to what we do need in our particular area, in our particular bank, to accomplish particular purposes.

So there is this—some discretion. But it is closely supervised by the Board. And they have access, their examiners do, to the information that we have been discussing here.

Mr. HANNA. Mr. Ellis, would your answer be anything different from the other two?

Mr. ELLIS. I believe not.

Mr. WAYNE. Mr. Hanna, might I make a brief statement with respect to the particular item you mentioned, employee magazines?

Mr. HANNA. I really wasn't interested in the specific. I was just interested in that as an example of the wide——

Mr. WAYNE. I want to make a point of the differences here. The Richmond Reserve Bank has certain emergency responsibilities for the Federal Reserve Board in the event of military situations which incapacitate the operation here. We have attempted to go right far on training to make—set in operation plans that would make it possible for us to perform under a situation which would fragment the country.

And we have made an earnest effort to maintain contact with our former employees, with all employees, those present and ones who have left us and who are living at various places in the District, so that we could have available a cadre of experienced people who might be available on call in such an emergency.

So that the employee magazines of Richmond has been employed as the means whereby we could be assured that they would keep us informed whenever they moved.

And this is one of the reasons—it is carried as employee's magazine and employee relations. But well over half of this is involved in trying to maintain this emergency cadre.

Mr. HANNA. I trust you gentlemen know I am not questioning your judgment. But I just want to see—it would seem to me that we have delegated certain authority to the Board of Governors. They are handling quite a bit of the publication money.

Now, they redelegate a certain broad authority on down the line. And it seems to me this raises a question whether or not there might not be, on the basis of this, a very good reason to consider whether or not some kind of a balance—talking again about your point of checks and balances. Mr. Shuford—it just raises the question in my mind whether or not this doesn't indicate that maybe for safety's sake, where these varying policies are able to express themselves—maybe it is for very good reason. But they still might introduce a better ground for bringing in an independent agency to keep an audit, and to adjust a view of the total balance of policies.

Because it seems like we have a lot of policies working here.

Mr. WAYNE. I concede a good deal of weight in such an argument.

Mr. HANNA. Let's get on to another question. Because I have another concern here.

It seemed to me I heard this morning part of your concern is for the procedures and practices, generally in the banks that are your members, going over their procedures and practices in that particular bank.

And in this regard, I have before me a letter that is being circulated that brought an interesting point to my mind. It comes from John Woodson & Associates in my State, who evidently are in a very particular kind of business. It is addressed to—in general to industries and firms, and says, "When you have reserve funds available or certain of deposit accounts in insured banks, you may be interested in the service we provide on behalf of clients all over the Nation—we are able to pay in advance a bonus of one-half of 1 percent, and sometimes more, when you send your funds to a bank at our request."

It would seem from this and going on through the letter, that they are in a position of shifting money around on a bonus of one-half of 1 percent or more, and evidently get paid for this srevice, which means that there is 4 percent being paid for the money once it is received, a bonus of a half or more from this company, plus somebody pays for their services.

Now, I am wondering if this kind of a procedure is being generally followed. And are you gentlemen aware of it? And what kind of competitive arrangements are there for soliciting funds for demand deposits?

Mr. WAYNE. Mr. Hanna, this falls within the range of bank supervision. And if I may, I shall avoid calling the names of any banks. But I would like to recite a recent experience in the Richmond district involving precisely this sort of thing that came to our attention.

We found in the course of an examination of a State member bank, which we conduct for the Board of Governors, some evidence of this particular type of transaction, in which—I don't know the name of John Woodson or anyone else—a broker in a distant State had approached this bank and had said, "We can obtain for you funds to be placed in these time certificates of deposit, and we will also be happy to help you reinvest these funds in loans which will earn a substantially greater amount. If you are interested in accepting deposits which we can direct to you at 4 percent, we can place these loans for you in some other outlet which will earn you 6 percent, plus a fee for handling, and there will be no cost for our services, and you will make the difference."

Unfortunately, our small bank fell into the trap and accepted the funds and made the loans, and there is no relationship between the obligation of the bank on the funds and the obligation of the strange borrower in a distant State for the funds borrowed.

This small bank, with about a million-dollar capital structure, I guess, may suffer a loss of as much as $350,000 to $400,000 almost before he knew what was happening to him.

We have not, however, seen a general spread of this particular operation. This was our first contact with it. Whether it is widely used, I don't know. But it is a startling and disturbing thing.

Mr. HANNA. Well, that was my reaction to it. I thought perhaps——

Mr. SHUFORD. I might say, sir, just for the general impression, that

I am not aware that it has existed in our district. This is the first incident I have heard of.

Mr. HANNA. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Wayne, I would like to ask you this question I asked the others.

Not considering your membership or your alternate membership on the Open Market Committee, but in your capacity as the president of the Richmond bank, in order, describe the most important decisions you made last year, 1963.

Mr. WAYNE. In my personal judgment, Mr. Chairman, the most important and most significant responsibility which I have faced throughout the year is attempting to arrive at a considered judgment in terms of my service on the Open Market Committee, or in connection with the Open Market Committee. This attempt to arrive at the best judgment of which I am capable, as to a policy posture which is in the best interests of the country, is, in my view, the most significant responsibility.

The CHAIRMAN. All right. Name No. 2.

Mr. WAYNE. I suppose that the second most significant responsibility is as the principal or chief executive officer of the Federal Reserve Bank of Richmond, with its two branches. And that responsibility involves a continuous and constant review of the general broad operations of the bank, in an attempt to maintain the highest degree of efficiency at the most economical expense possible. This is a very broad and vague sort of a thing, but it involves a daily amount of time, and is the second greatest responsibility.

The CHAIRMAN. Well, what specific decision did you have to make that was very important, among the most important decisions

Mr. WAYNE. I have made no attempt to categorize the decisions that come in terms of sequence or importance. But I suppose the decision to recommend to the directors and to express support for change in the discount rate in the middle of the year, where this was a policy change of significance for the whole economy—and I felt a personal responsibility for what part my role might be.

The CHAIRMAN. That was only a recommendation, though, Mr. Wayne. That was not a decision.

Mr. WAYNE. Any recommendation I make is a decision, so far as I am concerned, Mr. Patman. I have to decide whether or not I feel that this is an appropriate recommendation.

The CHAIRMAN. Yes, sir. You recognize that the banks do not have the power to make the rate that you are recommending.

Mr. WAYNE. I am fully aware it is subject to review and determination by the Board of Governors.

The CHAIRMAN. Not only review, but to establish. The law says the Federal Reserve Boards shall establish.

Mr. WAYNE. I think the law says the directors shall establish the rate subject to review and determination by the Board of Governors.

The CHAIRMAN. You mean that the Richmond bank will establish?

Mr. WAYNE. I think the law says that. But what it means, I am not really sure.

The CHAIRMAN. I think you are wrong. We will put in the record the language.

But I am sure it says the Federal Reserve Board——

Mr. WAYNE. Shall review and determine.

The CHAIRMAN. What do you say about that, Mr. Ellis?

Mr. ELLIS. I think you will find the law says that the board of directors establish, subject to review and determination by the Board of Governors.

The CHAIRMAN. What do you say, Mr. Shuford?

Mr. SHUFORD. I vote with my associates.

The CHAIRMAN. Well, I think you are all three wrong. The law says the Board shall establish the rate. You recommend a rate all right. But the word "establish" does not occur in connection with the Federal Reserve banks. It only occurs in connection with the Board establishing the rate.

Mr. SHUFORD. You may be right, Mr. Chairman.

Mr. WAYNE. I am always reluctant to express a difference of view with you, Mr. Chairman, on the Federal Reserve Act.

The CHAIRMAN. Well, I don't claim to be an expert on it. But there are certain things about it that I happen to remember. And I am very positive that is correct.

What would you say, Mr. Shuford, were the most important decisions you made last year?

Mr. SHUFORD. Mr. Chairman, I would have to agree that the responsibility of the President, the most important one is the work and time that he devotes to attempting to follow the economy, both in the District and nationally, for the purpose of attempting to do his part in assisting in the formulation of monetary policy.

The CHAIRMAN. Now, that is in connection with the open market.

Mr. SHUFORD. Open market and discount rate recommendation.

The CHAIRMAN. As President of the Federal Reserve Bank of St. Louis, what was the most important decision you made last year?

Mr. SHUFORD. All right. I will have to say that in specifics—I won't say specifically the next one. I will have to say the next most important decisions that were made were with relation to the staffing and part of this was deciding what we would do in the area of training younger employees to be able to fill the vacancies of about six vice presidents who will retire in the next 10 years.

This matter of personnel not only includes this, making decisions in this area about this type of program, but also—and these are important decisions, I say—but also the equity that is involved in fairly administering the personnel program of the officers and employees, which is trying to remunerate people appropriately on a merit basis for the work which they do. And this weighs heavily.

Trying to get specific—again, I have not tried to itemize what I did last year. I feel like I was occupied. But I do know that we spent considerable time making a decision with respect to the purchase of a piece of property in Little Rock, Ark., for the purpose of constructing a new branch building. This does not come easy, with all of the different problems that are involved in trying to get a piece of property at a reasonable price, properly located, which is acceptable to your directors.

And they were quite helpful, may I say, in the decision, with respect to this.

This I guess was perhaps—a specific item in the area of operations involving an important decision I made—without really having given it much thought.

The CHAIRMAN. What were the most important decisions you made last year, Mr. Ellis?

Mr. ELLIS. Again, I assume you urge me to cut off the open market responsibility.

The CHAIRMAN. Yes, sir. I mean, as President of the Federal Reserve Bank of Boston.

Mr. ELLIS. Of course, as President of the Reserve bank, I do sit with my board of directors, I do interpret policy, and I interpret policy of the System to my district.

And I would urge you to accept this as my most important responsibility during the year. You then proceed to ask me what specific decision.

The CHAIRMAN. Yes, sir.

Mr. ELLIS. And I would again point to the area of personal policies, where I had specifically to select two officers, two new men to be officers, and to change the responsibility of some of the other officers.

The CHAIRMAN. Well, I would like to know what these Vice Presidents do.

Now, 99 percent of the money for your operating expenses comes from the taxpayers. That 1 percent in Boston comes from 748 applications for discounts and advances. That is about two a day. What would 10 Vice Presidents have to do on two applications a day?

Mr. ELLIS. You are directing the question to me?

The CHAIRMAN. Yes.

Mr. ELLIS. You are seriously directing the question to me?

The CHAIRMAN. Yes, sir; I am. You have the largest number.

Mr. ELLIS. Yes, sir.

The CHAIRMAN. Your earnings last year were $235,000, and that is what you earned it on—that 748 discounts. What would 10 Vice Presidents and yourself have to do on those that would be so time consuming?

Mr. ELLIS. The reason I can answer so directly is I know you know that 10 Vice Presidents do not work in the loan and discount function. We only have one Vice President who is in charge of our credit and discount.

The CHAIRMAN. That is sort of automatic anyway; is it not?

Mr. ELLIS. I beg to differ very much with you, sir. It is not automatic. You are aware we are agents of the defense agencies in the administration of regulation V loans. And there seems to be an interminable amount of work done in the administration of those loans.

The CHAIRMAN. Mr. Shuford, you had 85 discounts and advances last year. Why would that take up so much time of so many people?

Mr. SHUFORD. I don't think that we try to say that that specifically takes up too much time of too many people, Mr. Chairman. We have one Vice President over there who has his duties split between the supervision of the discount function and the cash function, and he also is responsible for our emergency operation program. And in addition to that, he is also participating in the management of the bank, in the meetings that we have, and policy.

And then we have, as I recall—I cannot be specific, but I think we have about four people, perhaps, who are in that department.

The CHAIRMAN. They are certainly not overworked, because 85 applications—that is only about 1 every 4 days.

Mr. SHUFORD. I would not say they are overworked. But they are not spending all of that time——

The CHAIRMAN. That is the only thing you do to bring in any earnings; isn't it?

Mr. SHUFORD. Yes, sir; as far as earnings are concerned. But we certainly have a large volume operation outside of the discount function.

The CHAIRMAN. I know. But most of it is clearing checks, and things like that; is it not?

Mr. SHUFORD. Well, may I say that the matter of clearing checks is not so simple as just getting in checks and getting them out.

The CHAIRMAN. I know it is not simple. But it is a question of who pays for it.

Mr. SHUFORD. I thought you were talking about the volume, sir.

The CHAIRMAN. The Federal Reserve Act contemplated that the banks would pay for it.

Mr. SHUFORD. I regard this checks function, as already discussed this morning, as really a function contemplated by Congress that would be set up in the public interest. And I think that the entire check operation that we perform is definitely in the public interest. It was set up as a result of the original Federal Reserve Act. And the purpose of it was in order that there could be this payment facility, where we could transfer funds from one part of the country to the other.

Before the Federal Reserve was doing it, it was a very difficult thing to do.

So I say that very definitely that the check operation, the clearance of these checks clear across the country where it is done in a minimum of time—that the Federal Reserve System and its check operation deserves a considerable amount of credit for this having developed.

The commercial banks now do a great deal. But it was congressional foresight in authorizing the Federal Reserve to do this that caused not only the Federal Reserve but the commercial banks also to get into the program.

The CHAIRMAN. In other words, to keep down any disruption in a large transfer of funds all over the country. What about the tax payments? You can take care of that, too, can't you? There is no reason why the economy should be brought to a standstill or any disruption caused by tax payments—whether they go into the Treasury of the United States, or whether they go into the Federal Reserve, or whether they go into the nearest bank. You can take care of them, can't you?

Mr. SHUFORD. Yes, sir; we can. We hold a good part of the Treasury's checking account now.

The CHAIRMAN. Now, I asked you gentlemen to file statements of condition of your banks.

Mr. Wayne, I will not pursue this question with you, because you had 727 discounts and advances, about 2 a day, I guess.

But the point I make there is, gentlemen, that you have almost gone out of the Federal Reserve banking business as contemplated by the Federal Reserve Act.

In fact, the law that Congress passed, particularly the ones in 1933 and 1935, just changed the system entirely. Where it used to be 12 Federal Reserve banks, now it is a central bank, and the central bank in New York does practically all the business of the Federal Reserve System.

Mr. ELLIS. Mr. Chairman, could I ask a question about that?

The CHAIRMAN. Yes, sir.

Mr. ELLIS. I am curious as to why you have not mentioned all our coin and currency function. This is not a function of the Federal Reserve, by your interpretation?

The CHAIRMAN. Who do you deliver the coin and currency to?

Mr. ELLIS. We receive it from our member banks and deliver it to our member banks.

The CHAIRMAN. At Government expense.

Mr. ELLIS. In response to the needs of the people at large.

The CHAIRMAN. That is right. That is part of the bank's system.

Mr. ELLIS. Is it not part of the provision of coin and currency, which originally was lodged with Congress?

The CHAIRMAN. Do the banks—when they wire you, do they wire you collect?

Mr. ELLIS. Very frequently, yes, sir.

The CHAIRMAN. Well, they either do or don't. Do they at all times?

Mr. ELLIS. The point is they don't all do the same practice. I said frequently.

The CHAIRMAN. What is your understanding about that, Mr. Wayne? Do they wire you collect?

Mr. WAYNE. Generally, yes.

Mr. SHUFORD. Generally, yes.

Mr. WAYNE. I suppose most of it comes over the phone, and that is not collect. They place the call themselves.

The CHAIRMAN. Well, any other questions?

Mr. SHUFORD. Mr. Chairman, may I make one other observation? Of course, we do have many other functions that are performed, such as the work of the assistant Federal Reserve agent who works as assistant to the chairman of the board, who is the Federal Reserve agent. And then we also have the personnel function, and the buildings to look after. We also have our research department, which is a significant department. And the bank examination. And this varies from district to district. But these are significant departments. And then the fiscal agency department, of course, is one of our larger departments, where we act as fiscal agent for the Treasury.

In addition to this, we do have to have our data processing department, plus some of us have accounting departments, but most of this has been blended into the data processing. We have already talked about our collection department.

And then our three branches, which are doing all of these things that we are doing on a smaller scale, for a smaller number of banks. I just didn't want to leave the impression we are simply doing a check business.

The CHAIRMAN. Well, in comparison—you compare the original act with what is being done now, and I cannot help but wonder why we should have all these 20,000 employees, with all these bank buildings over the country, that are not used in carrying out the Federal Reserve Act, except in a very minor way—about 1 percent. And so far as earnings are concerned. And the other is very small in comparison to what the act was in 1913.

You see, under the 1913 act, the banks had a lot to do with eligible paper. It was a wonderful thing. The farmers, the small businessman, the big businessman, all of them went to their local bank to give eligible paper. And the bankers were glad to do it. They had a lot to do. They had a lot of bookwork, time-consuming things. But the eligible paper went into lots of money. And then the discount window, lines were waiting. Lots of transactions at the discount windows. But all this is changed.

Now you don't use the discount window so much. And under the eligible paper, that is almost discarded, because they use Government bonds. It is entirely different.

You needed a lot of this space under that 1913 act. But since that time, and right now, I don't see where you can hardly justify the use of the space you have. That is just my own personal opinion.

Mr. WAYNE. May I have one moment to speak to that?

The CHAIRMAN. Yes, sir.

Mr. WAYNE. I wasn't in a bank in 1913, but I did go in in 1918, and I was with a bank from 1918 to 1931. What happened with respect to eligible paper, Mr. Patman, was that the whole structure of loans in the smaller banks, and larger banks, too, changed completely.

The CHAIRMAN. I know it changed. That is what I object to.

Mr. WAYNE. But it did not change because of the Federal Reserve. It changed because the demands of the people changed. Real estate mortgages for homes and farms were never eligible paper. Loans for consumer durables were not eligible paper.

The CHAIRMAN. Just a moment now. Consumer durables as such, I guess you are right about that. But nearly all the local loans were eligible paper, like a small businessman's loans, big businessman's loans, industrial loans. Proprietorship loans for retail stores.

Mr. WAYNE. The point I am making is that the loan portfolio of the average bank changed, not because the Federal Reserve changed, but because the demands or structure of their community changed.

The CHAIRMAN. Well, I think the Federal Reserve entered into it in a big way, because the local banks began handling Government bonds and outside paper, and they began to forget the small businessman and farmer.

Mr. WAYNE. I fail to see where this stems from the Federal Reserve. My own feeling, Mr. Patman, is that the Federal Reserve changed and evolved to meet the changing things that occurred in the country.

The CHAIRMAN. You have personal knowledge of it; I don't have. You may be right. I don't know. But my view is that the Federal Reserve in 1933 and 1935 completely changed the act, and completely changed the banking system of the country.

Mr. WAYNE. My feeling is the banking system had changed, and the central bank was changed to conform to it.

As I read the Federal Reserve Act, the carrying out of the check function was definitely a part of the original Federal Reserve Act.

The CHAIRMAN. Read section 16.

Mr. WAYNE. It says there shall be set up a collection system, and also provides with respect to the point you made that the Board of Governors——

The CHAIRMAN. Read the exact language.

Mr. WAYNE. I have it and also this other quote:

Every Federal Reserve bank shall have power to establish from time to time subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view to accommodating commerce and business; but each such bank shall establish such rates every 14 days * * *.

The CHAIRMAN. I think I was mistaken about that—about the "establish." "Determination" is the word I had in mind. In other words, the final word is "determination," isn't it?

Mr. WAYNE. No question about it.

The CHAIRMAN. That is what I had in mind. So they finally determine it.

Mr. WAYNE. Now, the section you referred to:

Every Federal Reserve bank shall receive on deposit at par from member banks or from Federal Reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve bank, checks and drafts drawn by any depositor on any other Federal Reserve bank or member bank upon funds to the credit of said depositor in said Reserve bank member bank.

And may I refer only to the sentence you have reference to.

The Board of Governors of the Federal Reserve System shall, by rule, fix * * * the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve bank.

The CHAIRMAN. That is the way I understand. And the word "shall" is used. That is more mandatory than "may," isn't it?

Mr. WAYNE. I have been told not.

The CHAIRMAN. Well, I thought "shall" would just tell you to do it. Anyway, I will not pursue that point.

Mr. Brock, would you like to ask any questions?

Mr. BROCK. I would like to clarify one point. It has been interesting to hear you gentlemen testify.

Let me ask this first. How many of you are members now of the Open Market Committee?

Mr. WAYNE. I am an alternate member.

Mr. SHUFORD. I am an alternate member.

Mr. BROCK. No direct memberships?

The CHAIRMAN. There are only five.

Mr. BROCK. Everyone of you, as I have listened, have indicated that your most important decision related to matters affecting the rediscount rate and the activities of the Open Market Committee.

Mr. WAYNE. That is involved in monetary policy, of which these are the two principal ones.

Mr. BROCK. Now, it seems to me that we might make a point that your representation from regions would enable you to make a pretty good evaluation of the economic system, or condition in that particular region—perhaps a better evaluation than somebody who is located in Washington. Is that not a logical thing?

Mr. ELLIS. This is the principle upon which the regional banks were established.

Mr. BROCK. And would you have thhe same incentive to make the same deep evaluation that you have today if you did not have an Open Market Committee on which the bank presidents had a vote?

Mr. ELLIS. If I were sure that I were never going to be expected to vote and participate in those deliberations, there would be no particular point in my going. I could send an economist from the staff.

Mr. BROCK. But isn't it also true that this, you have said, at the same time is your most important single function?

Mr. ELLIS. At present—as the system is presently constructed.

Mr. BROCK. To make your evaluations and assessments on which you base the monetary policy of the country?

Mr. ELLIS. Yes, sir.

Mr. BROCK. I think that is a point we need to establish. Thank you.

The CHAIRMAN. Now, just a moment, gentlemen, and we will finish this up.

We have had Mr. Ellis and Mr. Hickman and Mr. Shuford and Mr. Wayne.

Tomorrow we have Mr. Bopp, President of the Federal Reserve Bank of Philadelphia, and Mr. Bryan of Atlanta. And we do not have a Friday session. Mr. Irons has been ill, and he is not in a position to come Friday. So we will put him over until the next Friday.

Next Monday we will have Mr. Alfred Hayes, of the Federal Reserve Bank of New York. And Tuesday Mr. Swan of the San Francisco bank, and Mr. Demming of Minneapolis, and Wednesday Mr. Scanlon of Chicago, and Mr. Clay of Kansas City.

And then Thursday Mr. Irons, president of the Federal Reserve Bank of Dallas. Thank you, gentlemen, very much for your appearance. We appreciate your fine cooperation.

If we ask you for additional information, I assume you will cooperate as you have in the past. You have been very cooperative, and we appreciate it very much.

Mr. WAYNE. May we say thank you for the privilege of being here.

The CHAIRMAN. Thank you, sir.

Thank you gentlemen, very much. You are dismissed unless called upon again.

(The following communication has been received and is inserted in the record at this point:)

THE COMMERCIAL BANK,
Andalusia, Ala., January 17, 1964.

Hon. GEORGE GRANT,
Member of Congress,
Washington, D.C.

DEAR GEORGE: During the last few days, the newspapers have contained articles that Congressman Patman was writing a bill that would make all commercial banks pay interest on Treasury tax and loan accounts in their banks. Also, that the bill would allow payment of interest on checking accounts.

Of course this is a stupid move, to be as charitable as possible.

We are toying with the idea of sending a bill to the Internal Revenue Service for the preparation of notices to our savings deposit customers of interest paid to them of $10 or more. Unfortunately, we did not start keeping up with the man-hours at the beginning. I expect it cost at least $1,000 or $2,000 to do this work for the interest paid on savings accounts last year. In addition to all this voluminous work we had to buy the forms to transmit to our customers and to the Internal Revenue Service.

I am sure that you realize that we are selling series E bonds for the Government. We also cash them for our customers. They pay us 15 cents for each bond cashed, but if we cash a $1,000 bond on, say the first 10 days of the month, we are not reimbursed for this until about the same time the next month. That is a pretty low rate of interest to receive on a loan of $1,000 for 30 days, to say nothing of the clerical work imposed on us in doing so.

From what I read, Mr. Patman is directing his fury at large banks, but if the law should be placed on the books, it will, in all likelihood, apply to all commercial banks.

I am giving you this information and when the bill is placed in the House I expect to send a copy of this letter to the rest of our Congressmen and both of our Senators. I feel sure that you will also get letters from other banks all over the State.

Sincerely,

E. E. ANTHONY, Sr.

(Whereupon, at 5:05 p.m., the committee recessed to reconvene at 10 a.m., Thursday, January 30, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

THURSDAY, JANUARY 30, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC FINANCE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Vanik, Weltner, Hanna, Kilburn, Widnall, Harvey, Bolton, and Brock.

The CHAIRMAN. The committee will please come to order.

For the record I will ask each of you gentlemen to identify yourself; Mr. Bopp, first, and then Mr. Bryan.

Mr. BOPP. I am Carl Bopp, President of the Federal Reserve Bank of Philadelphia.

Mr. BRYAN. I am Malcolm Bryan, President of the Federal Reserve Bank of Atlanta.

The CHAIRMAN. Now, Mr. Bopp, I believe you have a prepared statement. It will be inserted in the record at this point and you can, if you will, just summarize it for us, the idea being that we can have more time to ask you questions and get through by noon, if we can.

Mr. BOPP. You are quite right, Mr. Chairman.

(The statement referred to follows:)

STATEMENT OF KARL R. BOPP, PRESIDENT, FEDERAL RESERVE BANK OF PHILADELPHIA

Mr. Chairman and members of the committee, my name is Karl R. Bopp. I have been a member of the staff of the Federal Reserve Bank of Philadelphia since September 1941 and President since March 1, 1958. Before I came to the bank I was on the faculty of the University of Missouri. It is a privilege to appear before you to testify on several of the bills that are before you relating to the Federal Reserve System. My introductory statement is brief. Although there might be some advantage to the committee to hear the full statement before you raise questions, please do not hesitate to interrupt me at any point if you prefer to do so.

H.R. 9631

I begin with H.R. 9631, a bill to increase to 12 the number of members of the Federal Reserve Board, and for other purposes.

Section 1 would reorganize the Federal Reserve Board by increasing its size, reducing the term and tenure of its appointed members, and changing its structure and composition.

With respect to size, the bill would increase the membership from 7 to 12, including the Secretary of the Treasury as Chairman. It seems to me that a board consisting of 11 members who devote their entire time to the business of the Board would be unwieldy. Chairmen of the Board of Governors who have expressed their views on the matter of size have favored a reduction rather than an enlargement from the present number. Certainly membership on the Board would be less attractive as 1 of 11 or 12 than as 1 of 7 or 5.

As to term and tenure, the bill would reduce the term from 14 years to 4 and would make tenure of appointive members subject to removal by the President. An appointive member would be ineligible for reappointment for 4 years. Since the maximum term is 4 years, average tenure would be shorter and turnover would necessarily be rapid; there could be little continuity except that provided by the staff. An individual without independent wealth and income would be forced to give thought to his next position almost from the time he began to learn about the responsibilities of membership; and his next position would necessarily become a matter of increasing concern as the end of his term approached, since even top performance would not qualify him for another term.

The bill would change the structure and composition of the Board. It would make the Secretary of the Treasury Chairman. This would place on the Secretary a new responsibility that is inconsistent with an existing responsibility. As Secretary, he is the largest borrower in the world by a wide margin. As borrower he appropriately desires the lowest borrowing cost possible. As Chairman of the new Board, he would head the agency with the largest single portfolio of Government securities, an agency whose primary concern is to promote credit conditions appropriate to the entire economy, including but not limited to the Government. The sad experience of many countries, including our own, with putting these conflicting responsibilities in the hands of a single individual leads me to conclude that it should not be done.

An additional difficulty would be occasioned by having the Secretary serve as Chairman of the Board. He would rarely find time actually to attend meetings. This, at any rate, was the experience before 1936 and I would anticipate no change. Unfortunately, this is a function that should not be delegated.

The bill would provide also for a Vice Chairman, designated by the President from among the appointive members, who would be the active executive officer of the Board. It is probably desirable to have a chief executive officer but the brevity of the maximum term would militate against efficiency and continuity of operations.

In describing the qualifications of appointive members, the bill regraphic fair representation of certain specified interests and of geographic divisions. I would prefer the law to specify that every member be qualified and selected to represent the public interest and that residential qualifications be eliminated.

Section 2 would create a Federal Advisory Committee to replace the present Federal Advisory Council. The proposed Committee would be so large that its deliberations would likely be too time consuming to hold able members or its results would likely be perfunctory.

Section 3 would transfer the powers, duties, and functions of the Federal Open Market Committee to the new Board. To abolish the

Federal Open Market Committee would change the basic character of the System. It would eliminate the most important opportunity for public service and hence seriously reduce the attractiveness of the presidencies of the Federal Reserve Banks, with resulting deterioration in the quality of the managements and of the services performed by those banks. I continue to agree with the views expressed by the Patman subcommittee in 1952 that "the present arrangement serves a useful purpose and (that there is) * * * no reason to disturb it."

Section 4 would direct the Comptroller General to make an annual financial and management audit of the Board, the Reserve banks, and their branches. Chairman Martin has described present auditing procedures which, by deliberate design, are independent of operating management. President Bryan submitted a statement to the Patman subcommittee in 1952 which demonstrates that this change would not produce the desired results. It would reduce the authority of the directors, who are a driving force to increase efficiency. It would divert the attention of management from continuous and occasionally bold new efforts aimed at prompting efficiency to the negative approach of concentrating on avoiding risks.

H.R. 9685

This bill would subject the Board and the Reserve banks to appropriations by the Congress. The supplementary statement by President Bryan, to which I have already referred, demonstrates that this change would not achieve either better monetary policy or greater operational efficiency.

The Congress could expose the country to the hazard of seriously interrupting our payments mechanism by subjecting the Reserve System to congressional appropriations. An efficient system of payments—collection of checks, provision of currency and coin—is indispensable to sustained economic growth. Interruption in the smooth flow of checks or inability to secure cash could cause panic. To assure that there would be no such interruption in these functions—which vary widely and at times unpredictably—the System would either (1) have to be given wide discretionary authority by the Congress, or (2) would have to defend a budget of sufficient size to meet maximum possible needs. Grant of wide discretionary authority would defeat the purpose of subjecting the System to congressional appropriations. Budgets designed to meet maximum needs, on the other hand, would tend inevitably to increase costs. Experience with the severe coin shortages in recent years demonstrates that deficiency appropriations are no dependable solution.

H.R. 3783

The bill would retire Federal Reserve bank stock and substitute certificates of membership. As a purely logical proposition a Federal Reserve bank could operate not only without capital stock and surplus but with a very large deficiency; that is, with liabilities far in excess of assets. The reason is that the only logical needs for assets are to secure earnings and to meet the claims of creditors as they arise. Since earnings are now far in excess of expenses, fewer earning assets would still be adequate to meet this need. The two large liability accounts are for Federal Reserve notes and member bank reserve deposits. There is no possibility that these accounts, which now total about $50 billion will fall below, say, $30 billion—or even $40 billion. Logically, no assets are needed to meet claims that will never be made, hence the Reserve banks could operate logically with liabilities far in excess of assets. I develop this logic of the case to indicate that meaningful living involves more than logic.

Reserve bank stock is a means of tying member banks and bankers more closely to the System. It provides a businesslike method for electing six directors. Dividends on the stock are a partial offset against the lower earnings of member banks which result from their higher effective Reserve requirements. Elimination of stock would make some observers restive because they would view it as indicative of a movement toward basic monetary changes such as nationalization of the banking system. There is no demonstrated need or prospect of benefit to offset these disadvantages of the change.

Statement of condition of the Federal Reserve Bank of Philadelphia, at the close of business Dec. 31, 1963

[In thousands of dollars]

ASSETS	
Gold certificate account	727, 618
Redemption fund for Federal Reserve notes	79, 072
Total gold certificate reserves	806, 690
Federal Reserve notes of other banks	35, 360
Other cash	6, 406
Discounts and advances:	
Secured by U.S. Government securities	970
Other	1, 856
Acceptances:	
Bought outright	---------
Held under repurchase agreement	---------
U.S. Government securities:	
Bought outright	1, 830, 795
Held under repurchase agreement	---------
Total loans and securities	1, 833, 621
Cash items in process of collection	453, 604
Bank premises	3, 012
Other assets:	
Denominated in foreign currencies	8, 852
All other	13, 292
Total assets	3, 160, 837
LIABILITIES	
Federal Reserve notes	1, 917, 599
Deposits:	
Member bank reserves	767, 443
U.S. Treasurer—General account	32, 367
Foreign	9, 280
Other	6, 145
Total deposits	815, 235
Deferred availability cash items	340, 893
Other liabilities	4, 241
Total liabilities	3, 077, 968

Statement of condition of the Federal Reserve Bank of Philadelphia, at the close of business Dec. 31, 1963—Continued

CAPITAL ACCOUNTS

Capital paid in	27, 623
Surplus	55, 246
Other capital accounts	---------
Total liabilities and capital accounts	3, 160, 837
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	29. 5
Contingent liability on acceptances purchased for foreign correspondents	5, 330

Federal Reserve note statement of Federal Reserve Bank of Philadelphia at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	1, 976, 343
Less held by issuing bank, and forwarded for redemption	58, 744
Federal Reserve notes, net [1]	1, 917, 599
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	870
Eligible paper	870
U.S. Government securities	1, 600, 000
Total collateral	2, 025,870

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

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Federal Reserve Bank of Philadelphia—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	20	30	8	54			2	114
1916	28	198	81	69		30	41	448
1917	370	475	124	18	7	80	22	1, 096
1918	3, 241	756	233		30	48	49	4, 358
1919	7, 988	67	496		26		34	8, 610
1920	10, 420	574	742		69		43	11, 849
1921	6, 850	514	598		34		12	8, 008
1922	2, 394	712	1, 119	3	14		9	4, 252
1923	2, 693	953	910	1	22		14	4, 593
1924	1, 290	408	1, 136	1	8		73	2, 916
1925	1, 548	587	845		7		148	3, 136
1926	2, 037	662	764		11		153	3, 627
1927	1, 649	604	970		7		135	3, 364
1928	3, 498	933	914		7		41	5, 395
1929	4, 494	666	808		19		89	6, 076
1930	1, 218	156	1, 522		11		90	2, 996
1931	1, 407	214	969		15		109	2, 714
1932	2, 594	197	2, 037		45		128	5, 001

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Philadelphia—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	United States securities	All other	Total earnings
1933		1,550	60				2,658	44	4,311
1934		456	10	17			3,152	90	3,725
1935		12	4	255	2		2,820	30	3,124
1936		8	3	312	3		2,855	76	3,256
1937		26	2	223	2		3,257	48	3,559
1938		26		168	2		2,936	19	3,151
1939		7		133	2		3,070	52	3,264
1940		5		121	2		3,426	54	3,607
1941		4		138	1		3,179	21	3,344
1942		7		200	1		3,947	18	4,174
1943		10		175			5,122	32	5,339
1944		25		132			7,275	9	7,440
1945		56		69			9,930	9	10,063
1946		148		33			10,600	10	10,792
1947		152		57			11,193	10	11,413
1948	300			34			21,349	9	21,692
1949	196			38			21,270	7	21,511
1950	74			101			18,142	9	18,326
1951	209			153	1		24,444	10	24,817

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Philadelphia—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	571	154	2		27, 455		11	28, 193
1953	636	98	1		30, 649		12	31, 396
1954	217	35	1		26, 360		7	26, 620
1955	959	20	1		24, 212		10	25, 203
1956	1, 904	23			34, 351		13	36, 291
1957	2, 141	14			43, 036		17	45, 208
1958	322	3			42, 317		16	42, 658
1959	1, 493				48, 848		17	50, 358
1960	846				61, 843		33	62, 722
1961	156				53, 954		24	54, 134
1962	155				58, 880	203	17	59, 255

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Philadelphia—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	–$52,020	$265,594	$762,719	$3,519,903	$7,028,256	$9,774,433
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						41,828
Depreciation on U.S. bonds						
All other	20,503				3,697	104,366
Total additions	20,503				3,697	146,194
Deductions from current net earnings:						
Bank premises—depreciation			244	324,570	92,693	673,711
Furniture and equipment		15,653	8,600	107,113	100,868	75,065
Reserve for Federal Reserve Board expenses					41,828	
Reserve for depreciation, U.S. bonds				116,131	29,112	105,396
All other					108,283	1,339
Total deductions		15,653	8,844	547,814	372,784	855,511
Net deductions from current net earnings	[1] 20,503	15,653	8,844	547,814	369,087	709,317
Net earnings	–31,517	249,941	753,875	2,972,089	6,659,169	9,065,116
Distribution of net earnings:						
Dividends paid		128,458	623,603	583,983	462,380	496,679
Transferred to surplus account				2,608,344	6,196,789	8,204,775
Franchise tax paid U.S. Government						363,662
Balance to profit and loss	–31,517	121,483	130,272	–220,238		

Footnotes at end of table, p. 430.

Federal Reserve Bank of Philadelphia—Profit and loss account, 1914–25—Continued

	1921	1922	1923	1924	1925
Current net earnings	$5, 640, 465	$2, 198, 031	$2, 297, 045	$762, 010	$1, 099, 282
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds	127, 192	67, 732	18, 807	20, 433	
All other	8, 188	14, 946	810	1, 698	566
Total additions	135, 380	82, 678	19, 617	22, 131	566
Deductions from current net earnings:					
Bank premises—depreciation	318, 054		23, 733		
Furniture and equipment	110, 759	42, 931	70, 648	23, 307	16, 887
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	7, 578	902	44, 444	13, 742	4, 841
Total deductions	436, 391	43, 833	138, 825	37, 049	21, 728
Net deductions from current net earnings	301, 011	[1] 38, 845	119, 208	14, 918	21, 162
Net earnings	5, 339, 454	2, 236, 876	2, 177, 837	747, 092	1, 078, 120
Distribution of net earnings:					
Dividends paid	517, 663	541, 552	582, 292	615, 135	673, 212
Transferred to surplus account	935, 239	[2] 803, 594	1, 178, 588	131, 957	404, 908
Franchise tax paid U.S. Government	3, 886, 552	[2] 891, 730	416, 957		
Balance to profit and loss					

[1] Net additions.

[2] After charging surplus and crediting franchise tax with $36,366 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $839,960 and $855,364, respectively.

Federal Reserve Bank of Philadelphia—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$1, 541, 677	$1, 175, 699	$3, 369, 431	$3, 830, 863	$922, 864
Additions to current net earnings:					
Profit on U.S. Government securities sold					191, 736
Other additions	1, 130	2, 646	1, 481	1, 181	952
Total additions	1, 130	2, 646	1, 481	1, 181	192, 688
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses					
Building for Board of Governors					
All other deductions	9, 074	1, 876	88, 271	30, 056	12, 781
Total deductions	9, 074	1, 876	88, 271	30, 056	12, 781
Net deductions from current net earnings	7, 944	+770	86, 790	28, 875	+179, 907
Net earnings	1, 533, 733	1, 176, 469	3, 282, 641	3, 801, 988	1, 102, 771
Dividends paid	730, 598	781, 540	843, 755	938, 312	1, 002, 602
Franchise tax paid U.S. Government					
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	803, 135	394, 929	2, 438, 886	2, 863, 676	100, 169

Federal Reserve Bank of Philadelphia Account—Profit and loss, 1926–35—Continued

	1931	1932	1933	1934	1935
Current net earnings	$706, 357	$2, 987, 096	$2, 050, 043	$1, 319, 699	$560, 110
Additions to current net earnings:					
Profit on U.S. Government securities sold	218, 654	312, 398	74, 192	558, 768	389, 903
Other additions	384	----------	42, 917	66, 040	22, 012
Total additions	219, 038	312, 398	117, 109	624, 808	411, 915
Deductions from current net earnings:					
Special depreciation allowances on bank premises	----------	----------	----------	250, 000	----------
Reserve for losses	----------	----------	2, 483, 524	650, 926	4, 601
Building for Board of Governors	----------	----------	----------	----------	99, 052
All other deductions	41, 223	28, 659	2, 073	702	609
Total deductions	41, 223	28, 659	2, 485, 597	901, 628	104, 262
Net deductions from current net earnings	+177, 815	+283, 739	2, 368, 488	276, 820	+307, 653
Net earnings	884, 172	3, 270, 835	−318, 445	1, 042, 879	867, 763
Dividends paid	1, 004, 836	973, 393	950, 437	925, 875	856, 286
Franchise tax paid U.S. Government	----------	----------	(1)	----------	----------
Paid U.S. Treasurer (sec. 13b)	----------	----------	----------	----------	41, 984
Transferred to surplus (sec. 13b)	----------	----------	----------	−896	33, 340
Transferred to surplus (sec. 7)	[2] −120, 664	2, 297, 442	[2] −1, 268, 882	117, 900	[2] −63, 847

[1] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.
[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Philadelphia—Profit and loss accounts, 1936–45—Continued

	1936	1937	1938	1939	1940
Current net earnings	$731, 169	$1, 147, 260	$753, 237	$923, 066	$1, 239, 585
Additions to current net earnings:					
Profits on sales of U.S. Government securities	582, 301	200, 909	696, 803	369, 951	979, 180
Recoveries of, and withdrawals from allowances for, losses on industrial advances (net)					
All other	7, 797	84	23, 632	37, 530	517, 747
Total additions	590, 098	200, 993	720, 435	407, 481	1, 496, 927
Deductions from current net earnings:					
Reserves for contingencies	63, 120				
Losses and reserves for losses on industrial advances (net)		17	30, 000	120, 286	17, 906
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system	193, 476	193, 476	386, 952		
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	192, 254	140, 073			
All other	2, 490	5, 546	3, 764	5, 198	1, 678
Total deductions	451. 340	339, 112	420, 716	125, 484	19, 584
Net additions or deductions (−)	138, 758	−138, 119	299, 719	281, 997	1, 477, 343
Net earnings	869, 927	1, 009, 141	1, 052, 956	1, 205. 063	2, 716, 928
Paid U.S. Treasury (sec. 13b)	83, 968	83, 968	83, 968		56, 097
Dividends paid	736, 185	734, 768	734, 562	725, 380	714, 329
Transferred to surplus (sec. 13b)	94, 055	86, 283	4, 735	−22, 527	
Transferred to surplus (sec. 7)	−44, 281	104, 122	229, 691	502, 210	1, 946, 502
Surplus (sec. 7) Jan. 1	13, 406, 055	13, 361, 774	13, 465, 896	13, 695, 587	14, 197, 797
Additions, as above	−44, 281	104, 122	229, 691	502, 210	1, 946, 502
Transferred to reserves for contingencies					−1, 000, 000
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	13, 361, 774	13, 465, 896	13, 695, 587	14, 197, 797	15, 144, 298

Federal Reserve Bank of Philadelphia—Profit and loss accounts, 1936–45—Continued

	1941	1942	1943	1944	1945
Current net earnings	$698, 465	$1, 218, 077	$2, 202, 764	$3, 877, 368	$6, 502, 831
Additions to current net earnings:					
Profits on sales of U.S. Government securities	110, 404	276, 774	2, 927, 686	262, 580	255, 719
Recoveries of, and withdrawals from allowances for, losses on industrial advances (net)				85, 862	100, 721
All other	13, 810	158, 451	113, 535	41, 503	101, 736
Total additions	124, 214	435, 225	3, 041, 221	389, 945	458, 176
Deductions from current net earnings:					
Reserves for contingencies					4, 591
Losses and reserves for losses on industrial advances (net)	[1] 2, 474	100, 000			
Chargeoffs and special depreciation on bank premises			1, 012, 225		
Prior service contributions to retirement system					
Retirement system (interest base and increased benefits adjustments)		312, 542	624, 295		
Assessment for building for Board of Governors					
All other	3, 242	2, 106	5, 851	4, 163	184
Total deductions	768	414, 648	1, 642, 371	4, 163	4, 775
Net additions or deductions (—)	123, 446	20, 577	1, 398, 850	385, 782	453, 401
Net earnings	821, 911	1, 238, 654	3, 601, 614	4, 263, 150	6, 956, 232
Paid U.S. Treasury (sec. 13b)	81, 360	32, 098	83, 968	83, 968	83, 968
Dividends paid	713, 446	707, 874	701, 272	719, 004	765, 606
Transferred to surplus (sec. 13b)			27, 822	47, 237	32, 452
Transferred to surplus (sec. 7)	27, 105	498, 682	2, 788, 552	3, 412, 941	6, 074, 206
Surplus (sec. 7) Jan. 1	15, 144, 298	15, 171, 403	15, 670, 085	17, 858, 638	19, 871, 579
Additions, as above	27, 105	498, 682	2, 788, 552	3, 412, 941	6, 074, 206
Transferred to reserves for contingencies			—600, 000	—1, 400, 000	
Transferred from reserves for contingencies					3, 000, 000
Surplus (sec. 7) Dec. 31	15, 171, 403	15, 670, 085	17, 858, 638	19, 871, 579	28, 945, 785

[1] Net recoveries.

Federal Reserve Bank of Philadelphia—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$6, 528, 217	$6, 996, 056	$16, 914, 023	$16, 633, 600	$13, 362, 572
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	138, 165	199, 902	456, 165	2, 272, 116	2, 630, 321
All other	89, 140	5, 166	3, 567	1, 607	1, 213
Total additions	227, 305	205, 068	459, 732	2, 273, 723	2, 631, 534
Deductions from current net earnings:					
Reserves for contingencies	33, 026	34, 947	----------	----------	22, 607
Retirement system (salary computation adjustment)	143, 304	----------	----------	----------	----------
Retirement system (adjustment for revised benefits)	----------	----------	----------	178, 515	----------
Losses on U.S. Government securities sold (net)	----------	----------	----------	----------	----------
All other	2, 487	2, 839	1, 247	590	421
Total deductions	178, 817	37, 786	1, 247	179, 105	23, 028
Net additions or deductions (−)	48, 488	167, 282	458, 485	2, 094, 618	2, 608, 506
Net earnings before payments to U.S. Treasury	6, 576, 705	7, 163, 338	17, 372, 508	18, 728, 218	15, 971, 078
Transferred to reserves for contingencies	----------	----------	2, 960, 087	2, 820, 890	----------
Paid to U.S. Treasury (sec. 13b)	----------	7, 059	----------	----------	----------
Paid U.S. Treasury (interest on Federal Reserve notes)	----------	5, 672, 116	12, 184, 077	13, 510, 438	13, 539, 262
Net earnings after reserves and payments to U.S. Treasury	6, 576, 705	1, 484, 163	2, 228, 344	2, 396, 890	2, 431, 816
Dividends paid	814, 440	853, 837	874, 343	895, 650	926, 806
Transferred to surplus (sec. 13b)	−11, 840	----------	----------	----------	----------
Transferred to surplus (sec. 7)	5, 774, 105	630, 326	1, 354, 001	1, 501, 240	1, 505, 010
Surplus (sec. 7) Jan. 1	28, 945, 785	34, 719, 890	35, 350, 216	36, 704, 217	38, 205, 457
Surplus (sec. 7) Dec. 31	34, 719, 890	35, 350, 216	36, 704, 217	28, 205, 457	39, 710, 467

Federal Reserve Bank of Philadelphia—Profit and loss account, 1946–55—Continued

	1951	1952	1953	1954	1955
Current net earnings	$18, 942, 416	$21, 768, 384	$24, 433, 718	$19, 751, 828	$18, 361, 527
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)		132, 132	125, 877	30, 741	
All other	2, 547	1, 109	62	83	485
Total additions	2, 547	133, 241	125, 939	30, 824	485
Deductions from current net earnings:					
Reserves for contingencies	29, 349	28, 995	31, 257	27, 181	18, 266
Retirement system (salary computation, adjustment)					
Retirement system (adjustment for revised benefits)			159, 357		
Losses on U.S. Government securities sold (net)	112, 256				50
All other	1, 353	987	3, 681	291	224
Total deductions	142, 958	29, 982	194, 295	27, 472	18, 540
Net additions or deductions (−)	−140, 411	103, 259	−68, 356	3, 352	−18, 055
Net earnings before payments to U.S. Treasury	18, 802, 005	21, 871, 643	24, 365, 362	19, 755, 180	18, 343, 472
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserve notes)	16, 041, 520	18, 763, 697	20, 974, 512	16, 779, 300	15, 456, 865
Net earnings after reserves and payments to U.S. Treasury	2, 760, 485	3, 107, 946	3, 390, 850	2, 975, 880	2, 886, 607
Dividends paid	978, 022	1, 023, 039	1, 060, 168	1, 111, 286	1, 169, 206
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	1, 782, 463	2, 084, 907	2, 330, 682	1, 864, 594	1, 717, 401
Surplus (sec. 7) Jan. 1	39, 710, 467	41, 492, 930	43, 577, 837	45, 908, 519	47, 773, 113
Surplus (sec. 7) Dec. 31	41, 492, 930	43, 577, 837	45, 908, 519	47, 773, 113	49, 490, 514

Federal Reserve Bank of Philadelphia—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$29,321,035	$37,975,265	$35,229,866	$42,582,344
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	16,492	10,180	9,524	11,277
Reimbursement for fiscal agency expenses incurred in prior years		112,853		
Transferred from reserves for contingencies (net)				7,207,970
All other	441	38	218	3,008
Total additions	16,933	123,071	9,742	7,222,255
Deductions from current net earnings:				
Reserves for contingencies	16,475	13,998	9,551	
Retirement system (adjustment for revised benefits)		604,360		
All other	428	687	1,449	2,677
Total deductions	16,903	619,045	11,000	2,677
Net additions or deductions (−)	31	−495,974	−1,258	7,219,578
Net earnings before payments to U.S. Treasury	29,321,066	37,479,291	35,228,608	49,801,923
Paid U.S. Treasury (interest on Federal Reserve notes)	25,295,834	32,594,736	30,540,793	62,421,267
Dividends paid	1,214,605	1,262,925	1,294,403	1,349,401
Transferred to surplus (sec. 7)	2,810,627	3,621,631	3,393,412	−13,968,746
Surplus (sec. 7) Jan. 1	49,490,515	52,301,142	55,922,772	59,606,846
Transferred from surplus (sec. 13b)			290,661	
Surplus (sec. 7) Dec. 31	52,301,142	55,922,772	59,606,846	45,638,100

Federal Reserve Bank of Philadelphia—Profit and loss account, 1956–63—Continued

	1960	1961	1962	1963
Current net earnings	$54, 052, 795	$45, 027, 360	$49, 854, 212	$51, 914, 136
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	139, 931	199, 723	110, 867	17, 908
Reimbursement for fiscal agency expenses incurred in prior years	------	------	------	------
Transferred from reserves for contingencies (net)	824, 458	------	------	------
All other	163	566	35, 128	38, 653
Total additions	964, 552	200, 289	145, 995	56, 561
Deductions from current net earnings:				
Reserves for contingencies	------	------	------	------
Retirement System (adjustment for revised benefits)	------	------	------	------
All other	7, 783	727	84, 103	3, 165
Total deductions	7, 783	727	84, 103	3, 165
Net additions or deductions (−)	956, 769	199, 562	61, 891	53, 396
Net earnings before payments to U.S. Treasury	55, 009, 564	45, 226, 922	49, 916, 103	51, 967, 532
Paid U.S. Treasury (interest on Federal Reserve notes)	51, 585, 421	40, 136, 348	45, 863, 269	48, 851, 933
Dividends paid	1, 398, 843	1, 472, 374	1, 565, 035	1, 638, 699
Transferred to surplus (sec. 7)	2, 025, 300	3, 618, 200	2, 487, 800	1, 476, 900
Surplus (sec. 7) Jan. 1	45, 638, 100	47, 663, 400	51, 281, 600	53, 769, 400
Transferred from surplus (sec. 13b)	------	------	------	------
Surplus (sec. 7) Dec. 31	47, 663, 400	51, 281, 600	53, 769, 400	55, 246, 300

FORTY-NINTH ANNUAL STATEMENT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA

JANUARY 6, 1964.

This report presents a comparative statement of condition of this bank at December 31, 1962, and December 31, 1963, together with a comparison of earnings and expenses for the years 1962 and 1963. A more detailed account of operations, together with appropriate comment upon economic conditions and other pertinent data, will be included in the annual report of this bank to be issued at a later date.

KARL R. BOPP, *President.*

Comparison of earnings and expenses

	1963	1962
Current earnings:		
From U.S. Government securities	$61, 405, 725. 83	$58, 879, 903. 32
From discounts and advances and miscellaneous sources	420, 525. 65	377, 530. 39
Total current earnings	61, 826, 251. 48	59, 257, 433. 71
Net expenses:		
Operating expenses (after deducting reimbursable or recoverable expenses)	8, 926, 305. 43	8, 583, 503. 00
Federal Reserve currency	550, 810. 48	434, 066. 15
Assessments for expenses of the Board of Governors	435, 000. 00	383, 300. 00
Total net expenses	9, 912, 115. 91	9, 400, 869. 15
Current net earnings	51, 914, 135. 57	49, 856, 564. 56
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	17, 908. 09	110, 866. 91
All other	38, 653. 18	32, 775. 44
Total additions	56, 561. 27	143, 642. 35
Deductions from current net earnings: Miscellaneous nonoperating expenses	3, 164. 90	84, 103. 48
Total deductions	3, 164. 90	84, 103. 48
Net additions	53, 396. 37	59, 538. 87
Net earnings before payment to U.S. Treasury	51, 967, 531. 94	49, 916, 103. 43
Dividends paid	1, 638, 698. 54	1, 565, 034. 90
Paid U.S. Treasury (interest on Federal Reserve notes)	48, 851, 933. 40	45, 863. 268. 53
Transferred to surplus	1, 476, 900. 00	2, 487, 800. 00
Total	51, 967, 531. 94	49, 916, 103. 43

Comparative statement of condition

	Dec. 31, 1963	Dec. 31, 1962
Assets:		
Gold certificate reserves:		
Gold certificate account	$727, 618, 341. 62	$917, 610, 616. 93
Redemption fund—Federal Reserve notes	79, 071, 924. 16	75, 965, 449. 16
Total gold certificate reserves	806, 690, 265. 78	993, 576, 066. 09
Federal Reserve notes of other Federal Reserve banks	35, 360, 025. 00	52, 667, 635. 00
Other cash	6, 406, 036. 21	16, 464, 705. 56
Loans and securities:		
Discounts and advances	2, 826, 000. 00	663, 000. 00
U.S. Government securities	1, 830, 795, 000. 00	1, 679, 215, 000. 00
Total loans and securities	1, 833, 621, 000. 00	1, 679, 878, 000. 00
Other assets:		
Cash items in process of collection	453, 604, 102. 63	475, 946, 541. 27
Bank premises	3, 012, 009. 63	3, 282, 547. 82
All other	22, 143, 378. 28	19, 836, 910. 70
Total assets	3, 160, 836, 817. 53	3, 241, 652, 406. 44
Liabilities:		
Note liabilities: Federal Reserve notes	1, 917, 598, 410. 00	1, 863, 328, 305. 00
Deposits:		
Member bank—Reserve accounts	767, 443, 360. 69	824, 688, 096. 48
U.S. Government	32, 366, 983. 98	44, 812, 230. 96
Foreign	9, 280, 000. 00	15, 080, 000. 00
All other	6, 144, 574. 80	5, 256, 797. 36
Total deposits	815, 234, 919. 47	889, 837, 124. 80
Other liabilities:		
Deferred availability cash items	340, 892, 996. 17	404, 359, 621. 12
All other	4, 241, 041. 89	3, 473, 255. 52
Total liabilities	3, 077, 967, 367. 53	3, 160, 998, 306. 44
Capital accounts:		
Capital paid in	27, 623, 150. 00	26, 884, 700. 00
Surplus	55, 246, 300. 00	53, 769, 400. 00
Total liabilities and capital accounts	3, 160, 836, 817. 53	3, 241, 652, 406. 44

DIRECTORS

Walter E. Hoadley, vice president and treasurer, Armstrong Cork Co., Lancaster, Pa., chairman.

David C. Bevan, chairman of the finance committee, the Pennsylvania Railroad Co., Philadelphia, Pa., deputy chairman.

Ralph K. Gottshall, chairman of the board and president, Atlas Chemical Industries, Inc., Wilmington, Del.

Eugene T. Gramley, president, Milton Bank & Safe Deposit Co., Milton, Pa.

Frank R. Palmer, chairman, the Carpenter Steel Co., Reading Pa.

Leonard P. Pool, president, Air Products & Chemicals, Inc., Allentown, Pa.

Benjamin F. Sawin, vice chairman of the board and chairman of the executive committee, Provident Tradesmens Bank & Trust Co., Philadelphia, Pa.

Charles R. Sharbaugh, president, Cambria County National Bank of Carrolltown, Carrolltown, Pa.

Willis J. Winn, dean, Wharton School of Finance & Commerce, University of Pennsylvania, Philadelphia, Pa.

OFFICERS

Karl R. Bopp, President.
Robert N. Hilkert, First Vice President.
Hugh Barre, vice president.
J. R. Bunting, vice president.
J. R. Campbell, vice president.
N. G. Dash, vice president.
D. P. Eastburn, vice president.
M. K. Goodwin, vice president, general counsel, and assistant secretary.
H. W. Roeder, vice president.
J. V. Vergari, vice president and cashier.
R. G. Wilgus, vice president and secretary.
E. B. Alderfer, economic adviser.
C. J. Anderson, economic adviser.
L. C. Murdoch, Jr., business economist.
E. A. Aff, assistant vice president.
J. M. Case, assistant vice president.
R. E. Haas, assistant vice president.
W. R. Moll, assistant vice president.
H. J. Nelson, assistant vice president.
K. M. Snader, assistant vice president.
R. P. Sudders, assistant vice president.
J. C. Rothwell, economist.
B. W. Zumeta, economist.
J. P. Giacobello, chief examining officer.
W. L. Ensor, examining Officer.
H. E. Ikeler, Jr., examining officer.
J. H. James, examining officer.
L. E. Markford, examining officer.
J. A. Agnew, Jr., assistant cashier.
J. P. Besse, assistant cashier.
W. A. James, personnel officer.
F. A. Murray, director of plant.
G. W. Metz, general auditor.

MEMBER OF FEDERAL ADVISORY COUNCIL

William L. Day, chairman, the First Pennsylvania Banking & Trust Co., Philadelphia, Pa.

JANUARY 1, 1964.

STATEMENT OF KARL R. BOPP, PRESIDENT, FEDERAL RESERVE BANK OF PHILADELPHIA

Mr. BOPP. This statement relates, Mr. Chairman, to several of the bills before the committee.

Mr. Chairman, first is H.R. 9631, which deals with increasing to 12 the number of members of the Federal Reserve Board.

In my view, the proposed increase in size would make the Board rather too large. A reduction in the term and tenure, without eligibility for reappointment after the expiration of a 4-year term, would mean that we would have a great deal of turnover with a lack of continuity on the Board.

With respect to structure, it would place or make the Secretary of the Treasury Chairman of the Board, and this would place on the Secretary a new responsibility that is inconsistent with an existing responsibility.

As Secretary, he is the largest borrower in the world by a wide margin. As borrower he appropriately desires the lowest borrowing cost possible. As Chairman of the new Board, he would head the agency with the largest single portfolio of Government securities, an agency whose primary concern is to promote credit conditions appropriate to the entire economy, including but not limited to the Government. The sad experience of many countries, including our own, with putting these conflicting responsibilities in the hands of a single individual leads me to conclude that it should not be done.

An additional difficulty would be occasioned by having the Secretary serve as Chairman of the Board. He would rarely find time actually to attend meetings. This, at any rate, was the experience before 1936 and I would anticipate no change. Unfortunately, this is a function that should not be delegated.

The bill would provide also for a Vice Chairman, designated by the President from among the appointive members, who would be the active executive officer of the Board. It is probably desirable to have a chief executive officer but the brevity of the maximum term would militate against efficiency and continuity of operations.

In describing the qualifications of appointive members, the bill requires fair representation of certain specified interests and of geographic divisions. I would prefer the law to specify that every member be qualified and selected to represent the public interest and that residential qualifications be eliminated.

Section 2 would create a Federal Advisory Committee to replace the present Federal Advisory Council. The proposed Committee would be so large that its deliberations would likely be too time consuming to hold able members or its results would likely be perfunctory.

Section 3 would transfer the powers, duties, and functions of the Federal Open Market Committee to the new Board. To abolish the Federal Open Market Committee would change the basic character of the System. It would eliminate the most important opportunity for public service and hence seriously reduce the attractiveness of the presidencies of the Federal Reserve banks, with resulting deterioration in the quality of the managements and of the services performed by those banks.

Section 4 would direct the Comptroller General to make an annual financial and management audit of the Board, the Reserve banks and their branches. Chairman Martin has described present auditing procedures which, by deliberate design, are independent of operating management. President Bryan submitted a statement to the Patman subcommittee in 1952 which demonstrates that this change would not produce the desired results.

I agree with that statement completely.

Summarizing, I think to do this would reduce the authority of the Directors, who are a driving force to increase efficiency. It would divert the attention of management from continuous and occasionally bold new efforts aimed at promoting efficiency to the negative approach of concentrating on avoiding risks.

With respect to H.R. 9685, this bill would subject the Board and the Reserve banks to appropriations by the Congress. The supplementary statement by President Bryan, to which I have already referred, demonstrates that this change would not achieve either better monetary policy or greater operational efficiency.

The Congress could expose the country to the hazard of seriously interrupting our payments mechanism by subjecting the Reserve System to congressional appropriations. An efficient system of payments: collection of checks, provision of currency and coin, is indispensable to sustained economic growth. Interruption in the smooth flow of checks or inability to secure cash could cause panic. To assure that there would be no such interruption in these functions—which vary widely and at times unpredictably—the System would either (1) have to be given wide discretionary authority by the Congress, or (2) would have to defend a budget of sufficient size to meet maximum possible needs. Grant of wide discretionary authority would defeat the purpose of subjecting the System to congressional appropriations. Budgets designed to meet maximum needs, on the other hand, would tend inevitably to increased costs. Experience with the severe coin shortages in recent years demonstrates that deficiency appropriations are no dependable solution.

Now H.R. 3783 would retire Federal Reserve bank stock and substitute certificates of membership. As a purely logical proposition a Federal Reserve bank could operate not only without capital stock and surplus but with a very large deficiency (i.e., with liabilities far in excess of assets). The reason is that the only logical needs for assets are to secure earnings and to meet the claims of creditors as they arise. Since earnings are now far in excess of expenses, fewer earning assets would still be adequate to meet this need. The two large liability accounts are for Federal Reserve notes and member bank reserve deposits. There is no possibility that these accounts, which now total about $50 billion, will fall below, say, $30 billion—or even $40 billion. Logically, no assets are needed to meet claims that will never be made, hence the Reserve banks could operate logically with liabilities far in excess of assets. I develop this logic of the case to indicate that meaningful living involves more than logic.

Reserve bank stock is a means of tying member banks and bankers more closely to the System. It provides a businesslike method for electing six directors. Dividends on the stock are a partial offset against the lower earnings of member banks which result from their higher effective reserve requirements. Elimination of stock would make some observers restive because they would view it as indicative of a movement toward basic monetary changes such as nationalization of the banking system. There is no demonstrated need or prospect of benefit to offset these disadvantages of the change.

As you have mentioned, the entire statement will be inserted in the record. I feel adoption of the proposal would be a mistake, sir.

The CHAIRMAN. You what?

Mr. BOPP. I feel this would be a mistake, sir, for the reasons that are developed in the statement.

The CHAIRMAN. All right. Have you finished your statement?

Mr. BOPP. Yes, this is a summary of it.

The CHAIRMAN. Mr. Bryan, would you like to give us a summary of your thoughts on the Federal Reserve System in the past 50 years and on the proposals that we are considering today?

STATEMENT OF MALCOLM BRYAN, PRESIDENT, FEDERAL RESERVE BANK OF ATLANTA

Mr. BRYAN. Mr. Chairman, the first thing to be said is that an inquiry into the Federal Reserve System by congressional committees is always appropriate in my judgment. I take no exception to that course.

With regard to the matter of increasing the size of the Board of Governors, I am not an expert. I am merely an observer of how the Board works. I must say that any comments that I would make there would be simply the comments of an outsider.

I would want to follow Mr. Martin and his fellow members on that.

With regard to some of the other points, I strongly agree with Mr. Bopp and other testimony that you have had.

To make the Secretary of the Treasury the Chairman of the Board would create, I think, the greatest conflict of interest in history.

While Mr. Bopp has not said this quite as strongly as I would say it, Mr. Chairman, we have to recognize that the Government of the United States is the largest, most continuous and, if I dare say, the most necessitous borrower in the country.

The net of it is that you would have in control of the money creating mechanism the borrower. I doubt if that is wise.

I will respond to other questions if you wish me to do so.

The CHAIRMAN. I imagine just about everything will be brought out in the questioning, Mr. Bryan, but if it is not, we will give you an opportunity at the close, each one of you, to say more if you desire.

I will ask questions first and then yield to members of the committee.

No. 1, although you gentlemen object to the change as proposed in the bill, do you favor the Chairman of the Board of Governors being selected for 4 years coterminous with the term of the President, like Mr. Martin proposed?

Mr. BOPP. Mr. Chairman, I would favor having the term of the Chairman be approximately coterminous with that of the President and I say "approximately" because I think there might be some advantage in having it deferred for a period of a few months; perhaps not more than 6 months.

The CHAIRMAN. But substantially?

Mr. BOPP. Yes. At the present time, Mr. Chairman, it seems to me, as I read the act, the term of the Chairman of the Board is for 4 years and although this is a time interval it is not related except hazardly to the term of the President, because the 4 years begin on the day he takes over the chairmanship.

It could mean that a President might appoint a Chairman as Chairman within, let's say, 6 months of the expiration of his term, and he would serve for 3½ years——

The CHAIRMAN. I understand.

Mr. Bryan, what do you think?

Mr. Bryan. Mr. Chairman, I have testified on that before on another occasion. I agree totally——

The Chairman. You favor the proposal?

Mr. Bryan. I believe that the Chairman's term ought to be coterminous with the President's or practically so—as Mr. Bopp has suggested.

Mr. Bopp. I think this would make desirable a change in the actual terms at present, because I think at present the terms of the members expire in even-numbered years, and if they could expire in odd-numbered years this would create a vacancy on the Board to which the President could appoint a member who he could make Chairman.

The Chairman. Mr. Bopp, let me ask you this: What were the most important decisions that you had to make last year? Name them in order.

Mr. Bopp. Most important, by all odds, was to try to do my best to keep up with the best current thinking in the field of monetary policy and central banking, and to try to apply such knowledge as I could to make the decisions with respect to how I should vote at the Federal Open Market Committee meetings.

The Chairman. When you were either a member or an alternate?

Mr. Bopp. That is correct, and I am at the moment a member, sir.

The Chairman. Who do you carry with you to those meetings? Do you take anybody with you?

Mr. Bopp. I do not carry anybody.

The Chairman. You do not take anybody with you?

Mr. Bopp. Oh, yes; I take my senior economist.

The Chairman. And no one else?

Mr. Bopp. That is correct.

The Chairman. And those meetings are absolutely secret? You do not tell the contents of them to anybody?

Mr. Bopp. No.

The Chairman. Not even to your board of directors?

Mr. Bopp. Of course not. They never ask.

The Chairman. Is that true with you, Mr. Bryan?

Mr. Bryan. I have not been a member——

The Chairman. But you have attended the meetings?

Mr. Bryan. Yes.

The Chairman. Do you carry your senior staff man or your economist with you?

Mr. Bryan. I usually carry an economist with me.

The Chairman. Yes, sir. Now, what other important decisions did you make; Mr. Bopp, besides the one you have mentioned?

Mr. Bopp. No. 2, clearly, in my view, Mr. Chairman, is each year at the end of the year I have a meeting with the personnel committee of the board of directors of the bank.

The Chairman. That is No. 2?

Mr. Bopp. Yes.

The Chairman. What is No. 3?

Mr. Bopp. No. 3 would be a session that I have with the first meeting of our board of directors each new year because, typically, we have a rotation system because there are new members and I discuss with them the nature of the Federal Reserve System and particularly their importance to it.

The CHAIRMAN. And in this briefing session you do not tell them that the banks own the Federal Reserve System, do you?

Mr. BOPP. I should say not. No, sir.

The CHAIRMAN. In fact, you realize there is not any proprietary interest at all——

Mr. BOPP. Oh, no question of it.

The CHAIRMAN. And you agree with that, Mr. Bryan?

Mr. BRYAN. Certainly.

The CHAIRMAN. And what is your next important decision?

Mr. BOPP. These, I think, Mr. Chairman, in order of their importance I would simply mention that there are difficult personnel problems occasionally at the senior officer level.

The CHAIRMAN. Now, Mr. Bryan, would you describe your most important decisions last year, in 1963?

Mr. BRYAN. Well, Mr. Chairman, that is an extraordinarily difficult question. I am, after all, running an organization with 5 offices and about 1,360 people.

I have obviously, as Mr. Bopp has done, tried to keep up with economic affairs, which is a time-consuming task and it is sometimes a frustrating and exhausting experience.

Then, I have had, of course, day to day a constant range of administrative problems running from the question of how we can tighten up procedures, of seeing to it that job performance and standards are made and revised for efficiency.

What would be the most important, I just honestly could not say, sir, any more than if—and this is no discourtesy at all—I imagine that some of you gentlemen would have difficulty saying what is the most important decision you have made during the year.

I have not had a vote on the Open Market Committee, of course.

The CHAIRMAN. All right. Now, you have the statement of condition of your banks—you gave me a statement, Mr. Bopp.

Do you have one with you, Mr. Bryan?

Mr. BRYAN. An organization chart?

The CHAIRMAN. No, a statement of the condition of your bank at the end of 1963. Would you each insert one in the record when you look over your transcript?

Mr. BRYAN. I will be delighted to.

(The statements follow:)

49TH ANNUAL STATEMENT, FEDERAL RESERVE BANK OF ATLANTA

Earnings and expenses

	1963	1962
Total current earnings [1]	$63, 505, 003	$56, 604, 052
Net expenses	12, 605, 038	12, 029, 616
Current net earnings	50, 899, 965	44, 574, 436
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	16, 693	107, 685
All other	19, 027	20, 488
Total additions	35, 720	128, 173
Deductions from current net earnings	1, 686	1, 111, 067
Net additions (+), deductions (−)	+34, 034	−982, 894
Net earnings before payment to U.S. Treasury	50, 933, 999	43, 591, 542
Paid U.S. Treasury (interest on Federal Reserve notes)	44, 938, 810	38, 318, 568
Dividends paid	1, 613, 389	1, 481, 974
Transferred to surplus account	4, 381, 800	3, 791, 000
Total	50, 933, 999	43, 591, 542
SURPLUS ACCOUNT		
Surplus January 1	51, 244, 600	47, 453, 600
Transferred to surplus—As above	4, 381, 800	3, 791, 000
Surplus December 31	55, 626, 400	51, 244, 600

[1] Earnings from:

	1963	1962
Discounts and advances	$585, 180	$235, 404
U.S. Government securities	62, 774, 757	56, 157, 918
Foreign currencies	111, 142	185, 626
All other	33, 912	25, 104
Total	63, 505, 003	56, 604, 052

Statement of condition

	Dec. 31, 1963	Dec. 31, 1962
ASSETS		
Gold certificates	$729, 636, 633	$788, 857, 065
Redemption fund for Federal Reserve notes	86, 947, 155	71, 006, 735
Federal Reserve notes of other banks	40, 939, 000	46, 872, 000
Other cash	25, 447, 968	21, 663, 187
Total cash	882, 970, 756	928, 398, 987
Discounts and advances	5, 430, 000	5, 401, 000
U.S. Government securities	1, 956, 527, 000	1, 757, 073, 000
Total loans and securities	1, 961, 957, 000	1, 762, 474, 000
Other assets:		
Cash items in process of collection	548, 739, 510	605, 849, 559
Bank premises (net)	16, 575, 197	13, 405, 365
All other	22, 899, 472	21, 057, 546
Total other assets	588, 214, 179	640, 312, 470
Total assets	3, 433, 141, 935	3, 331, 185, 457
LIABILITIES		
Federal Reserve notes	1, 929, 183, 410	1, 791, 341, 335
Deposits:		
Member bank reserve accounts	916, 247, 498	905, 419, 256
U.S. Treasurer—General account	63, 197, 724	28, 274, 400
Foreign	8, 800, 000	13, 780, 000
Other	5, 513, 553	9, 153, 615
Total deposits	993, 758, 775	956, 627, 271
Other liabilities:		
Deferred availability cash items	421, 928, 288	502, 532, 102
All other	4, 831, 862	3, 817, 849
Total other liabilities	426, 760, 150	506, 349, 951
Total liabilities	3, 349, 702, 335	3, 254, 318, 557
CAPITAL ACCOUNTS		
Capital paid in	27, 813, 200	25, 622, 300
Surplus	55, 626, 400	51, 244, 600
Total capital accounts	83, 439, 600	76, 866, 900
Total liabilities and capital accounts	3, 433, 141, 935	3, 331, 185, 457

Statement of condition of the Federal Reserve Bank of Atlanta at the close of business Dec. 31, 1963

[In thousands of dollars]

ASSETS	
Gold certificate account	$729, 637
Redemption fund for Federal Reserve notes	86, 947
Total gold certificate reserves	816, 584
Federal Reesrve notes of other banks	40, 939
Other cash	25, 448
Discounts and advances:	
Secured by U.S. Government securities	3, 670
Other	1, 760
Acceptances:	
Bought outright	---------
Held under repurchase agreement	---------
U.S. Government securities:	
Bought outright	1, 956, 527
Held under repurchase agreement	---------
Total loans and securities	1, 961, 957
Cash items in process of collection	548, 740
Bank premises	16, 575
Other assets:	
Denominated in foreign currencies	8, 394
All other	14, 505
Total assets	3, 433, 142
LIABILITIES	
Federal Reserve notes	1, 929, 183
Deposits:	
Member bank reserves	916, 247
U.S. Treasurer—General account	63, 198
Foreign	8, 800
Other	5, 514
Total deposits	993, 759
Deferred availability cash items	421, 928
Other liabilities	4, 832
Total liabilities	3, 349, 702
CAPITAL ACCOUNTS	
Capital paid in	27, 813
Surplus	55, 627
Other capital accounts	---------
Total liabilities and capital accounts	3, 433, 142
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	27. 9
Contingent liability on acceptances purchased for foreign correspondents	5, 055

Federal Reserve note statement of Federal Reserve Bank of Atlanta at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	$2,009,411
Less held by issuing bank, and forwarded for redemption	80,228
Federal Reserve notes, net [1]	1,929,183

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	365,000
Eligible paper	-----------
U.S. Government securities	1,700,000
Total collateral	2,065,000

Federal Reserve Bank of Atlanta—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	230			2			5	236
1916	142	52	41	5		18	22	280
1917	232	102	141	4	14	48	50	590
1918	1, 758	302	114	3	35	22	58	2, 293
1919	3, 735	367	229		68		16	4, 416
1920	6, 688	338	320		103		27	7, 476
1921	6, 624	154	533		91		4	7, 407
1922	1, 952	165	189		44		3	2, 353
1923	1, 998	551	80	1	42		11	2, 682
1924	1, 532	234	85		41		14	1, 907
1925	912	727	371		32		30	2, 072
1926	1, 705	1, 025	228		42		46	3, 046
1927	1, 255	333	290		26		164	2, 068
1928	2, 530	688	246		33		82	3, 578
1929	3, 091	717	172		40		96	4, 116
1930	1, 087	417	316		24		119	1, 964
1931	762	238	299		33		117	1, 449
1932	1, 187	128	602		29		58	2, 003

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Atlanta—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		522	45				1, 025	96	1, 686
1934		47	5	11	1		1, 631	123	1, 818
1935		3	1	63	3		1, 524	78	1, 673
1936		2	1	42	2		1, 443	35	1, 524
1937		24	1	14	2		1, 726	25	1, 791
1938		13		9	1		1, 459	20	1, 502
1939		2		39	1		1, 593	12	1, 647
1940		2		22	2		1, 662	17	1, 705
1941				8	3		1, 706	8	1, 725
1942		2		33	8		2, 264	8	2, 314
1943		8		12	1		3, 340	14	3, 374
1944		15		3			5, 047	12	5, 077
1945		57					7, 203	21	7, 281
1946		95					7, 597	26	7, 719
1947		84		2	1		8, 237	25	8, 349
1948	193			6	1		14, 987	31	15, 219
1949	111				1		16, 734	35	16, 880
1950	78						14, 612	22	14, 712
1951	131			9			20, 960	11	21, 111

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Atlanta—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	495	22			25, 600		8	26, 126
1953	747	15			29, 348		9	30, 120
1954	277	2	1		22, 146		12	22, 438
1955	1, 015		1		20, 474		13	21, 503
1956	1, 377				29, 334		26	30, 737
1957	1, 903				37, 871		31	39, 805
1958	667				37, 483		23	38, 173
1959	3, 154				44, 762		76	47, 992
1960	1, 980				58, 699		62	60, 741
1961	181				51, 437		29	51, 648
1962	235				56, 158	186	25	56, 604

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Atlanta—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	$84, 849	$133, 749	$334, 415	$1, 755, 431	$3, 490, 628	$6, 167, 047
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						20, 302
Depreciation on U.S. bonds					13, 096	
All other					3, 584	17
Total additions					16, 680	20, 319
Deductions from current net earnings:						
Bank premises—depreciation			2, 500	72, 003	51, 478	87, 267
Furniture and equipment	2, 317	4, 442	18, 923	30, 640	46. 844	76, 057
Reserve for probable losses						
Reserve for Federal Reserve Board expenses					20, 302	
Reserve for depreciation, U.S. bonds			24, 909			9, 506
All other				315	6, 287	4, 212
Total deductions	2, 317	4, 442	46, 332	102, 958	124, 911	177, 042
Net deductions from current net earnings	2, 317	4, 442	46, 332	102, 958	108, 231	156, 723
Net earnings	82, 532	129, 307	288, 083	1, 652, 473	3, 382, 397	6, 010, 324
Distribution of net earnings:						
Dividends paid		201, 719	218, 203	182, 473	197, 397	225, 571
Transferred to surplus account			40, 000	1, 470, 000	3, 185, 000	3, 648, 465
Franchise tax paid U.S. Government			40, 000			2, 136, 288
Balance to profit and loss	82, 532	−72, 412	−10, 120			

	1921	1922	1923	1924	1925
Current net earnings	$5,859,466	$1,059,683	$1,388,082	$660,109	$846,645
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds	8,379	2,590	848	2,067	
All other	622	1,823	1,941	12,231	6,803
Total additions	9,001	4,413	2,789	14,298	6,803
Deductions from current net earnings:					
Bank premises—depreciation	47,088	163,294	305,411	94,934	75,836
Furniture and equipment	33,399	17,387	57,228	17,321	18,468
Reserve for probable losses	250,000	200,000	668,416	285,585	724,359
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	41,761	10,685	7,637	3,911	8,594
Total deductions	372,248	391,366	1,038,692	401,751	827,257
Net deductions from current net earnings	363,247	386,953	1,035,903	387,453	820,454
Net earnings	5,496,219	672,730	352,179	272,656	26,191
Distribution of net earnings:					
Dividends paid	245,862	256,618	264,622	272,656	276,488
Transferred to surplus account	770,106	[1] −172,018	8,756		[2] 250,297
Franchise tax paid U.S. Government	4,480,251	[1] 588,130	78,801		
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $213,629 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $41,611 and $374,501, respectively.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Atlanta—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$1, 556, 550	$670, 215	$2, 189, 369	$2, 478, 757	$493, 079
Additions to current net earnings:					
Profit on U.S. Government securities sold					35, 993
Other additions	12, 794	957	5, 462	5, 360	1, 992
Total additions	12, 794	957	5, 462	5, 360	37, 985
Deductions from current net earnings:					
Special depreciation allowances on bank premises	75, 505				
Reserve for losses	261, 663		403, 018	696, 500	194, 990
Reserve for self-insurance				350, 000	12, 250
Building for Board of Governors					
All other deductions	3, 849	1, 268	97, 828	9, 099	517
Total deductions	341, 017	1, 268	500, 846	1, 055, 599	207, 757
Net deductions from current net earnings	328, 223	311	495, 384	1, 050, 239	169, 772
Net earnings	1, 228, 327	669, 904	1, 693, 985	1, 428, 518	323, 307
Dividends paid	296, 573	305, 817	312, 259	321, 696	323, 307
Franchise tax paid U.S. Government			823, 301	803, 790	
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	931, 754	364, 087	558, 425	303, 032	

	1931	1932	1933	1934	1935
Current net earnings	$90, 444	$712, 723	$302, 140	$450, 769	$174, 794
Additions to current net earnings:					
Profit on U.S. Government securities sold	44, 542	80, 652	31, 536	293, 043	213, 954
Other additions	1, 056	301	21, 154	154, 138	19, 257
Total additions	45, 598	80, 953	52, 690	447, 181	233, 211
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses	127, 033	499, 224	185, 643		1, 443
Reserve for self-insurance				237, 750	
Building for Board of Governors					35, 618
All other deductions	9, 009	1, 907	14, 216	4, 388	25, 276
Total deductions	136, 042	501, 131	199, 859	242, 138	62, 337
Net deductions from current net earnings	90, 444	420, 178	147, 169	+205, 043	+170, 874
Net earnings		292, 545	154, 971	655, 812	345, 668
Dividends paid	313, 247	292, 545	281, 644	264, 093	260, 538
Franchise tax paid U.S. Government			(1)		
Paid U.S. Treasurer (sec. 13b)					9, 066
Transferred to surplus (sec. 13b)				−2, 632	
Transferred to surplus (sec. 7)	[2] −313, 247		[2] −126, 673	394, 351	76, 064

[1] Banking Act of 1933 eliminated the provision of the Federal Reserve Act requiring the payment of a franchise tax.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Atlanta—Profit and loss account, 1936–45—Continued

	1936	1937	1938	1939	1940
Current net earnings	$205,858	$538,870	$114,054	$340,905	$421,852
Additions to current net earnings:					
Profits on sales of U.S. Government securities	239,773	104,336	355,444	189,295	496,545
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	22,976	139,772	370,682	97,805	92,519
Total additions	262,749	244,138	726,127	287,100	589,064
Deductions from current net earnings:					
Reserves for contingencies	39,316				
Losses and reserves for losses on industrial advances (net)		24,868	20,904	14,819	26,509
Special reserves and chargeoffs on bank premises		75,000	317,597	231,200	
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system	93,840	93,840	187,680		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	70,352	49,859			
All other	10,837	292,678	60,299	9	266
Total deductions	214,345	536,245	586,480	246,028	26,775
Net additions or deductions (−)	48,404	−292,107	139,647	41,072	562,289
Net earnings	254,262	246,763	253,701	381,977	984,141
Paid U.S. Treasury (sec. 13b)				14,810	
Dividends paid	254,262	260,851	267,368	272,229	279,310
Transferred to surplus (sec. 13b)		−24,263	−17,409		
Transferred to surplus (sec. 7)		10,175	3,742	94,838	704,831
Surplus (sec. 7) Jan. 1	5,615,773	5,615,773	5,625,948	5,629,690	5,724,628
Additions, as above		10,175	3,742	94,938	704,831
Transferred to reserves for contingencies					−704,831
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	5,615,773	5,625,948	5,629,690	5,724,628	5,724,628

	1941	1942	1943	1944	1945
Current net earnings	$246, 305	$449, 729	$1, 032, 698	$2, 382, 464	$4, 619, 413
Additions to current net earnings:					
Profits on sales of U.S. Government securities	56, 036	141, 591	1, 537, 926	154, 428	169, 877
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)			37, 500	28, 500	10, 000
All other	70, 652	137, 242	12, 102	16, 174	18, 835
Total additions	126, 688	278, 833	1, 587, 528	199, 102	198, 712
Deductions from current net earnings:					
Reserves for contingencies					468, 946
Losses and reserves for losses on industrial advances (net)	4, 141	−1, 681			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises		210, 000			
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		197, 830			
Retirement system (interest base and increased benefits adjustments)			470, 507		
Assessment for building for Board of Governors					
All other	25, 190	53	311	1, 709	
Total deductions	29, 331	406, 202	470, 818	1, 709	468, 946
Net additions or deductions (−)	97, 357	−127, 369	1, 116, 710	197, 393	−270, 234
Net earnings	343, 662	322, 360	2, 149, 408	2, 579, 857	4, 349, 179
Paid U.S. Treasury (sec. 13b)		15, 139	15, 139	15, 139	9, 884
Dividends paid	289, 109	302, 750	319, 356	339, 513	367, 516
Transferred to surplus (sec. 13b)		4, 471	31, 369	13, 955	
Transferred to surplus (sec. 7)	54, 553		1, 783, 544	2, 211, 250	3, 971, 779
Surplus (sec. 7) Jan. 1	5, 724, 628	5, 724, 628	5, 724, 628	5, 724, 628	7, 935, 878
Additions, as above	54, 553		1, 783, 544	2, 211, 250	3, 971, 779
Transferred to reserves for contingencies	−54, 553		−1, 783, 544		
Transferred from reserves for contingencies					2, 542, 929
Surplus (sec. 7) Dec. 31	5, 724, 628	5, 724, 628	5, 724, 628	7, 935, 878	14, 450, 586

Federal Reserve Bank of Atlanta—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$4, 665, 875	$4, 805, 477	$11, 308, 707	$12, 786, 024	$10, 369, 734
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	94, 994	140, 048	327, 611	1, 638, 435	1, 945, 769
All other	5, 660	935	1, 657	385	286
Total additions	100, 654	140, 983	329, 268	1, 638, 820	1, 946, 055
Deductions from current net earnings:					
Reserves for contingencies	31, 380	34, 463			40, 434
Retirement system (salary computation adjustment)	99, 309				
Retirement system (adjustment for revised benefits)				98, 399	
Losses on U.S. Government securities sold (net)					
All other	12, 147	1, 012	1, 143	6, 240	3, 471
Total deductions	142, 836	35, 475	1, 143	104, 639	43, 905
Net additions or deductions (−)	−42, 182	105, 508	328, 125	1, 534, 181	1, 902, 150
Net earnings before payments to U.S. Treasury	4, 623, 693	4, 910, 985	11, 636, 832	14, 320, 205	12, 271, 884
Transferred to reserves for contingencies			1, 992, 637	2, 178, 868	
Paid to U.S. Treasury (sec. 13b)		88			
Paid U.S. Treasury (interest on Federal Reserve notes)		4, 022, 554	8, 260, 729	10, 490, 252	10, 575, 575
Net earnings after reserves and payments to U.S. Treasury	4, 623, 693	888, 343	1, 383, 466	1, 651, 085	1, 696, 309
Dividends paid	411, 467	441, 270	465, 488	485, 448	521, 211
Transferred to surplus (sec. 7)	4, 212, 226	447, 073	917, 978	1, 165, 637	1, 175, 098
Surplus (sec. 7) Jan. 1	14, 450, 586	18, 662, 812	19, 109, 885	20, 027, 863	21, 193, 500
Surplus (sec. 7) Dec. 31	18, 662, 812	19, 109, 885	20, 027, 863	21, 193, 500	22, 368, 598

	1951	1952	1953	1954	1955
Current net earnings	$15, 726, 440	$19, 763, 387	$22, 984, 950	$15, 216, 693	$14, 416, 130
Aditions to current net earnings:					
Profits on sales of U.S. Government securities (net)		107, 519	109, 312	26, 876	
All other	50	97, 129	4, 263	85	122
Total additions	50	204, 648	113, 575	26, 961	122
Deductions from current net earnings:					
Reserves for contingencies	48, 003	42, 953	42, 052	27, 001	16, 181
Retirement system (salary computation adjustment)					
Retirement system (adjustment for revised benefits)			94, 537		
Losses on U.S. Government securities sold (net)	83, 639				40
All other	744	537	617	50, 700	5, 285
Total deductions	132, 386	43, 490	137, 206	77, 701	21, 506
Net additions or deductions (−)	−132, 336	161, 158	−23, 631	−50, 740	−21, 384
Net earnings before payments to U.S. Treasury	15, 594, 104	19, 924, 545	22, 961, 319	15, 165, 953	14, 394, 746
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserve notes)	13, 524, 304	17, 385, 550	20, 074, 824	13, 012, 038	12, 249, 151
Net earnings after reserves and payments to U.S. Treasury	2, 069, 800	2, 538, 995	2, 886, 495	2, 153, 915	2, 145, 595
Dividends paid	567, 001	607, 064	655, 703	707, 940	784, 588
Transferred to surplus (sec. 7)	1, 502, 799	1, 931, 931	2, 230, 792	1, 445, 975	1, 361, 007
Surplus (sec. 7) Jan. 1	22, 368, 598	23, 871, 397	25, 803, 328	28, 034, 120	29, 480, 095
Surplus (sec. 7) Dec. 31	23, 871, 397	25, 803, 328	28, 034, 120	29, 480, 095	30, 841, 102

Federal Reserve Bank of Atlanta—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$22, 949, 428	$31, 323, 827	$28, 898, 585	$37, 770, 104
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	14, 623	8, 972	8, 448	9, 766
Reimbursement for fiscal agency expenses incurred in prior years		201, 541		
Transferred from reserves for contingencies (net)				5, 573, 662
All other	131	361	27, 739	1, 289
Total additions	14, 753	210, 873	36, 187	5, 584, 717
Deductions from current net earnings:				
Reserves for contingencies	14, 591	17, 673	18, 506	
Retirement system (adjustment for revised benefits)		410, 380		
All other	551	13, 251	2, 328	416
Total deductions	15, 141	441, 305	20, 834	416
Net additions or deductions (—)	—388	—230, 432	15, 353	5, 584, 301
Net earnings before payments to U.S. Treasury	22, 949, 039	31, 093, 395	28, 913, 937	43, 354, 406
Paid U.S. Treasury (interest on Federal Reserve notes)	19, 731, 928	27, 114, 696	24, 584, 472	41, 359, 271
Dividends paid	878, 877	965, 959	1, 052, 929	1, 163, 437
Transferred to surplus (sec. 7)	2, 338, 235	3, 012, 739	3, 276, 536	831, 697
Surplus (sec. 7), Jan. 1	30, 841, 102	33, 179, 336	36, 192, 075	39, 474, 103
Transferred from surplus (sec. 13b)			5, 491	
Surplus (sec. 7), Dec. 31	33, 179, 337	36, 192, 075	39, 474, 103	40, 305, 800

	1960	1961	1962	1963
Current net earnings	$50, 034, 760	$40, 804, 234	$44, 574, 436	$50, 899, 965
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	131, 479	190, 421	107, 685	16, 693
Reimbursement for fiscal agency expenses incurred in prior years				
Transferred from reserves for contingencies (net)	886, 967			
All other	606	83	20, 488	19, 027
Total additions	1, 019, 052	190, 504	128, 173	35, 720
Deductions from current net earnings:				
Reserves for contingencies				
Retirement system (adjustment for revised benefits)				
All other	818	929	1, 111, 068	1, 686
Total deductions	818	929	1, 111, 068	1, 686
Net additions or deductions (−)	1, 018, 234	189, 575	−982, 895	34, 034
Net earnings before payments to U.S. Treasury	51, 052, 994	40, 993, 809	43, 591, 542	50, 933, 999
Paid U.S. Treasury (interest on Federal Reserve notes)	46, 417, 055	35, 824, 668	38, 318, 568	44, 938, 810
Dividends paid	1, 264, 939	1, 392, 341	1, 481, 974	1, 613, 389
Transferred to surplus (sec. 7)	3, 371, 000	3, 776, 800	3, 791, 000	4, 381, 800
Surplus (sec. 7) Jan. 1	40, 305, 800	43, 676, 800	47, 453, 600	51, 244, 600
Transferred from surplus (sec. 13b)				
Surplus (sec. 7) Dec. 31	43, 676, 800	47, 453, 600	51, 244, 600	55, 626, 400

The CHAIRMAN. All right. Now, you stated here that you have Government securities, Mr. Bopp, in the amount of $1,833 million. Where are those securities located?

Mr. BOPP. They are physically located in New York.

The CHAIRMAN. They are physically located in New York?

Mr. BOPP. That is correct.

The CHAIRMAN. You do not hold any yourself at all?

Mr. BOPP. No, sir.

The CHAIRMAN. But you carry them, of course, as an asset.

Now then, last year your earnings were $420,000. How much money did you spend?

Mr. BOPP. The earnings, sir—I am sorry, but I have given you the only copy I have.

The CHAIRMAN. That is the earnings from discounts and advances, I imagine.

Mr. BOPP. Yes, sir.

The CHAIRMAN. But the point is you received a lot of money from the Open Market Committee, did you not, about $50 million?

Mr. BOPP. Not from the Open Market Committee, sir. From our ownership of the Government securities which had been purchased by the Open Market Committee.

The CHAIRMAN. Well, you can define it any way you want to but, of course, the fact is you do not have anything to do with purchasing those securities. They were purchased in New York.

And the Open Market Committee transacts its business there and it is not precisely like a farmer getting a pea check or anything like that, but you get the money from New York.

You do not handle the funds at all. Now that is correct, is it not?

Mr. BOPP. That is correct.

The CHAIRMAN. Now then, Mr. Ed Neilan, the president of the U.S. Chamber of Commerce, made a statement last week. I am sure he did not quote you, but did you see his statement?

Mr. BOPP. No; I did not, sir.

The CHAIRMAN. He said that this $48,851,000 that your bank paid into the Treasury was from earnings on Government bonds that were purchased with the reserves of the member banks.

Now, that is not correct, is it?

Mr. BOPP. This is not correct, sir. When we purchase the Government bonds we create the reserves for the banking system.

The CHAIRMAN. The point is that you got this money from the Open Market Committee, in excess of $48 million, and then after you spent what you did you put the balance over into the Treasury, of that $48 million.

You do not get any earnings from the reserves of member banks, do you?

Mr. BOPP. No; we get them from the Government securities.

The CHAIRMAN. In fact, it would be wrong to pay interest on member bank reserves, would it not?

Mr. BOPP. In my view it would; yes.

The CHAIRMAN. Certainly, because that is a reserve upon which they can issue $10 to $1 approximately, is it not?

Mr. BOPP. Yes.

The CHAIRMAN. So when a bank sells the Open Market Committee a $1 million bond that some customer wants sold, the bank gets credit in the reserve for $1 million, and they can give the customer $1 million of credit from the bank and also lend $9 million more approximately?

Mr. BOPP. The banking system could lend it.

The CHAIRMAN. That is what I mean, yes.

Mr. BOPP. Yes.

The CHAIRMAN. OK. Well, let's see, I will try to be as brief as possible here because the other members want to ask questions.

Now, how many bond dealers are there that the Open Market Committee deals with?

Mr. BOPP. The order of magnitude is 19 or 20, but I am not quite sure.

The CHAIRMAN. Who do you deal with?

Do you deal with only recognized dealers?

Mr. BOPP. We purchase and sell Government securities for our member banks, Mr. Chairman, and deal with the Government security dealers who have offices or facilities in the city of Philadelphia.

The CHAIRMAN. In the city of Philadelphia?

Mr. BOPP. Yes, sir.

The CHAIRMAN. Will you put the names in the record that you deal with?

Mr. BOPP. I will be happy to.

The CHAIRMAN. And will you do the same thing, Mr. Bryan?

Mr. BRYAN. Certainly.

(The lists follow:)

The Federal Reserve Bank of Philadelphia conducts market transactions on a competitive basis with the following dealers in U.S. Government securities:

C. J. Devine & Co.
First Boston Corp.
Salomon Bros. & Hutzler.
C. F. Childs & Co.
Malon S. Andrus, Inc.
Chemical Bank New York Trust Co.

Offices of the Federal Reserve Bank of Atlanta dealt with the dealers in Government securities listed below in 1963 and to date in 1964. The dealings were for the purpose of completing purchase and sales transactions for member banks in this district.

Bankers Trust Co.
Blyth & Co.
Briggs Schaedle & Co., Inc.
Chemical Bank New York Trust Co.
Citizens & Southern National Bank.
C. J. Devine & Co.
Discount Corp. of New York.
First Boston Corp.
First National Bank of Birmingham.
Morgan Guaranty Trust Co.
New York Hanseatic Corp.
Salomon Bros. & Hutzler.
Second District Securities Co., Inc.
Trust Co. of Georgia.

NOTE.—Purchases and sales transactions of the New Orleans branch are executed exclusively through the Federal Reserve Bank of Chicago.

February 7, 1964.

The CHAIRMAN. Now, we have some statements of expenditures that we considered or, at least, the members of the committee have looked these over.

In fact, I have seen this one for the first time just now.

Now, these are the kind of expenditures I personally would not think that the General Accounting Office would approve.

Mr. WIDNALL. Mr. Chairman?

The CHAIRMAN. Yes?

Mr. WIDNALL. Did I understand you to say that these are things that the members of the committee have seen?

The CHAIRMAN. No; I said that I have seen them for the first time myself, but they know what they are.

They know the ones that our people asked for.

Mr. HARVEY. Are there any additional copies of these?

The CHAIRMAN. No; but I have seen them for the first time myself here. This is the first time I have seen them.

But you gentlemen know the ones that were asked for, do you not?

Mr. BOPP. Yes, sir.

The CHAIRMAN. You do, too, Mr. Bryan?

Mr. BRYAN. Yes.

The CHAIRMAN. So there is no secret about it.

By what authority do you make these expenditures?

Mr. BOPP. I think, Mr. Chairman, that Mr. Hickman, when he was here, inserted into the record the authorizations from the Federal Reserve Board governing expenditures or the regulations.

The CHAIRMAN. And that order permits you to spend anything that you think is proper and right?

Mr. BOPP. Not quite that, sir, but these are the limitations.

Within these limitations the local board of directors has authority to authorize expenditures for the efficient operation of an institution.

The CHAIRMAN. And that makes it legal, does it not? In other words, you consider that anything they authorize is legal?

Mr. BOPP. I do, certainly.

The CHAIRMAN. And you figure the same way, Mr. Bryan?

Mr. BRYAN. Well, Mr. Chairman, in general, yes, under the setup.

The directors, of course, approve our budget. They know our expenditures and we are examined. The Board of Governors has very carefully limited these expenditures in many instances.

There is another angle, Mr. Chairman. That is, if we fail in our trusteeship, then obviously we ought to be disciplined by this committee or the committee ought to express its view, and we ought to be able to call Mr. Bryan up here and say, "Mr. Bryan, what in the world were you thinking of? How could you be so stupid?"

I have no objection to that question at all. It does become a problem of judgment whether the expenditures were wise and proper in light of the circumstances under which we operate.

The CHAIRMAN. I will ask each one of you gentlemen to place in the record, when you go over your transcript, the instructions you received from the Federal Reserve Board which you believe authorize you to make any expenditures that the board of directors permit you to make——

Mr. BOPP. Within the limits laid down by the Board of Governors?

The CHAIRMAN. Certainly.

Mr. BOPP. Yes.

The CHAIRMAN. In other words, the Board of Governors will indicate what you can do and what you cannot do. It is the order or directive or memorandum that we would like to have inserted in the record. Each one of you at this point will please do that.

(This information was inserted by Mr. Hickman during his testimony before the committee on January 29, 1964. See page 212.)

REPLY OF MR. BRYAN, FEDERAL RESERVE BANK OF ATLANTA, TO MR. PATMAN'S ABOVE QUESTION

In keeping with the regional character of the System established by the Federal Reserve Act, the boards of directors of each Federal Reserve bank have primary responsibility for the economical and efficient operation of their bank. Thus, the sixth paragraph of section 4 of the act (12 U.S.C. 301) provides that each bank "shall be conducted under the supervision and control of a board of directors" and the seventh paragraph requires the board of directors to "perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law."

At the same time, the Board of Governors of the Federal Reserve System is charged, under section 11(j) of the act (12 U.S.C. 248), with "general supervision over said Federal Reserve banks." In the exercise of this responsibility the Board has ruled that the Federal Reserve banks shall not make certain types of expenditures; shall make other types only after receiving the specific approval of the Board of Governors in individual cases; and shall be governed in making discretionary expenditures by the guidelines laid down by the Board of Governors, as set forth in the material furnished yesterday by Mr. Hickman (p. 212).

The 22d paragraph of section 4 of the Federal Reserve Act (12 U.S.C. 307) provides that the compensation of the directors, officers, and employees of the Federal Reserve banks "shall be subject to the approval of the Board of Governors of the Federal Reserve System." In addition, the Board has established budget, expense report, and examination procedures described in detail in material previously furnished to your committee. In effect, therefore, the boards of directors of the Federal Reserve banks exercise their primary responsibility over the operations of their banks within the rules and limitations established by the Board of Governors.

The CHAIRMAN. Now, Mr. Bryan, I will ask you this question:

Do you have any instructions about not being permitted, as President of the Federal Reserve bank, to engage in outside activities or in outside interests?

Mr. BRYAN. There is a letter from the Board of Governors, I believe, that attempts to define what outside activities you may engage in. I personally engage in none.

The CHAIRMAN. What is your answer, Mr. Bopp?

Mr. BOPP. Mr. Chairman, I have on occasion given lectures before schools of banking and similar organizations where they have a standard fee.

When I became President I had to decide what I would do with respect to any such future requests that came in. It seemed to me that there was a difficult problem here, first of all, that it is not quite fair to university professors and others, who earn their living in this way, to do this free, when there is a standard fee.

On the other hand, I was quite clear that I should not personally profit from any such income and I, therefore, have taken the fee and given it to an appropriate charity or a school.

The CHAIRMAN. Is that the only outside income that you have?

Mr. BOPP. Well, I——

The CHAIRMAN. I am not trying to be specific.

Mr. BOPP. I own some securities.

The CHAIRMAN. Oh, that is OK.

Mr. BOPP. I might say, with respect to those, that I have no investments in any office equipment companies because the Federal Reserve Bank of Philadelphia buys and rents a lot of office equipment, and I do not want the purchasing agent or anyone in the bank to be influenced by that.

So I try to be as careful as I can.

The CHAIRMAN. And the same with income from other interests?

Now, Mr. Widnall, you may question.

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Bopp, I am interested in your statement on page 4 that—

> The Congress could expose the country to the hazard of seriously influencing our payments mechanism by subjecting the Reserve System to congressional appropriations.
>
> An efficient system of payments: Collection of checks, provision of currency and coin, is indispensable to sustained economic growth. Interruption in the smooth flow of checks or inability to secure cash could cause panic.

I would like to have you amplify your statement particularly with respect to the smooth flow of checks.

Mr. BOPP. Yes, the use of checks——

Mr. WIDNALL. How would the present flow of checks be interrupted if this became something that when through the appropriation process?

Mr. BOPP. If I may begin with the illustration that I mentioned at the bottom, the U.S. Mint does provide the coins to the United States.

For the last several years we have had severe shortages of coin and have had to ration them at the Federal Reserve banks, and this is a very difficult thing to do.

Now, the U.S. Mint, however, has been unable to secure sufficient appropriations from Congress to see that we have available an adequate supply of coin. I then move from that to currency and ask myself if this were required also with respect to currency, then the problem would be even more difficult.

If, for example, under the appropriations of Congress we had exhausted the appropriation granted for the check collection mechanism in our bank before the year is over, because of some unforeseen event, we would then—and Mr. Bryan in the statement he prepared, indicated we would have to write to the various banks saying, "We are sorry; we didn't make quite the amount of appropriations we needed; your checks are coming in. We are keeping them in order as we receive them, and when we get an additional appropriation, maybe next year, we will then sort these checks in the order in which they were received."

This is the nature of the problem, as I see it, and the only way that I think we could avoid it would be to put in for an appropriation and do our best to defend an appropriation which is large enough to take care of our maximum need.

Now, I happen to be of the view, and not from any personal experience but from reading books and talking with individuals, that if one has an appropriation it makes a lot of sense to spend it before the end of the fiscal year, if one hopes to defend appropriations the next year.

This means that having received an overappropriation it would be necessary for me to somehow or other hide it in that bank, with additional clerks, et cetera, or at least to spend it so that I would have this fat, in a sense, to work on if an emergency ever occurred.

And so then the view would be, with respect to appropriations, that I spend it all rather than working toward efficiency.

But this is the nature of the problem, it seems to me, which is possible if we were subject to appropriations which turned out to be inadequate because we could not predict it correctly.

Mr. WIDNALL. Mr. Bopp, with respect to the coin shortage, do you have any documentation as to the time of the request and the time of action, the timelag between the original request, the original pointing out to the Congress of the fact that more coins must be minted and congressional authority?

Mr. BOPP. I am quite sure that is available. I do not have it at the moment. I could insert that in the record.

Mr. WIDNALL. I think it would be very valuable if you would insert that in the record.

Mr. BOPP. Yes, sir.

(The document follows:)

STATEMENT ON COIN SHORTAGE

As long ago as 1951 it became apparent to the Federal Reserve banks and to the business community that the demand for coins was outrunning the supply. The causes for this are complex and difficult to unravel. It is clear, however, that the increased demand for coins is traceable to a number of factors, including more active business, increased use of vending machines, greater prevalence of sales taxes, and the rising popularity of coin collecting.

It is also clear that, although annual production of coins has risen in the past decade or so, the Federal Reserve banks have found it increasingly necessary to ration an inadequate supply. Exploring further into the supply side of the coin equation, it appears that production facilities are inadequate, operating rates at times have been at less than capacity, and inventories of most denominations have been and continue to be nonexistent.

The urgency of prompt action to remedy all of these supply conditions is apparent when one considers the nature of coin demand. Not only is coin usage increasing, but the rate of increase is subject to uncertain and, at times, tremendous spurts. This can be caused by such random events as the imposition of a sales tax, or changes in newspaper prices and subway fares.

Given these circumstances, the appropriations process may at times be a complicating factor. For example, the Bureau of the Mint received an appropriation of $6,480,000 for the fiscal year 1963. In July 1962, the Bureau submitted a request for a supplemental appropriation of $550,000. Final approval, in the amount of $544,900, was not granted until May 1963. At the present time, the mint is operating at less than full overtime capacity while a supplemental appropriation of $500,000 (submitted in January) is under consideration.

It is not my purpose to cast blame for the coin shortage on any particular person, organization, or administration, nor to suggest that the appropriations process is the sole cause. It does appear to me, however, that action to meet this prolonged shortage has been far from completely effective. Illustrative of the time-consuming nature of the process involved is the case of the Philadelphia Mint. The need for new facilities was first recognized many years ago. It was not until the spring of 1963 that Congress considered a bill for the purpose; the bill was signed by the President in August; funds have been requested for the purpose in fiscal year 1965; the facilities are estimated to be completed not before 1967. I should be greatly concerned if we were to encounter similar situations with our system for collecting checks and meeting currency needs, the smooth operation of which is so vitally important to our economy.

Mr. WIDNALL. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Thank you, Mr. Chairman.

Mr. BOPP. I was interested in your philosophical observation just now about how the Federal Reserve banks need to be free of the congressional appropriation process, on the ground that if the appropriation is too small then you are in trouble at the end of the year, and if it is too large you, being human, would tend to spend it even though you do not need it. I think that is about what you said.

Mr. Bopp. Yes, I think so.

Mr. Reuss. I think, philosophically, there is something to be said for that.

Does not this logic, however, suggest that all the agencies of Government, not just the Federal Reserve, but all the governmental bureaus and departments should be serviced by Treasury back-door financing rather than appropriations to circumvent these two evils, of going broke before the end of the year or spending it like a drunken sailor, figuratively speaking, because you have it?

Mr. Bopp. I do not quite feel, sir, that the Federal Reserve System or the central bank of the country is quite like any other institution. For the reason that I mentioned before, I feel it would be inappropriate to have the Secretary of the Treasury be Chairman of the Board. I think there is——

Mr. Reuss. I quite recognize the independence point——

Mr. Bopp. Yes.

Mr. Reuss (continuing). But address yourself to the feast-and-famine points that you were making.

Mr. Bopp. Yes. Well, this would be such a catastrophe for the entire country if this were to happen, to have a panic. So, it is on the magnitude of the problem that would arise. But with the other point——

Mr. Reuss. Well, before you leave the panic point, there are, of course, deficiency appropriations which are frequently used in the Government to prevent such panics as might otherwise occur if, let us say, the Treasury should unexpectedly run out of money to run the Philadelphia Mint.

There would be a deficiency appropriation so as to avoid a panic.

Mr. Bopp. My only feeling, sir, is that with respect to the mint it has not happened.

It has not been able to get this through in time, and the interval—before the Congress—suppose the Congress was not in session when this comes upon you? I should say, sir——

Mr. Reuss. Under present scheduling there is no time that Congress is not in session.

Mr. Bopp. I should say that the more basic aspect to me is the question of the degree of independence within Government that it seems to me a central bank should have.

Mr. Reuss. Thank you. Now, I want to ask you another question.

I want to go through your accounts for the current year, and while I will ask you about them, Mr. Bopp, for the Philadelphia bank, I might just as well also ask you, Mr. Bryan, about your Atlanta bank.

Mr. Bopp. And, Mr. Reuss, you have my only copy. So I will take the figures as you give them.

Mr. Reuss. Fine. I am not concerned with the detailed figures.

Mr. Bopp. Right.

Mr. Reuss. Looking at your income statement, 1963 earnings start out with U.S. Government securities in the amount of $61 million. I am going to round off these figures.

Mr. Bopp. Yes.

Mr. Reuss. That turns out to be practically your entire income.

Mr. BOPP. You are quite right.

Mr. REUSS. There is another little item of——

Mr. BOPP. For $500,000.

Mr. REUSS. But, basically, you make your money from interest on U.S. Treasury bills, notes, and certificates of indebtedness and bonds?

Mr. BOPP. Correct.

Mr. REUSS. Tell me again exactly how the Philadelphia bank gets its allocation of U.S. securities as opposed to the other 11 banks? These are, by and large, bought by the Open Market Committee, are they not?

Mr. BOPP. They are bought exclusively by the Open Market Committee.

Mr. REUSS. Every penny?

Mr. BOPP. That is correct.

Mr. REUSS. And how do you come out with $61 million and, Mr. Bryan, what were your earnings last year from U.S. Government securities?

Mr. BRYAN. I have a statement here—$56 million.

Mr. REUSS. $56 million?

Mr. BRYAN. No; that was 1962. I do not have the figure for 1963.

Mr. REUSS. Well, these earnings, Mr. Bopp, were on your holdings of U.S. Government securities in the amount of $1 billion——

Mr. BOPP. Yes.

Mr. REUSS. How do you make it up to $1.8 billion? Why not——

Mr. BOPP. You are quite right. There is a formula for that, Mr. Reuss, and I must confess that it is changed from time to time and I do not have the precise formula at the moment.

Mr. REUSS. And these securities which you hold result, do they not, from the mysterious but very wholesome process of monetary creation, which is the peculiar genius of the Federal Reserve System?

Mr. BOPP. Yes. That is, when we purchase Government securities we pay by check, and this increases the reserve accounts of member banks. Yes.

Mr. REUSS. And I hasten to add that we could not operate our economy for one day without this process, and it is a most salutary one.

Mr. BOPP. You are quite right.

Mr. REUSS. But, nevertheless, to a layman it is a thing of wonder that billions can grow in groups of four; is it not?

Mr. BOPP. It is, indeed.

Mr. REUSS. Now, having established that, by and large, your earnings consist of the $61 million you got last year from your portfolio of U.S. securities, let's look now at your operating expenses. By far the biggest item, close to $9 million, is booked under "operating expenses," and I take it that that means depreciation on your buildings, the salaries of your officers and employees, the business equipment you have to buy, and so forth.

Mr. BOPP. Oh, yes, quite right, and I could give it to you by departments if you want it for a preceding year.

Mr. REUSS. And deducting from the $61 million interest earned on U.S. securities, roughly $10 million of expenses, you come out with earnings of $51 million and out of that $51 million you paid $1 million-plus in dividends to your stockholder banks and you paid $48 million to the U.S. Treasury, again rounding these figures, and you transferred to your surplus $1-million-plus.

How do you determine the amount that the U.S. Treasury gets? I know it works out to 90 or 95 percent, but how does this come about?

Mr. Bopp. We subtract from income our expenses and from the net we pay the dividend on the stock, which is fixed at 6 percent, and then during the course of the year, with the increase in the size of the banking system of member banks, we typically have an increase in capital.

We have a System decision that the surplus of the Reserve banks shall be equal to twice the paid-in capital.

So then out of the remaining earnings we put enough into surplus to make that account twice the size of the capital account, and all the rest goes to the U.S. Treasury.

Mr. Reuss. I see. Then, if member banks leave the Philadelphia Reserve Bank, and I certainly hope this does not happen, but it could, you might actually have a minus item rather than a plus item on surplus?

Mr. Bopp. That is correct.

Mr. Reuss. And the Treasury would actually get more than what was left over after you paid your expenses?

Mr. Bopp. That is right. If we had a reduction in capital then we would have twice that reduction in surplus, which would then go into the Treasury.

You are quite right.

Mr. Reuss. I am interested in exploring this point of independence of the Federal Reserve. I have never had any difficulty in seeing the need for independence as regards the vital monetary functions of the Federal Reserve System, such as open-market policy.

I suppose there is something to be said for having men of long tenure who permit themselves the luxury of long-term views as to monetary management, so that they do not kow tow to every inflationary idea.

However, the open-market function is handled by the Federal Reserve System rather than by individual Federal Reserve banks and you happen to be a member of that Committee ex officio. Only 5 of the 12 bank Presidents are members at one time.

Mr. Bopp. Quite right, and I shall cease to be on March 1 of this year, sir.

Mr. Reuss. I do not know whether it rotates or——

The Chairman. All except New York.

Mr. Reuss. All except New York?

The Chairman. Yes.

Mr. Bopp. Yes.

Mr. Reuss. The other functions of the Federal Reserve bank, including your own, do not seem to be as policy oriented and as needy of independence as the open-market functions. Let's look at the discount function, for example, which under present law, originates with the Federal Reserve banks.

Let's suppose, for the purposes of this discussion, that Congress passed a law adopting a suggestion of the Commission of Money and Credit that the discount power ought to be in the Federal Reserve Board rather than in the banks.

That is a good recommendation, but we will discuss it some other time. If that were done, then the functions of the Federal Reserve banks, while necessary and vital, would not be, would they, of the independence-requiring character which, in my opinion at least, is inherent in the rediscount power and the open market power, and the reserve changing power of the Board itself?

Mr. BOPP. It would reduce it somewhat. I think it would not eliminate it entirely.

First of all——

Mr. REUSS. What would be left? Your main business is clearing checks, but that is frequently done by a clearinghouse at the local level; is it not?

Mr. BOPP. We have local boards of directors, as you know, who give us advice with respect to business conditions, and so forth, and also one of the real attractions and real contributions which they make is that they are businessmen who are active and successful in business and keep a constant drive on the management of the Federal Reserve banks to be efficient, and this we clearly would lose.

And there is one other factor, although it is possible that the law could be so phrased as to take care of it, but it is certainly conceivable.

There have been years in which the System has taken losses on the sales of the U.S. Government securities. And so we have a difficult problem as to whether this is an expense or not, and so on.

And I think no decision should be made, no monetary decision should be made, because of the possibilities of profit or loss in the central bank.

It should be made in the interest of the country, irrespective of what happens to profit and loss. Yet, there have been years—we will have to check through that to see—but if my memory serves me, 1951 was such a year and if you have a period in which credit is tightening, interest rates go up, you are liable to get a loss on them, which should be taken for monetary purposes.

So there is an additional difficulty.

Mr. REUSS. My time has expired. I want to take this opportunity to tell you, Mr. Bopp, how much I have been interested in your observations on Reserve creations made 10 or 15 years ago and recorded in Mr. Goldenweiser's famous book.

Mr. BOPP. Thank you very much.

Mr. REUSS. You have made a real contribution to monetary thinking, even though your ideas are still being tossed around academically rather than on the statute books.

Mr. BOPP. Thank you.

Mr. REUSS. Thank you very much.

The CHAIRMAN. You gentlemen did not state how long you have been with the Federal Reserve System and how long you have been president of your bank.

Mr. BOPP. Yes. I came to the Federal Reserve Bank of Philadelphia in September 1941, having been on the faculty of the University of Missouri for about 10 years.

I became president of the bank March 1, 1958.

The CHAIRMAN. Mr. Bryan?

Mr. BRYAN. I have been president since 1951, Mr. Patman.

Before that I was, for 5 years, in commercial banking.

Before that I was First Vice President of the Federal Reserve Bank of Atlanta. I originally came to the bank as director of research, and Vice President.

I have been a teacher in times past.

The CHAIRMAN. Thank you, sir.

Mr. Harvey?

Mr. HARVEY. Mr. Chairman, I have no questions but I would like to direct an inquiry to you as chairman.

Perhaps this came up last week while I was absent, sir; but will you tell me whether H.R. 9631 has been submitted to the usual Government agencies, such as the Bureau of the Budget, for example, and the Treasury Department, and whether we have had any reply from them in that regard or whether the administration has expressed any feeling on this bill at all.

I gather, from listening to this testimony, and it is somewhat cumulative listening to all of these various presidents here, but I gather that these men oppose this particular bill just from what was read off in the statement the other day, and I wondered whether the administration had expressed an opinion.

The CHAIRMAN. The administration has not been asked to submit written reports because we are hearing testimony of the administration concerning this legislation in these hearings.

We have heard from the Federal Reserve Board, except two members whom we expect to hear from.

We have Mr. Dillon on the agenda, but he has been unable to come because of the tax bill——

Mr. HARVEY. When can we expect——

The CHAIRMAN (continuing). And we expect to have Mr. Dillon here at his convenience as soon as possible. All of these witnesses come at their convenience.

We want a time that is mutually convenient for them, and then after we hear the Presidents of the banks, which we should finish with next week easily, then we will hear from some outstanding economists and college professors, and as soon as Mr. Dillon can come we will have him as a witness.

And if anyone wants to have any particular witness, why, I see no reason why we cannot agree now on any witness who will make a contribution either for or against.

Mr. HARVEY. I would like to suggest that we urge Mr. Dillon to come as soon as possible because it seems to me that we are dealing here with the fundamental question of whether the Federal Reserve should be subservient to the administration, and I think the committee members are entitled to know what the administration thinks on this.

The CHAIRMAN. Well, I had the same opinion, and that is the reason that he was scheduled right after Mr. Martin, but they told me that he just could not make it and asked that he be put over until some time in February.

Mr. WIDNALL. Well, Mr. Chairman, do we have the absolute assurance that the administration will be heard from with respect to these bills before the hearings are closed?

The CHAIRMAN. Well, when we hear from the Secretary of the Treasury I consider that is the administration.

And when we hear from the others connected with the administration I think we will have a pretty good idea.

Mr. BROCK. May I ask, Mr. Chairman, do we have any tentative idea of who the other people are from the administration?

For example, would the FDIC be considered as——

The CHAIRMAN. Well, I would not mind hearing from the Chairman of the FDIC, as far as I am concerned, but I do not know of any particular contribution that they could make in connection with their duties.

Mr. BROCK. Well, inasmuch as these bills do affect the overall banking system and the monetary system, I think he might be considered.

I was just wondering if we could have some idea of whom they might be.

The CHAIRMAN. Well, if any member wants a witness, we will consider it, and very likely we will call anybody that any member wants to.

I personally would be glad to. We want everything on both sides of the question.

Mr. Bolton?

Mr. BOLTON. You remember when we discussed these hearings in the beginning I expressed the hope that we would also have called as a witness, and I underlined it then, and if I did not make it clear I should like to now; I had nobody particularly in mind, but I thought we should hear from some people in the commercial banking system.

The CHAIRMAN. Certainly.

Mr. BOLTON. And also, if possible, in the field of finance, where Americans are dealing with the central banks of other countries, with the thought that they might have some valuable comments along the way that might be exceedingly valuable——

The CHAIRMAN. I think it is a good suggestion.

Mr. BOLTON. I have nobody in mind, sir, but——

The CHAIRMAN. I repeat, any member of this committee who asks that a certain person be heard can do so, and very likely he will be heard or at least an invitation will be extended.

But, of course, we want the privilege of passing on the witnesses, and we want to make sure that we are duplicating too much and make sure the witness makes a contribution.

Mr. WIDNALL. Mr. Chairman, may I make this suggestion, too?

I think it might be important to call somebody from the Secretary of State's Office, if not, the Secretary of State, to see what they feel the effect would be upon our foreign relations if the minutes of the Open Market Committee are provided for the perusal of the public

The CHAIRMAN. Suppose we defer that until we see about what the action of the Open Market Committee will be on delivering to us the minutes for the 4 years, 1960 to 1963 inclusive.

Mr. WIDNALL. Then I would suggest——

The CHAIRMAN. Then we will take that up.

Mr. WIDNALL (continuing). That that be taken up at that time before any further action of this committee.

The CHAIRMAN. Well, I would not say "any further action." I do not think we ought to stop the committee for it.

Mr. WIDNALL. I do not mean to stop the committee, but I mean with respect to the production of the minutes.

The CHAIRMAN. Yes.

Mr. HARVEY. Well, I think, Mr. Chairman——

The CHAIRMAN. I personally would like to know their views. If the Open Market Committee does not deliver us the minutes, of course, that is one thing. If they do, that is another. So let's see where we are before we make that decision, please.

Mr. HARVEY. Well, I certainly want to urge—I started this, by the way, on my time, Mr. Chairman——

The CHAIRMAN. Yes, sir.

Mr. HARVEY (continuing). I certainly want to urge that we learn as rapidly as possible about this and somehow hold up our proceedings, if necessary, until we hear from Mr. Dillon because it seems to me that this is a very fundamental manner that we are talking about.

I think we, as committee members, should know whether the administration, President Johnson, and Secretary Dillon, are in favor of H.R. 9631 and these changes or whether or not they are not in favor of it. If they are not in favor of it I think this committee is wasting an awful lot of our respective time.

The CHAIRMAN. Well, the gentleman would not do that for a delay, I am sure.

Mr. HARVEY. I certainly would not. That is why I say I think it is most unusual, Mr. Chairman, that we have not heard already from Mr. Dillon——

The CHAIRMAN. We will hear from him when we can. I doubt that the gentleman will be persuaded by what the administration says, any way.

Mr. HARVEY. If they are in favor of this bill I would like to know it, and I am sure that the whole banking community of America would like to know it as well as bankers throughout the world, because there are some very earth-shaking changes that would be made by this, Mr. Chairman.

The CHAIRMAN. I do not believe anything has been done that indicates that we are trying to keep down any information or testimony. I think everything is being done to indicate that we want a full disclosure on everything.

Mr. HARVEY. Well, my initial two questions, Mr. Chairman, was whether this bill has been submitted to the Bureau of the Budget and the Treasury for the usual reports, and I gather that it has not been.

The CHAIRMAN. It has not, because we expect to hear from them. In fact, if you want to hear from the Director of the Bureau of the Budget we might call him, but I do not think that is a major question here. I think that is a very insignificant question in comparison to the overall investigation and study.

Mr. HARVEY. Well, I do not think——

The CHAIRMAN. So, let's go ahead and finish the questioning, and we are going to have Mr. Dillon just as soon as we can get him. I wanted him as the second witness.

Mr. HARVEY. I think he should have been the second or the first.

The CHAIRMAN. Well, he did not feel he was in a position to come up here and do justice to it at that time.

And, you see, he had to go to the Joint Economic Committee because it is his duty under the law and then, of course, he has been tied up with the tax bill and you know what the problem has been there, and he also has other duties.

And he said he just could not do it conveniently, and we have not called any witness where it was not mutually satisfactory.

Mr. KILBURN. Mr. Chairman, will the gentleman yield?

Mr. HARVEY. I will yield to the gentleman.

Mr. KILBURN. One thing, Mr. Chairman, that you said that is not clear to me is this: Mr. Widnall suggested that making public the minutes of the Open Market Committee is a question that the State Department very properly might be interested in on account of our balance of payments.

The CHAIRMAN. That is right. I entirely agree with you on that.

Mr. KILBURN. All right. Now, if you ask the Federal Reserve to give us those minutes and they give them to us then we are making them public before we get the opinion of the Secretary of State.

The CHAIRMAN. Well, let's do not get the cart before the horse.

Mr. KILBURN. Well, that is the cart before the horse.

The CHAIRMAN. We do not know whether we will get them or not.

Mr. KILBURN. Well, if you get them then they are public.

Mr. WIDNALL. Mr. Chairman, I would like to urge support of what Mr. Harvey had to say and remark that I think it is far more important to the future of our country and to the people in our country to know what the administration thinks about these very substantial proposed changes with respect to our monetary system before hearing testimony as produced by investigators sent out to find out whether or not the Federal Reserve banks buy Ping-pong balls or——

The CHAIRMAN. That is just one point.

Mr. WELTNER. Mr. Chairman, I for one would like to say that I am happy to see this committee proceeding independent of the expressed wishes or direction of the administration.

It seems to me that that is the proper function of a legislative body.

Mr. HANNA. Mr. Chairman, I would like to associate myself with the remarks of Mr. Weltner.

Mr. VANIK. Mr. Chairman, that is all right with me, too.

Mr. REUSS. Mr. Chairman, I would like to associate myself with Mr. Vanik, who has associated himself with Mr. Hanna.

The CHAIRMAN. And we will be in a better position to ask the administration when we have developed a case or failed to make a case on any of this.

Why should we ask them how they feel on something on which we have no testimony yet?

That is the duty of the legislative branch, to present testimony, and hear what witnesses say. We are hearing all of them.

And then after we have heard them all we will be in a position to act intelligently.

Mr. HARVEY. Mr. Chairman, you are asking Secretary Dillon to wear two hats. You are asking him to sit as Secretary of the Treasury and, apparently, Chairman of the Federal Reserve Board.

If Secretary Dillon would like to do that, and would like to tell the banking community of America that, and they would like to know, then I would like to know also as a Member of Congress, because I would like to know more about it.

The CHAIRMAN. I am not concerned with what he thinks as an individual, but as Secretary of the Treasury.

Mr. KILBURN. Mr. Chairman, there is one thing that you said that I do not understand.

The CHAIRMAN. Yes, sir?

Mr. KILBURN. Mr. Chairman, if I remember correctly, one thing on most bills that we have up here is we want to know what the administration's view is, but you said we should not get their views on anything.

The CHAIRMAN. No, I did not say that. You misunderstood me.

Now, a large number of the bills the administration submits, and it is normal procedure to get their statement on the bill to support the committee, if the committee wants to favor the bill.

This is entirely different. This did not originate with the administration. The administration had nothing to do with these bills.

Mr. VANIK. Mr. Chairman, is it not customary in these matters, before we get through with the bill, to get the viewpoint of the administration?

The CHAIRMAN. Certainly.

Mr. VANIK. Why should we have to wait for all of the ideas to initiate somewhere else?

It is about time some things started in Congress.

The CHAIRMAN. Have you finished, Mr. Harvey?

Mr. HARVEY. I have no further comments.

The CHAIRMAN. Yes, sir?

Mr. WIDNALL. I would like to say one thing further.

Mr. Vanik has said that the administration's position would be reported in the report. I hope that cannot be construed to mean that as we close these hearings a written statement is sent up and that if a written statement is sent up that an administration official does not appear before the committee.

Mr. VANIK. I mean before we are through we will have a statement from the administration either in testimony or in the record, advising us as to the viewpoint that the administration has on this legislation.

It is a part of every report.

Mr. WIDNALL. I understand, but you are leaving the door open to no administration witness appearing before this committee as long as he submits a statement that can be submitted for the record.

Mr. VANIK. The chairman has indicated that he is going to have all sorts of testimony. I presume there will be testimony that will satisfy the gentleman.

The CHAIRMAN. It might not satisfy him, but we will have testimony.

Mr. WIDNALL. Your presumption implies the fact that if administration witnesses do not appear, and there are written statements submitted, that this will satisfy the committee.

Mr. VANIK. I think the committee will have to be satisfied, in any event.

If we are going to report a bill the committee will have to be satisfied.

The CHAIRMAN. Mr. Vanik, it is your time to question the witnesses.

Mr. VANIK. I read over the testimony, and I would like to ask several questions.

On the matter of the expenditures by the bank I noticed that the Atlanta bank paid somebody to get a law degree. In my community there is a great surplus of young lawyers who are available, and while I can see why you should have to train some people in certain specialties, can we justify educating someone and giving one person a law school education in order to serve the bank?

This seems to be a little bit beyond the realm of propriety; does it not?

Mr. BRYAN. Mr. Vanik, in the first place, I can make this observation.

I cannot testify with regard to your hometown, but there is a considerable shortage of lawyers in Atlanta.

Mr. VANIK. Well, we will send some down who are really well trained.

Mr. BRYAN. May I say that you will have not only a cordial welcome from the lawyers of Atlanta, but a cordial welcome from the Federal Reserve Bank of Atlanta.

Mr. VANIK. Can I announce back home that there is a shortage of lawyers in Atlanta?

Mr. BRYAN. By all means and tell at least one of them to put in an application to the Federal Reserve Bank of Atlanta.

Mr. VANIK. All right, it will be done.

I have another question, and this developed during the testimony several days ago.

In most of the banks that I have been in there is a great battery of vending machines. Do you have them in the bank in Atlanta or do you have them in both banks, Atlanta and Philadelphia?

Mr. BRYAN. We have a little room off the cafeteria which had five or six vending machines, which sell cigarettes, in support of the economy of the fifth district, and some candy bars and some coffee and——

Mr. VANIK. They pay for this space; do they not?

Mr. BRYAN. No; we furnish the space. The vending machine company furnishes the equipment.

The employees, of course——

Mr. VANIK. Well, do they not pay or is there anything paid to the Federal Reserve bank by the vending machine operator?

Mr. BRYAN. We get a percentage.

Mr. VANIK. A percentage?

Mr. BRYAN. Of the sales.

Mr. VANIK. Yes. Now, is that reflected in your accounts?

Mr. BRYAN. Oh, it is reflected in——

Mr. VANIK. This gets to be a tremendous sum of money in the course of a year and apparently it is quite a lucrative area of business because many people are competing for it.

Mr. BRYAN. Mr. Vanik, that was done in our bank so that we could have coffee and these things available to the night guards and Saturday guard force and others on duty at times when no other food is available in the bank.

The receipts, when we originally put them in, ran about $60 a day, out of which we got our percentage that I forget now. I am told that receipts have fallen off. I will have to look into that.

Mr. VANIK. Well, can you provide us, in each bank, provide us with a report as to these machines, as to what the annual receipts are and the sums that are paid to the bank, and whether they go to the general fund in the bank or whether they are allocated for some special use?

Mr. BRYAN. In our bank I can answer that now, although not in the detail you want it.

The amount that we get goes into cafeteria receipts as part of our food service.

Mr. VANIK. As a part of the food service?

Is that the custom in your bank, Mr. Bopp?

Mr. BOPP. I would have to check to make absolutely certain, but I will be happy to insert it in the record.

Mr. VANIK. Well, this is a small item but I think it is time we began checking into all of these vending machines.

We have a lot of them in the Capitol, and I wonder what happens to the proceeds. This has developed into a substantial business around the country and if these things are done in public buildings it is only right that the proceeds or the profits should be paid into the Public Treasury because they use public space.

The Federal Reserve Bank of Philadelphia receives commissions from Macke variety vending at the following rates:

Cigarettes, 2¾ cents per package.
Candy, 10 percent gross sales.
Cold drinks, 15 percent gross sales.
Coffee, 15 percent gross sales.
Ice cream, 10 percent gross sales.

Commission received from Penn Brook Milk Co. is 10 percent of gross sales.

Average monthly commissions, December 1962 to November 1963

Macke variety vending	$260.64
Public telephones	39.55
Penn Brook Milk Co	33.69
Average monthly commission	333.88

Commissions received are credited in the general ledger to an employee benefit account. During 1963, 98.5 percent of this employee benefit fund was credited to the cafeteria. Fifty-seven dollars was spent to facilitate the Red Cross blood bank program and miscellaneous employee benefits. A small fund of $200 is maintained for emergency, short-term loans to employees (maximum time, 2 weeks).

(The following information was submitted for the record:)

INFORMATION CONCERNING VENDING MACHINES AT THE FEDERAL RESERVE BANK OF ATLANTA

(1) There are 245 square feet in what is called the snack bar. This is an open room adjoining the cafeteria. The machines sell soft drinks, coffee and cocoa, cigarettes, and candy.

(2) Average receipts obtained from the vending machines for the first 3 months' operation were $55 a day.

(3) Average receipts during the year 1963 were $34 a day. The fall off of receipts from the first 3 months to the present is attributable largely to the withdrawal of the machine that sold sandwiches.

(4) The bank's commission from the vending machine receipts averages about 14 percent of sales.

Mr. VANIK. I have one other question before I am through. I wonder if you can tell me now what the variation is in commercial account charges, that is by item in the Atlanta district?

Mr. BRYAN. Mr. Vanik, I am sorry to say that I cannot. Each bank, of course, has service charges of one kind or another on checks and——

Mr. VANIK. Well, do you have any idea as to what the low is or the high?

Mr. BRYAN. The last time I looked at it the low for handling regular checks was, I think, 7 cents an item, but that is probably not up to date and there were special checking accounts——

Mr. VANIK. And what is the high?

Mr. BRYAN. Well, they ran above 10 and I think some of the banks are 15 cents for special checking accounts.

Mr. VANIK. Fifteen cents a check?

Mr. BRYAN. Those are "no minimum balance" and please do not accept that as final.

Mr. VANIK. Well, I would like to have you insert in the record, with consent of the committee, at this point a statement as to the high and low charges that are made for these commercial bank charges, checking charges, and the variation that there is between the rural and urban areas.

For example, I would like to know what the variation is in Atlanta and what it might be in some of the other rural areas of the district, so that we can make some comparison.

Generally we find that the rural areas seem to do this at a very minimum charge and in the urban areas, where they have a greater concentration of business, they seem to charge the higher charges. They also seem strangely uniform in the urban areas.

Uniform or not, I am shocked to learn that it would cost as much as 15 cents a check because there are many housewives out there in Atlanta who, I am sure, give the groceryman a check for $1.50, and if the check costs them 15 cents they are paying 10 percent surcharge on the payment of the bill.

It seems to me there ought to be a cheaper way to do it.

Mr. BRYAN. Mr. Vanik, I will try to get that information on a sample basis.

(The information requested follows:)

REGULAR PERSONAL CHECKING ACCOUNTS

Thirty-five banks in the Sixth Federal Reserve District were surveyed to determine what monthly service charges were made for handling regular personal checking accounts. The survey included—

14 Reserve city banks;

9 Reserve city-metropolitan area banks located outside center of Reserve city;

12 country banks.

Of the banks surveyed, 20 calculate normal service charges by establishing a maintenance fee, and adding a handling or processing charge for each check drawn. The other 15 banks establish higher maintenance and processing charges, but allow service charge credit of from 10 to 25 cents for each $100 of average collected balance. In no case does this credit for collected balances more than offset actual service charges, and these credits cannot be carried forward into succeeding months.

Other than the normal service charges, there are a variety of services for which banks may or may not assess a fee. All of the 35 banks make some charge for returning checks drawn against uncollected or insufficient funds. Eleven banks charge $1, 20 charge $2, and 4 charge $3. Most of the banks charge 25 cents to $1 for stop-payment orders, and similar amounts for certifying checks. Other services for which some banks make charges include extra statements, overdrafts, closing accounts, wire and mail transfers, drafts, printing checks, etc. Approximately half the banks make no charges for inactive accounts, while the others charge amounts up to $1 per month for holding inactive accounts over 3 months. One bank reported that they make a service charge for handling excessive currency and coin deposits. Practically all of the banks indicate that where there is a service charge, there is a minimum below which that charge will not drop.

Attached herewith is a brief analysis of service charges made in the normal course of handling regular personal checking accounts.

Schedule of service charges

RESERVE CITY BANKS

Bank	Balance	Monthly service charge
A, B, and C	Over $1,000	Individual analysis of each account.
	Under $1,000	$0.25 charge plus 6 cents per check over 5 items.
	Under $800	$0.50 charge plus 6 cents per check over 5 items.
	Under $600	$0.75 charge plus 6 cents per check over 5 items.
	Under $400	$1 charge plus 6 cents per check over 5 items.
	Under $200	$1.25 charge plus 6 cents per check over 5 items.
D	Over $500	Only 5 cents per check.
	Under $500	$0.90 charge plus 5 cents per check.
	All accounts	$0.25 *credit* for each $100 balance.
E	Over $400	5 free checks for each $100 balance.
	Under $400	Only 6 cents per check.
	Under $300	$0.25 charge plus 6 cents per check.
	Under $200	$0.50 charge plus 6 cents per check.
	Under $100	$0.75 charge plus 6 cents per check.
F	Over $1,000	Individual analysis of each account.
	Under $1,000	$0.50 charge plus 6 cents per check.
	Under $400	$0.75 charge plus 6 cents per check.
	All accounts	$0.20 *credit* for each $100 balance.
G and H	Over $1,000	Individual analysis of each account.
	Under $1,000	25 free checks, next 3 items 15 cents, others 5 cents each.
	Under $800	20 free checks, next 3 items 15 cents, others 5 cents each.
	Under $500	15 free checks, next 3 items 15 cents, others 5 cents each.
	Under $400	10 free checks, next 3 items 15 cents, others 5 cents each; $0.50 service charge in addition to check charge.
	Under $300	10 free checks, next 3 items 15 cents, others 5 cents each; $0.75 service charge in addition to check charge.
	Under $200	10 free checks, 10 cents each thereafter; $1 service charge in addition to check charge.
	All accounts	$0.03 charge for each check deposited in excess of 10 items.
J	Same as G and H except all items in excess of free allowance charged at flat 5 cents each and no service charge for deposits.	
K	Over $1,000	No charge.
	Under $1,000	$0.85 charge plus 6 cents per check; $0.15 *credit* for each $100 balance.
L	All accounts	$0.65 charge plus 7 cents per check; $0.15 *credit* for each $100 balance.
M	Over $500	No charge.
	Under $500	$0.50 charge plus 9 cents per check.
	Under $300	$1 charge plus 10 cents per check.
N	Over $500	No charge.
	Under $500	$1 charge plus 7 cents per check.
O	Over $1,000	No charge.
	Under $1,000	$0.75 charge plus 6 cents per check. $0.15 *credit* for each $100 balance.

Schedule of service charges—Continued

RESERVE CITY—METROPOLITAN AREA BANKS

Bank	Balance	Monthly service charge
A	Over $600	No charge.
	Under $600	$0.50 charge plus 4 cents per check.
	Under $400	$0.75 charge plus 4 cents per check.
	Under $200	$1 charge plus 4 cents per check.
B	Over $1,000	No charge.
	Under $1,000	$0.75 charge plus 6 cents per check; $0.15 *credit* for each $100 balance.
C	All accounts	$0.50 charge plus 5 cents per check; $0.10 *credit* for each $100 balance.
D	Over $200	No charge.
	Under $200	$1 charge.
	Under $100	$1.50 charge.
E	Over $1,000	Individual analysis of each account.
	Under $1,000	25 free checks, next 3 items 15 cents, others 5 cents each.
	Under $800	20 free checks, next 3 items 15 cents, others 5 cents each.
	Under $500	15 free checks, next 3 items 15 cents, others 5 cents each.
	Under $400	10 free checks, next 3 items 15 cents, others 5 cents each; $0.50 service charge in addition to check charge.
	Under $300	10 free checks, next 3 items 15 cents, others 5 cents each; $0.75 service charge in addition to check charge.
	Under $200	10 free checks, 10 cents each thereafter; $1 service charge in addition to check charge.
	All accounts	$0.03 charge for each check deposited in excess of 10 items.
F	Same as E, except all items in excess of free allowance charged at flat 5 cents each and no service charge for deposits.	
G	Over $100	5 free checks for each $100 balance, excess checks 5 cents each.
	Under $100	$1 charge.
H	Over $1,000	Individual analysis of each account.
	Under $1,000	$0.25 charge plus 6 cents per check over 5 items.
	Under $800	$0.50 charge plus 6 cents per check over 5 items.
	Under $600	$0.75 charge plus 6 cents per check over 5 items.
	Under $400	$1 charge plus 6 cents per check over 5 items.
	Under $200	$1.25 charge plus 6 cents per check over 5 items.
J	All accounts	$0.75 charge plus 5 cents each for 1st 1,000 checks, 3 cents for each item in excess of 1,000.

Schedule of service charges—Continued

COUNTRY BANKS

Bank	Balance	Monthly service charge
A	All accounts	5 free checks for each $100 balance; excess checks 5 cents each.
B	Over $500	No charge.
	Under $500	10 free checks and 5 cents each thereafter.
	Under $300	$0.25 charge plus 5 cents per check.
	Under $200	$0.50 charge plus 5 cents per check.
	Under $100	$0.75 charge plus 5 cents per check.
C and D	All accounts	$1 charge plus 5 cents per check; $0.15 *credit* for each $100 balance.
E	do	$0.50 charge plus 5 cents per check; $0.10 *credit* for each $100 balance.
F	do	$0.50 charge plus 5 cents per check; $0.20 *credit* for each $100 balance.
G	do	$0.50 charge plus 5 cents per check; $0.10 *credit* for each $100 balance.
H	Over $1,000	Individual analysis of each account.
	Under $1,000	25 free checks, next 3 items 15 cents, others 5 cents each.
	Under $800	20 free checks, next 3 items 15 cents, others 5 cents each.
	Under $500	15 free checks, next 3 items 15 cents, others 5 cents each.
	Under $400	10 free checks, next 3 items 15 cents, others 5 cents each; $0.50 service charge in addition to check charge.
	Under $300	10 free checks, next 3 items 15 cents, others 5 cents each; $0.75 service charge in addition to check charge.
	Under $200	10 free checks, 10 cents each thereafter; $1 service charge in addition to check charge.
	All accounts	$0.03 charge for each check deposited in excess of 10 items.
J	do	$0.60 charge plus 5 cents per check; $0.10 credit for each $100 balance.
K	Over $500	Only 6 cents per check.
	Under $500	$0.25 charge plus 6 cents per check.
	Under $200	$0.50 charge plus 6 cents per check.
	Under $100	$0.75 charge plus 6 cents per check.
L	Over $100	No charge.
	Under $100	$1 per month
M	All accounts	$0.75 charge plus 6 cents per check; $0.15 *credit* for each $100 balance.

Special checking accounts—Schedule of service charges

[Of the 35 banks surveyed in the district, 9 did not offer special checking services]

	Number of banks	Service charge per check	Maintenance charge
Reserve city banks	2	$0.10	$0.50
	7	.10	.25
	4	.10	0
Reserve city-metropolitan area banks outside center of Reserve city	3	.10	.25
	3	.10	0
	1	.07½	.50
Country banks	3	.10	.50
	3	.10	.25

Mr. BRYAN. May I say that the housewife who pays 15 cents on a dollar and a half check needs to attend a course, not at Federal Reserve bank expense.

Mr. VANIK. Well, you see, many times she has that checking account as a matter of prestige, and she does not realize or her husband does not realize how much is paid for it.

I do not think many people are aware really of the cost of these charges and that is one of the purposes of this kind of hearing, to get down to the facts and find out how the banking community can better serve.

A great part of the work in this business is being handled by the clearinghouse that you operate, and I think that the part that is handled by the individual banks is costing far out of proportion to the total cost.

Mr. BOPP. Well——

Mr. VANIK. Mr. Bopp?

Mr. BOPP. I will get some sample schedules for you.

(The documents referred to face page 486.)

Mr. VANIK. Yes. At this point I will yield the balance of my time, Mr. Chairman, if I have any left.

The CHAIRMAN. Mr. Bolton?

Mr. BOLTON. Thank you, Mr. Chairman. Just one question of the chairman, if I might:

Did I gather from your reply, with regard to witnesses, that you felt it was the responsibility of the members to go out and get witnesses from the field that I suggested or will the staff do that?

The CHAIRMAN. No, sir; we will make sure that we get somebody to cover the points that you would like to have covered, but if you are not satisfied with the testimony we would be very glad to have a suggestion from you.

Mr. BOLTON. I appreciate that, sir.

Just one question, gentlemen, from either of you: Following the line of thinking of my colleague from Ohio, if the clearing facilities of the bank were in some way put onto a charge basis for the member banks what effect do you think that could have upon the cost to the individual holder of a checking account?

Would you feel that, from your experience in the banking business, that this would be added on to the cost of the checking account or how would the bank probably handle it?

Mr. BOPP. It is difficult to feel sure as to what the consequences might be.

I think one consequence, however, might be that if a Federal Reserve bank were to make charges a rational person would see if he couldn't avoid these charges in some way or another, by using perhaps a different kind of mechanism.

Prior to the establishment of the system we did collect checks in another way. In fact, some of the older textbooks gave horrible examples of checks going all around the country to avoid charges even though they ended up across the street. So I think there is a possibility of this, which would be more important for the economy as a whole than the effect on the customer, but my hunch would be that it would go up.

Mr. BRYAN. Well, Mr. Bolton, I think that there is no escaping the conclusion that in the case where a charge were made there would have to be adjustments in the banking system either to recoup in whole or in part the amount of the charge.

Whether the effort to recoup would result in higher interest rates, bond yields, service charges to customers—I can't tell you.

I would assume it would come in many ways.

By and large, of course, we have to remember that local clearinghouses handle the clearing items between local banks. What we chiefly handle are those that go across the country and into country areas.

So, that, in my judgment, and this can be a matter of opinion which I freely want to say, the check clearing mechanism of the Federal Reserve banks has been a service to the American public which has created a very effective and very efficient means of payment that goes from one end of the country to the other. And——

Mr. VANIK. Mr. Bryan, you would not say the general public, just those who are using the checking account services? That is still not the general public.

Mr. BRYAN. No; it goes to more than that, Mr. Vanik.

I think that is incorrect because you must remember that a man who does not have a checking account can, nevertheless, walk into a bank and buy an instrument whether it is a cashier's check or——

Mr. VANIK. He pays 30 cents for an $11 check?

Mr. BOLTON. Not to argue with the gentleman, but I am interested in his figure because I hear the ads all the time of 10 cents at home.

Mr. VANIK. Well, you had better check up. The last charge I paid was 30 cents for an $11 check. That was 2 weeks ago.

Now, maybe it has changed since then.

Mr. BOLTON. I would suggest that the gentleman go to another bank.

Mr. VANIK. There is no choice.

Mr. BOLTON. Or go to a better one.

Mr. VANIK. Yes.

Mr. BOLTON. Yes, all right.

I was interested in your answer, Mr. Bopp, because you make reference to the fact that another system of check collecting might occur in order to avoid charges.

THIRD FEDERAL RESERVE DISTRICT

Survey of service charges on checking accounts

	Total deposits * (000 omitted)	Regular checking							Special checking		
		Earnings allowance	Maintenance charge	Activity charge	Stop payment	Return items	Post-dated or N.S.F. checks	Certified checks **	Maintenance charge	Activity charge	Charges for checks
PENNSYLVANIA City of Philadelphia, Pa.											
Central-Penn National Bank	295,400	10¢ for ea. $100. of bal. over $500.	50¢/mo.	On a/c's up to $500.: N/C for first 10 items; 5¢ for ea. item over 10. On a/c's $500. to $1,500.: 5¢ for ea. check paid, ea. deposit ticket and ea. item on deposit ticket. On a/c's $1,500. to $10,000.: 4¢ for ea. check paid and 2¢ for ea. deposit ticket and ea. item on deposit ticket. On a/c's over $10,000.: 4¢ for ea. check paid and 1 1/2¢ for ea. deposit ticket and ea. item on deposit ticket.	1.00	.25	4.00	.25	25¢/mo.	-0-	10¢ ea.
Fidelity-Philadelphia Trust Company	534,709	15¢ for ea. $100. of average monthly collected balance over $300.	75¢/mo. on a/c's $300. and over; $1./mo. on a/c's under $300.	On a/c's under $300.: Allowed 1 item per ea. $20. balance, 5¢ ea. for excess items. On a/c's $300. to $2,499.: 5¢ ea. item. On a/c's $2,500. and over: 4¢ per item paid, 4¢ for items deposited on first $500., 2¢ per item on excess.	1.50	.25	3.00	.50	50¢/mo.	-0-	10¢ ea. in quantities of 20; 8¢ ea. in quantities of 40.
Provident Tradesmens Bank and Trust Company	516,866	On a/c's under $500. -0-	$1./mo.	Allowed 3 items per $100. of bal.; 5¢ per item in excess.	1.00	.25	3.00	.25	25¢/mo.	-0-	10¢ ea. for book of 20; 9 3/8¢ ea. for book of 40.
		On a/c's $500. to $4,999. 10¢ per $100. of average ledger balance.	50¢/mo.	5¢ for ea. item.							
		On a/c's $5,000. and over 10¢ per $100. of average ledger balance.	50¢/mo.	4¢ ea. for first 500 items; 3¢ ea. for item over 500.							
The First Pennsylvania Banking and Trust Company	1,171,915	15¢ for ea. $100. of collected balance.	$1./mo.	5¢ ea. check or deposit ticket plus 3¢ ea. per item on deposit tickets.	2.00	-0-	4.00	N/C - reg. a/c's; 25¢ ea. - spec.a/c's	50¢/mo.	-0-	8¢ ea.
The Philadelphia National Bank	1,026,247	15¢ per $100. of collected bal. up to $100,000. 17 1/2¢ per $100. for the excess of $100,000. collected balance.	75¢/mo. and $3./mo. on banks' a/c's.	10¢ ea. deposit ticket; 4¢ ea. check deposited up to 2,000 checks; 2¢ ea. check deposited over 2,000. Checks drawn, 6¢ ea. for 1st 1,000; 5¢ ea. above 1,000. Banks - 3¢ ea.check deposited up to 2,000; 1 1/2¢ ea. over 2,000.	1.00	.25	3.00	.25	50¢/mo.	10¢ ea. check paid.	-0-

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	Total deposits * (000 omitted)	Regular checking: Earnings allowance	Regular checking: Maintenance charge	Regular checking: Activity charge	Stop payment	Return items	Post-dated or N.S.F. checks	Certified checks **	Special checking: Maintenance charge	Special checking: Activity charge	Special checking: Charges for checks
PENNSYLVANIA (continued)											
City of Philadelphia (continued)											
Broad Street Trust Company (nonmember)	177,068 (9/30/63)	10¢ for ea. $100. of average balance over $300.	$1./mo. on a/c's up to $300. 60¢/mo. on a/c's over $300.	On a/c's up to $300.: Allowed 5 items for ea. $100. of average balance. Charged 5¢ for ea. item in excess. On a/c's $300. and over: 4¢ ea. per item paid; 3¢ ea. per item deposited.	1.50	.30	4.25	.75	45¢/mo.	10¢ ea. check paid.	-0-
Industrial Valley Bank and Trust Company (nonmember)	126,859 (9/30/63)	10¢ for ea. $100. of average balance.	50¢/mo.	4¢ ea. check paid, ea. deposit ticket and ea. item on deposit ticket. 5¢ ea. check cashed on another bank.	1.00	-0-	4.00	-0-	25¢/mo.	-0-	10¢ ea. for 20 checks.
Girard Trust Corn Exchange Bank	767,166	15¢ for ea. $100. of bal. up to $100,000.; 17 1/2¢ for ea. $100. of balance over $100,000.	75¢/mo.	6¢ ea. check; 10¢ ea. deposit ticket plus 5¢ for ea. item on deposit ticket except 3¢ for ea. item on deposit ticket on balances over $2,500.	2.00	.30	3.00	.75	50¢/mo.	-0-	10¢ ea. in quantities of 20; 8¢ ea. in quantities of 40; 7.8¢ ea. for 102 checks.
City of Harrisburg, Pa.											
Keystone Trust Company (nonmember)	9,406 (9/30/63)	-0-	50¢ if balance is under $50.	N/C for deposit items. Allowed free: 10 checks on balances to $200.; 20 checks on balances to $300.; 30 checks on balances to $400. and 10 checks for each additional $100. of balance. Charged 4¢ for each check in excess of allowed number.	.25	-0-	1.00	.15	-0-	-0-	$1.50 for 20 checks.
Dauphin Deposit Trust Company	112,767	-0-	$1. if balance is under $100.	Allowed free: 10 checks for first $100. of balance plus 5 checks for each $100. of additional balance. N/C for deposit items.	1.00	-0-	2.00	-0-	-0- except 50¢ quarterly on inactive a/c's with balances under $100.	10¢ ea. check paid.	-0-
Harrisburg National Bank and Trust Company	105,613	-0-	$1. if balance is under $100.	No activity except if account has unusually high activity.	-0-	-0-	3.00	.25	-0- except 25¢ mo. on inactive a/c's.	-0-	10¢ ea. for 20 checks.
Other Pennsylvania banks											
Mont Alto State Bank, Mont Alto, Pa.	2,613	-0-	50¢ if balance is under $100.	None.	-0-	-0-	.50	-0-	-0-	-0-	$1.50 for book of 20 checks.

	Total deposits * (000 omitted)	Regular checking: Earnings allowance	Regular checking: Maintenance charge	Regular checking: Activity charge	Regular checking: Stop payment	Regular checking: Return items	Regular checking: Post-dated or N.S.F. checks	Regular checking: Certified checks **	Special checking: Maintenance charge	Special checking: Activity charge	Special checking: Charges for checks
PENNSYLVANIA (continued)											
Other Pennsylvania banks (continued)											
Farmers Trust Company of Lebanon, Pa.	9,810	-0-	50¢ if bal. is under $100. or dormant.	None.	-0-	-0-	1.00	-0-	-0-	-0-	$1.50 for book of 20 checks.
Myerstown Bank and Trust Company, Myerstown, Pa.	13,245	No service charges on checking accounts.							No special checking accounts.		
Orrstown Bank, Orrstown, Pa.	2,624	No service charges on checking accounts.							No special checking accounts.		
Northern Central Bank and Trust Company Williamsport, Pa.	36,240	15¢ for ea. $100. of average balance	$1./mo. on balances less than $100. $3./yr. on inactive a/c's less than $100.	Maintenance charge of $1. allows 10 checks without charge. 4¢ each check paid or deposited in account.	1.00	-0-	1.00	.25	-0-	-0-	10¢ ea. for 20 checks.
NEW JERSEY											
City of Camden, N. J.											
Camden Trust Company	192,623	12 1/2¢ per $100. of balance after deducting 25% reserve.	50¢/mo.	5¢ ea. check; 3¢ ea. deposit plus 3¢ ea. item on deposit ticket.	2.50	.50	5.00	.25	50¢/mo.	10¢ ea. check paid.	-0-
First Camden National Bank and Trust Company	149,020	15¢ for ea. $100. of average available balance.	75¢/mo.	6¢ ea. check or 5¢ ea. if balance is over $1,000.; 10¢ ea. deposit and 5¢ ea. item on deposit ticket except 3¢ ea. if balance is over $1,000.	2.50	.25	5.00	.25	35¢/mo.	-0-	10¢ each.
Third National Bank and Trust Company	13,579	16 2/3¢ for ea. $100. of average daily balance.	40¢/mo.	5¢ ea. check; 4¢ ea. deposit ticket plus 4¢ ea. item on deposit ticket.	2.00	$1. to $2.	$1. to $2.	-0-	-0-	-0-	$1.50 for book of 20 checks.
City of Trenton, N. J.											
Broad Street National Bank of Trenton	41,599	16 2/3¢ for ea. $100. of average available balance after deducting 25% reserve.	60¢/mo.	5¢ ea. check and ea. deposit ticket plus 3¢ ea. item on deposit ticket.	.50	-0-	1.00	.25	-0-	-0-	$2.50 for book of 20 checks.
First Trenton National Bank	190,799	10¢ for ea. $100. of average collected daily balance less 25% reserve.	60¢	Business a/c's: 5¢ ea. check and ea. deposit plus 3¢ ea. item on deposit ticket; 3¢ ea. payroll check. Personal a/c's: same as above except 5¢ ea. item on deposit ticket.	.50	.25	2.00	.25	33 1/3¢/mo.	10¢ ea. check paid.	-0-

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	Total deposits * (000 omitted)	Regular checking: Earnings allowance	Maintenance charge	Activity charge	Stop payment	Return items	Post-dated or N.S.F. checks	Certified checks **	Special checking: Maintenance charge	Activity charge	Charges for checks
NEW JERSEY (continued)											
City of Trenton, N. J. (continued)											
Security National Bank of Trenton	23,089	10¢ for ea. $100. of balance.	60¢	Business a/c's: 5¢ ea. check and ea. deposit plus 3¢ ea. item on deposit ticket; 3¢ ea. payroll check. Personal a/c's: same as above except 5¢ ea. item on deposit ticket.	1.00	-0-	1.00	-0-	-0-	-0-	$2.50 for book of 20 checks.
Trenton Trust Company (nonmember)	109,645 (6/29/63)	10¢ for ea. $100. of average collected daily balance less 25% reserve.	60¢	5¢ ea. check and ea. deposit plus 3¢ ea. item on deposit ticket.	.50	-0-	2.00	.10	40¢/mo.	10¢ ea. check paid.	-0-
Other New Jersey banks											
Egg Harbor Bank and Trust Company Egg Harbor City, N. J.	10,317	-0-	$1. for bal's under $300.; 75¢ for bal's $300. to $500.; 50¢ for bal's $500. to $1,000. Dormant a/c's under $100. - 75¢ every 3 mos.	Allowed free: On balances to $300. - 10 items; (6¢ ea. check and ea. deposit item in excess). On balances $300. to $500. - 10 items; (5 1/2¢ ea. check and ea. deposit item in excess). On balances $500. to $1,000. - 15 items; (5¢ ea. add'l item) On balances $1,000. and over - 20 items; (5¢ ea. add'l item)	1.00	1.00	1.00	1.00	-0-	-0-	10¢ ea. for 20 checks.
DELAWARE											
City of Wilmington, Del.											
Bank of Delaware	149,303	15¢ for ea. $100. of average balance except Seaford, Del., office, 10¢ for ea. $100. of average balance.	Business a/c's, 50¢ mo.; pers. a/c's, $1. mo. on a/c's to $199.; 50¢ mo. on a/c's $200. to $299. Seaford off. $1. mo. on a/c's to $199.; 50¢ mo. on a/c's $200. to $399.	4¢ ea. check and ea. deposit ticket plus 3¢ ea. for items on deposit ticket up to 500 items and 2¢ ea. for items in excess of 500.	5.00	1.00	3.00	1.00	-0-	10¢ ea. check paid.	-0-

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	Total deposits * (000 omitted)	Regular checking							Special checking		
		Earnings allowance	Maintenance charge	Activity charge	Stop payment	Return items	Post-dated or N.S.F. checks	Certified checks **	Maintenance charge	Activity charge	Charges for checks
DELAWARE (continued)											
City of Wilmington, Del. (continued)											
Farmers Bank of the State of Delaware (nonmember)	116,599	16 2/3¢ for ea. $100. of collected balance. Personal a/c's -0-.	50¢ mo.; personal a/c's $1. mo. on a/c's up to $250.	4¢ ea. check and ea. deposit ticket plus 2¢ ea. for items on deposit ticket. Personal a/c's, no charges.	2.00	-0-	2.00	-0-	25¢/mo.	10¢ ea. check paid.	-0-
Wilmington Trust Company	345,512	-0- on personal a/c's; 14¢ for ea. $100. of collected balance on business a/c's.	-0- on business a/c's; personal a/c's $1. mo. on bal's to $200.; 50¢ mo. on bal's $200. to $300.	-0- on personal accounts; 4¢ each check and 3¢ each for items on deposit tickets.	-0-	-0-	3.00	-0-	No special checking accounts.		
Delaware Trust Company (nonmember)	102,320	15¢ for ea. $100. of balance after deducting reserve.	$1. mo. on a/c's up to $200.	3¢ ea. check and deposit ticket plus 3¢ ea. item on deposit ticket.	-0-	.25	2.00 (Discretionary)	-0-	-0-	-0-	10¢ ea. for 20 checks.
Other Delaware banks											
Milford Trust Company, Milford, Del. (nonmember)	7,216 (6/29/63)	No service charges on checking accounts.			1.00	1.00	1.00	-0-	-0-	-0-	Charge for checks at cost.
Felton Bank, Felton, Delaware (nonmember)	818 (6/29/63)	-0-	50¢ mo. on a/c's below $200.	Allow 5 checks free on first $100. of balance and 10 checks for $200. balance; 4¢ for each check in excess.	No regular charges for these services.				No special checking accounts.		

* Note: As of 12/20/63 except where otherwise shown.

** Note: Charges for bank checks in most cases are the same as for certified checks.

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In general, would your thought be a different type of system would slow down and complicate the clearing of checks?

Mr. BOPP. Oh, yes.

Mr. BOLTON. Thank you very much.

I have no further questions.

The CHAIRMAN. Yes, sir.

Mr. Weltner?

Mr. WELTNER. Thank you, Mr. Chairman. I welcome my constituent, Mr. Bryan, to Washington and to this hearing. I must say that I will have to take issue with his statement that Atlanta has a great shortage of lawyers. I was one of them and I felt no shortage whatever. So, keep your lawyers at home, Mr. Vanik.

I would like to direct my question to Mr. Bopp, concerning the payments into the Treasury of earnings by the Federal Reserve banks.

As I understand it, after deducting expenses, there is paid to member banks, or stockholder banks, a dividend of 6 percent?

Mr. BOPP. Yes, sir.

Mr. WELTNER. And from the remainder there are made necessary adjustments to create a ratio of 2 to 1, surplus to capital, and the rest of the money is paid into the Treasury?

Mr. BOPP. That is correct.

Mr. WELTNER. So, assuming changes in the capital structure for 1 year, the Government then would receive 94 cents out of each dollar of earnings. Is that correct?

Mr. BOPP. You are leaving off—well, no, the 6 percent applies to the capital—it is not 6 percent of earnings that we pay but it is 6 percent of the capital.

Mr. WELTNER. I see. Well, what is the approximate percent in recent years of earnings that would go into the Treasury?

Mr. BOPP. I am sorry, but the only copy of my annual statement that I have, I have passed up to the chairman.

The CHAIRMAN. Someone take it down there to him, please.

Mr. WELTNER. It would be more than 94 percent, would it not?

Mr. BOPP. Oh, yes.

Mr. WELTNER. Now, if we contrast that to a commercial bank the Government would receive 52 percent of the dollar earnings, would it not?

Mr. BOPP. Yes; there are some qualifications to that, but that is essentially correct.

Mr. WELTNER. So, turning specifically to some of the accounts that have been talked about, the Government "pays" a far greater portion of these expenses than in the case of commercial banks?

Mr. BOPP. I don't quite—is your assumption that since the income tax on commercial banks is 52 percent that the Government is paying 52 percent of their expenses?

Mr. WELTNER. That is correct.

Mr. BOPP. I hadn't quite thought of it that way, sir.

Mr. WELTNER. My question is this: If there is an expenditure by a Federal Reserve bank, that expenditure reduces the amounts that the Government receives by almost 95 or 96 or 97 percent?

Mr. BOPP. By 100 percent.

Mr. WELTNER. Correct.

Mr. BOPP. By 100 percent.

Mr. WELTNER. Now, then in the case of a commercial bank that expenditure would reduce the amount that the Government receives by 52 percent?

Mr. BOPP. Yes.

Mr. WELTNER. Now, with that in mind, I would like to ask about an article in the American Banker concerning the Philadelphia Reserve bank, showing that teenagers had been recruited by the Federal Reserve to work in the bank, and in the evenings attend a business administration course at Temple University, with the tuition paid by the Federal Reserve bank. Now, this quotes your associate, Mr. Bunting, and states that the program had been aimed at "filling a need of trained bankers throughout the third Federal Reserve district."

Now, this is, is it not, training the bankers at the cost of the Government?

Mr. BOPP. This training program, sir, is people who are presently employed at the bank full time. We fully anticipate that they will remain with the bank after they complete their program.

Mr. WELTNER. Insofar as the article says that it is aimed at providing trained bankers throughout the third district, it is incorrect. Is that right?

Mr. BOPP. You are correct, but I should like to qualify that and I saw the article only yesterday myself.

If you will take the preceding paragraph—this refers to an earlier program that we had at the Federal Reserve Bank of Philadelphia in which this was to be the objective.

Mr. WELTNER. Now, the only program you have is training persons who you anticipate will remain with the bank?

Mr. BOPP. We do, indeed.

Mr. WELTNER. The third district is not running a Federal aid to banking program, then?

Mr. BOPP. That is correct.

Mr. WELTNER. I see. I have one question of Mr. Bryan.

Mr. Bryan, you were, of course, a leader in the banking community for many years before your present position.

Insofar as the presidency of that bank is concerned, do you view the training program, such as the Woodrow Wilson tuition, in the same light as you would of senior vice president of the bank with which you were previously associated?

Mr. BRYAN. No, I would not. What that program is, Mr. Weltner, is that it takes some of our young people and says that after, generally, 4 or 5 years' service with the bank, if they wish to enroll in educational endeavors that are governed by our training committee, that we think will be of value to the bank, we will pay certain tuition and books after he has demonstrated that he is passed the courses.

Now, my recollection is that the instance that you are referring to is of a young man who has been with us for some time, who is in the fiscal agency department, where some knowledge of law with regard to the handling of the instruments that go through that department is of value to the bank. That is about the best I can do with this, sir.

Mr. WELTNER. Well, do you see a difference in governing the expenditures of a Federal Reserve bank where the Federal Government—and, therefore, the public—receives 100 percent less of the expenditure than in operating a commercial bank, where the percentage is about half of that?

Mr. BRYAN. Mr. Weltner, that poses a very difficult question.

We do have a Government Training Act. We have Reserve banks, sensitive to their public responsibilities and their obligations, and at the same time, trying to run themselves in an environment in which the surrounding business practice to some extent determines our ability to recruit competent help.

I feel that there can be very well differences of opinion on such matters, and I do not want to say that my opinion is the correct opinion, but I will be delighted to have you express yours on it.

I will be delighted to have the committee express itself on it. At the same time it has been my judgment that these programs were preeminently worth the money to the bank as an efficient on-going operation.

Mr. WELTNER. All right, thank you. I think you have stated the matter quite well. I have no further questions.

The CHAIRMAN. Mr. Brock?

Mr. BROCK. Thank you, Mr. Chairman.

Just as a matter of personal interest, I would like to know whether my colleague from Georgia is suggesting that perhaps the private banks should pay for the training program of the Federal Reserve because it saves the Federal Government 50 cents on the dollar.

Mr. WELTNER. I did not understand your question.

Mr. BROCK. Well, I do not understand your question either.

Are you suggesting that the Federal Government or the Federal Reserve, rather, should not pay for the training program because they cost more than a training program in a private bank?

Mr. WELTNER. I am not suggesting. I am simply inquiring as to the opinion held by these gentlemen, both of whom are outstanding men in financial circles and have a wide variety of experience. My question was directed for my own edification. I make no suggestions.

Mr. BROCK. Well, for my own edification you gentlemen endorse these programs as being of a good result or having a good result for the Federal Reserve?

Mr. BOPP. No question about that.

Mr. BRYAN. No question in my mind at all.

We are quite careful in our bank not to put people on the training programs until they have been with us for some time, and we think are married to us. Sometimes they fool us by departing.

Mr. BROCK. Thank you. Can I take a different tack?

Earlier we were discussing the various activities of your banks, the check clearing, the discount activities, and the open market activities, and so forth.

Can you give me an idea, Mr. Bryan, of the relationship between these activities?

Are they completely nonrelated or is there a relationship in which, for example, your activities in the Open Market Committee enhance the bank's efforts in clearing and discounting or are they unrelated entirely and could they be separated without detriment to any one of them?

Mr. BRYAN. I strongly suspect that the Open Market operation could be divorced from what we call the housekeeping functions, the normal operating functions, of the bank; but when it comes to the discount operation there is obviously a relationship between what the

Open Market Committee is doing at the time and our dealing with the member banks in discounts.

I do not know that I can do better with it.

Mr. BOPP. Sir?

Mr. BROCK. Yes, sir.

Mr. BOPP. I would have a slightly different view, I think, with respect to this.

When checks are cleared through banks and they come to the Federal Reserve bank we have the question of what is technically called float.

So the whole movement of checks themselves influences the level of reserves made available to the banking system and if we were to have, for example, as a result of a snowstorm or something which is a part of this operating program of moving checks and they weren't moving as rapidly as possible, we would have a large increase of float, and it might be necessary for the Open Market Committee to sell securities to mop up these funds which come purely through the operation of the checking system.

This is an illustration of where that might happen.

So they are integrated rather closely.

Mr. BROCK. Do you have a further thought on that?

Mr. BRYAN. I think that is correct, but we could, I believe operate the check collection mechanism, for instance, if we weren't operating the open market.

Mr. BROCK. Let's follow that on further then.

Say that we actually did separate the bank presidents from the Open Market Committee, as has been suggested, by taking them off of the Open Market Committee.

How would it affect your attitude in your work? Would you be as interested in the overall economic structure?

Would you have a reason to take an interest in the Open Market Committee activities that you do today?

Mr. BRYAN. Well, I would like to try to answer that. I would like to admit to everyone here that I am a human being, namely, that I pay attention to those things for which I am responsible.

Obviously, I have had, I think, now more than 23 years of total service in the System, and so long as I continue in it the Board of Governors would get from me the very best advice I could give.

At the same time, being human, now that I know I have responsibility I tend to keep my eye on economic affairs, probably with a greater degree of attention than might prevail if I had only an advisory responsibility.

There is another point there, sir, that troubles me. That is my ability in the long run to recruit a competent research and economic staff in the bank.

I think we have an extraordinarily good one. As Mr. Weltner would suspect, I have had my hand in recruiting that staff.

The staff briefs me. They do not tell me what to do, but it is their job to see that I am informed insofar as my personal efforts do not suffice.

If I were merely an adviser, shooting off memorandums to the Board of Governors, my opinion is that the quality of the staff over the long run would inevitably deteriorate. There is a very fundamental difference in being an adviser to a man who himself has responsibility and in advising an adviser.

Mr. BROCK. Would you like to comment, Mr. Bopp?

Mr. BOPP. Well, I would agree with that statement.

Mr. BROCK. Well, let's approach it from the other point of view then, from the point of view of the Open Market Committee itself, and without asking you to pat yourselves on the back too much, what would be the effect upon the Open Market Committee were it not for the representation that there is at present in your opinion?

Mr. BOPP. I think there is some—if one has an institution which is located at a given point and goes on year after year there is a tendency for it to have a certain image and for this to persist over time, and within limits this is all to the good.

There is, it seems to me, some advantage in having someone from outside, if I may say so, or from around over the country to come in with responsibility in the matter, and there may be some additional fresh ideas that come into it.

And, in addition, of course, there is a contact that is more intimate with various sections of the country which one has by the mere fact of residence and the position that he holds which can bring them into the general discussion of national problems.

Mr. BRYAN. I would agree with that.

Mr. BROOK. Mr. Bryan, yesterday Mr. Ellis was testifying from Boston, and I think he was being questioned by Mr. Reuss about the fact that he paid the expenses of about five or six oi his staff to back the New England Development Commission.

I don't know what the exact title was, but it was a commission to develop the resources of the region and to make it more productive, whether it was industrial or what.

Do you have a similar situation in Atlanta?

Mr. BRYAN. No, we do not. Maybe we would ıave, sir, but the South has been gaining industry not losing industry. So we have had no feelings of need for a similar institution.

Incidentally, I say we started way behind him and needed the infusion of the industry very much. In any event——

Mr. BROCK. I agree completely——

Mr. BRYAN (continuing). In any event, we felt that no need to support an industrial advisory council.

Mr. BROCK. Do you have on your staff an economist who, as Mr. Ellis did, is more or less a specialist in regional problems and planning and advancement?

Mr. BRYAN. All of our economists are, to a certain extent, specialists in the region.

They have to be because my peculiar function on the Open Market Committee is to bring to that Committee knowledge of the region, and if I do not do that I am failing.

Consequently, the economists are all, in a measure, specialists in the region. That does not deprive them of having a broader view.

Mr. BROCK. Are they utilized, as in New England, to go out and make talks to various local communities on how to achieve certain financing or how to improve your lot in one form, fashion, or another? Are they called upon by the region?

Mr. BRYAN. They are called upon to make talks all over the region. We try to avoid getting into the business of giving specific advice to a town or a county. Instead, we will discuss their problems with them, and so forth.

Mr. BROCK. Thank you very much. That is all.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

I would like to commend the gentlemen for bringing to our consideration this evry excellent principle that one tends to pay far more attention to that to which he has a direct responsibility and, if I may, Mr. Chairman, I would like to relate that to the necessity for establishing firmer responsibility if we are going to get the kind of attention which probably is desired here.

And in the regard, gentlemen, I note that in your testimony and in the facts we have regarding your banks, and that which we received yesterday, that there is a wide range of discretion as to what one does in personnel relationships with the money that is available.

For instance, I note that in the Atlanta bank there is evidently quite a bit of interest in gun clubs, whereas in, I think, somebody else's district they were very keen on bowling.

Now, it seems to me that that is fine if it builds up what you want in terms of your personnel relationships. It seems very apparent that you have a very strong activity in education, which one does not see reflected in other areas around these United States.

Now, they may not need this much educational approach in other branches. However, it does appear to me that there ought to be some method to highlight the keener responsibility so that we are sure that attention is drawn to how this money is actually being spent in the various districts so that policy can be more objectively ascertained.

Now, would you be against that sort of thing?

Mr. BRYAN. Mr. Hanna, let me comment just one minute on the gun club.

Those are not a personnel relations activity.

Mr. HANNA. Public relations?

Mr. BRYAN. In a sense, they might, on some occasions, that I hope never occurs, be a sort of public relations activity.

What happened on that was that some 4 or 5 years ago we waked up to the fact that we had guards who were heavily armed with .38-caliber revolvers, but they could not hit the side of a barn door.

So we got busy right quick and we began putting them through a course of training. Since we do not have firing ranges in some of our buildings, we had to make use of other practice firing facilities.

I am very happy to tell you, and this brings in the matter of a possible public relationship, that our guards are now firing as expert pistol shots.

I would like, if the gentleman will permit me, to take slight exception to the implication that the South needs education more than other sections of the country. That seems to me to be slightly invidious.

Mr. HANNA. Well, I am delighted that the gentleman has put the emphasis the way he has because I think he then makes the background for the point that I should like to put across much more vividly, because I am not being critical of these various expenditures as I approach this, but it occurs to me that if the Board in Washington was responsible to somebody, to where they have to pay more attention to what you gentlemen were doing with this money, that perhaps we would have a better utilization of expenditures, your expenditures, in your individual districts, and it might be very possible that every guard in every Federal Reserve bank ought to be able to hit the barn door.

It appears to me that what is happening is that this thing is rocking along and as long as nothing too critically is said as to how the money is spent no one looks critically at the advantages or disadvantages that might accrue to one district as against what the other district is doing, and that they are doing some things that are very different is very apparent and as to how much quality or lack of quality there is in that difference appears to be completely lacking.

And I suggest that if there were some responsibility such as in the GOA or GAO—whichever way it goes—that this would bring the responsibility to the direct attention of the Board of Governors, and I thought you made an excellent point.

Mr. VANIK. Mr. Chairman?

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. I have just a couple of questions that I overlooked. I will address this to both of the presidents.

Just how does one proceed to get a job in a Federal Reserve bank?

Mr. BOPP. We secure most new employees from individuals who simply walk in and apply at our personnel department, some of whom are referred to us by present and former employees and by high school teachers.

Mr. VANIK. You are not bound by any civil service?

Mr. BOPP. That is correct.

Mr. VANIK. You do not select people off of the civil service register?

Mr. BOPP. That is correct.

Mr. VANIK. And your personnel officer is not obliged and, perhaps, never uses the civil service list of the Government?

Mr. BOPP. Not to my knowledge.

Mr. VANIK. All right. Now, are there banks subject to the President's Executive order against discrimination?

Mr. BOPP. Oh, certainly. We have not had discrimination at——

Mr. VANIK. Now, wait a minute.

My question is a legal one. Are you subject to the President's Executive order on discrimination?

Mr. BOPP. Mr. Vanik, I regret to say that I am not a lawyer and I would have to check with counsel.

I mean, you are asking a legal question and I am not competent to answer a legal question.

Mr. VANIK. Well, you either are or you are not. This order came out.

Now, what did you do when it came out? Do you recall doing anything?

Mr. BOPP. Since we had full integration long since, I didn't see that——

Mr. VANIK. This does not answer the question. The Executive order did not say that you must integrate your force.

You do not have to do anything like that at all. It says that you shall not discriminate.

Did you implement, in any way, the President's Executive order? Did you feel bound to do that?

Mr. BOPP. Our board of directors—we have a statement that our board of directors has adopted, which says that we shall not discriminate against anyone for race, religion, and so forth.

Mr. VANIK. All right. Now, can you provide me with an opinion from someone in your bank which you can back up to indicate whether or not you consider yourselves subject to the President's order?

I do not mean the purposes of it or the goals of it, but do you consider your bank as subject to the President's order against discrimination.

Mr. BOPP. I will do that.

Mr. VANIK. I would like to have that same question addressed to Mr. Bryan, if he will accommodate me?

Mr. BRYAN. Oh, certainly. My understanding is that a legal opinion is being furnished.

My intention was to say that, legally binding or not, I certainly considered the President's order morally binding on the Federal Reserve Bank of Atlanta, and we have been proceeding on that basis.

Mr. VANIK. And now, just proceeding just a step further on this: Will you kindly advise me whether there is any nepotism in the selection of employees in the bank?

Mr. BOPP. We do have—there may not be any relationship between an officer and any employee.

We do, however, have more than one person from a family in the bank.

Mr. VANIK. About how extensive is it in Philadelphia?

Mr. BOPP. Oh, it is very, very small, where there are more than one member of a family.

I would have to check through to see how many specific cases there are.

It take it "nepotism" means that two people from the same family are employed.

Mr. VANIK. Brother, sister, son, mother, father—I do not think you need go much further than that.

But I have been told that it is about as easy or about as difficult rather, to get a job in the Federal Reserve bank as it is to get qualified in the plumbers' union.

In other words, that you have to be a member of the guild to get in.

(The following information was subsequently submitted:)

FEDERAL RESERVE BANK OF PHILADELPHIA,
February 4, 1964.

Re Federal Reserve banks and the President's Committee on Equal Employment Opportunity.

Mr. KARL R. BOPP,
President, Federal Reserve Bank of Philadelphia,
Philadelphia, Pa.

DEAR MR. BOPP: During the course of your testimony on January 30, 1964, before the Subcommittee on Domestic Finance of the Committee on Banking and Currency of the House of Representatives, you were asked at page 559 whether the Federal Reserve Bank of Philadelphia is subject to the President's Executive order against discrimination and were requested at page 560 to furnish a legal opinion indicating whether the Federal Reserve banks are subject to such Presidential order.

It should be noted preliminarily that the bank has for a number of years followed a policy of complete integration in its employment practices. Evidencing this policy, the board of directors of the bank adopted a resolution on October 5, 1961, stating that no discrimination by reason of race, color, creed, national origin, or age was to be practiced in the administration of employment and personnel at the bank.

Such a policy at the bank is, of course, not relevant to the legal question as to whether the bank is subject to the Executive order of the President, No. 10925 (5 U.S.C.A. sec. 631) dated March 7, 1961, as amended by Executive Order No. 11114 (5 U.S.C.A. sec. 631) dated June 24, 1963. In brief, Executive Order No. 10925 established the President's Committee on Equal Employment Opportunity, for which the Vice President of the United States was designated as Chairman, to be composed of the Secretary of Labor as Vice Chairman and of the Chairman of the Atomic Energy Commission, the Secretary of Commerce, the Attorney General, the Secretary of Defense, the Secretaries of the Army, Navy, and Air Force, the Administrator of General Services, the Chairman of the Civil Service Commission, and the Administrator of the National Aeronautics and Space Administration. The Committee was directed by section 201 of the Executive order to study employment practices of the Government of the United States and to recommend additional affirmative steps which should be taken by Exective departments and agencies to realize more fully the national policy of nondiscrimination within the executive branch of the Government. Section 202 of the Executive order directed all "executive departments and agencies" to initiate studies and recommend positive measures for elimination of any discrimination. Section 203 of the Executive order reaffirmed the policy expressed in a previous Executive Order No. 10590, dated January 18, 1955, with respect to the prohibition of discrimination against employee or applicant for employment in the Federal Government because of race, color, religion, or natural origin. Part III of the Executive order provided that "except in contracts exempted in accordance with section 303 of this order" all Government contracts would contain provisions whereby the contractor would agree not to discriminate in its employment practices because of race, color, creed, or national origin and to take the further affirmative steps set forth in that part. Section 303 authorized the Committee to exempt a contracting agency from the requirements of part III either specifically or by regulation to exempt classes of contracts and purchase orders.

Executive Order No. 11114 extended the authority of the Committee on Equal Employment Opportunity to require nondiscrimination in federally assisted construction contracts administered by executive departments and involving grants, loans, or contracts, etc. The amendments in part II to the prior order No. 10925 are not necessarily pertinent to this opinion.

A categorical answer to the question propounded at the hearing presents a question of constitutional law arising from the separation of powers into the executive branch on the one hand, as represented by the President, and the legislative branch on the other hand, as represented by the Congress of the United States. It is necessary to examine the respective powers of the President and the Congress to determine whether a Federal Reserve bank is subject to an Executive order of the President.

Article II, section 1, of the U.S. Constitution states that "the executive power shall be vested in a President of the United States of America. * * *" The balance of article II, relating to the method of choosing a President and his powers as Commander of the Armed Forces or to make treaties, appointments of ambassadors and other officers, is not pertinent to the question under discussion. It has been held by the Supreme Court of the United States that powers of the President are limited and that he cannot exercise powers which cannot be fairly and easily traced to a specific grant of power. *Youngstown Sheet and Tube Company* v. *Sawyer*, 343 U.S. 579, 72 S. Ct. 863 (1952), involved the validity of a Presidential Executive order which directed the Secretary of Commerce to seize and take possession of the plants of steel mills which had become involved in labor disputes at which impending strikes threatened the cessation of the supply of steel necessary for national defense. The Court held that such an order was beyond the powers of the President and stated as follows:

"The President's power, if any, to issue the order must stem either from an act of Congress or from the Constitution itself. There is no statute that expressly authorizes the President to take possession of property as he did here. Nor is there any act of Congress to which our attention has been directed from which such a power can fairly be implied. Indeed, we do not understand the Government to rely on statutory authorization for this seizure. There are two statutes which do authorize the President to take both personal and real propery under certain conditions. However, the Government admits that these conditions were not met and that the President's order was not rooted in either of the statutes. * * *"

In other words, if the power exercised cannot be found specifically in the Constitution, it must be found in an act of Congress, and the Court added that—

"Nor can the seizure order be sustained because of the several constitutional provisions that grant Executive power to the President."

On the other hand, the power of Congress is delineated in article I of the Constitution. It is vested with all legislative powers. Without reciting the details of the article, it is clear that Congress has the sole authority to create an instrumentality such as a Federal Reserve bank, and to state the conditions under which it shall operate. This has been true since the famous decision of *M'Culloch* v. *Maryland*, 4 Wheat. 316, 4 L. Ed. 579 (1819), under which Congress was held to have the power to incorporate the Bank of the United States with powers to transact business both of a governmental and private character in furtherance of the stated powers of Congress to regulate commerce, to coin money, and regulate its value. It was not considered necessary to specifically authorize Congress to create such an institution since that power was considered to be included in clause 18 of article I, section 8, which empowers Congress "to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the Government of the United States, or in any department or officer thereof."

The doctrine of *M'Culloch* v. *Maryland* has been specifically applied to the Federal Reserve Act and the Federal Reserve banks created thereby. In *First National Bank* v. *Fellows*, 244 U.S. 416, 37 S. Ct. 734 (1917), the Court sustained the power of Congress to grant authority to the Federal Reserve Board to issue permits to national banks to exercise trust powers as trustee, executor, administrator, or registrar of stocks and bonds.

In *Weir* v. *United States*, 92 F. 2d 634 (C.A. 7, 1937), certiorari denied 302 U.S. 761, rehearing denied 302 U.S. 781, it was said at page 636:

"There is no doubt of the power of Congress to establish the National Banking System, the Federal Reserve Bank System, and institutions in furtherance of the power, such as the Federal land banks and joint stock land banks. *McCulloch* v. *State of Maryland et al.*, 4 Wheat. 316. 4 L. Ed 579; *Osborn et al.* v. *President, etc., of the Bank of United States*, 9 Wheat. 738, 6 L. Ed. 204; *Westfall* v. *United States*, 274 U.S. 256, 47 S. Ct. 629, 71 L. Ed. 1036; *Farmers' & Merchants National Bank* v. *Dearing*, 91 U.S. 29, 23 L. Ed. 196; *Smith* v. *Kansas City Title & Trust Co. et al.*, 255 U.S. 180, 41 S. Ct. 243, 65 L. Ed. 577; *Norman* v. *Baltimore, etc., R. Co.*, 294 U.S. 240, 303 55 S. Ct. 407, 414, 79 L. Ed. 885, 95 A.L.R. 1352. * * *"

Therefore, it was proper for Congress to make it a criminal offense for the officers of a State bank insured by the Federal Deposit Insurance Corporation to embezzle from such insured State bank. To the same effect see *Doherty* v. *United States*, 94 F. 2d 495, certiorari denied 303 U.S. 658, (C.A. 8, 1938), where the Court said:

"Defendant does not directly challenge the power of Congress to create a corporation to act as a Government depositary and financial agent, and that power must manifestly be conceded."

Franklin National Bank of Franklin Square v. *People of the State of New York*, 347 U.S. 373, 74 S. Ct. 550 (1954), held that it was within the power of Congress to create national banks having the power to accept "savings" and to advertise that fact in apparent violation of the State's legislative enactment. The Court said:

"However, the Federal Government is a rival chartering authority for banks. Since *McCulloch* v. *State of Maryland*, 4 Wheat. 316, 4 L. Ed. 579, it has not been open to question that the Federal Government may constitutionally create and govern such institutions within the States. * * *"

The same doctrines is applicable to Federal land banks, whose operations Congress may reasonably exempt from State taxation. *Federal Land Bank* v. *Bismarck Lumber Co.*, 314 U.S. 95, 62 S. Ct. 1 (1941). The Court said:

"The argument that the lending functions of the Federal land banks are proprietary rather than governmental misconceives the nature of the Federal Government with respect to every function which it performs. The Federal Government is one of delegated powers, and from that it necessarily follows that any constitutional exercise of its delegated powers is governmental. *Graves* v. *New York ex rel. O'Keefe*, 306 U.S. 466, 477, 59 S. Ct. 595, 596, 83 L. Ed. 927, 120 A.L.R. 1466. It also follows that when Congress constitutionally creates a corporation through which the Federal Government lawfully acts, the activities of such corporation are governmental. *Pittman* v. *Home Owners' Loan Corp.*, 308 U.S. 21, 32, 60 S. Ct. 15, 17, 84 L. Ed. 11, 124 A.L.R. 1263; *Graves* v. *New York ex rel. O'Keefe, supra*, 306 U.S. 477, 59, S.Ct. 596, 83 L. Ed. 927, 120 A.L.R. 1466.

The same reasoning was applied to the Home Owners' Loan Corporation in *Pittman* v. *Home Owners' Loan Corporation*, 308 U.S. 21, 60 S. Ct. 15 (1939). See also *Hudspeth* v. *Millville*, 127 F. 2d 373 (C.A. 10, 1942).

If such corporations, including Federal Reserve banks, may only be created by Congress under the terms of the Constitution as governmental agencies, they must for purposes of the question under consideration be considered as instrumentalities of Congress rather than as instrumentalities of the executive branch of the Government, which has no power to create them. In other words, such instrumentalities are accountable to Congress and not to the executive branch. Any interference in the operation of such instrumentalities by the executive branch of the Government without the consent of Congress would be unwarranted and beyond the powers of the President. It is clear from *Youngstown Sheet and Tube Company* v. *Sawyer*, *supra*, that before the President may issue an Executive order regarding such corporations Congress must enact an enabling statute, since it will be recalled from that decision that the President's power "must stem either from an act of Congress or from the Constitution itself."

Even more explicit with respect to a Federal Reserve bank, Congress has required by section 10 of the Federal Reserve Act, 12 U.S.C.A. 247, that the Board of Governors of the Federal Reserve System make an annual report of its operations to the Speaker of the House of Representatives. This report, of course, includes a report on the operations of the Federal Reserve banks themselves.

For these reasons, the foregoing Presidential Executive orders may not be construed to app y to a governmental instrumentality such as a Federal Reserve bank, which is an agency of Congress and not of the executive branch of the Government.

It is not absolutely necessary to apply the foregoing constitutional discussion to the issue under consideration. A reading of the Executive orders concerned indicates that they are intended to apply only to executive departments and executive agencies and not to agencies of Congress. The third preamble of Executive Order No. 10925 supports such limitation in the application of the order in stating that—

"Whereas it is the policy of the executive branch of the Government to encourage by positive measures equal opportunity for all qualified persons within the Government. * * *"

Section 201 of part II of that order requires a President's Committee on Equal Employment Opportunity to study employment practices of the Government of the United States and to recommend affirmative steps "which should be taken by executive departments and agencies to realize more fully the national policy of nondiscrimination within the executive branch of the Government."

The directive in section 202 of the order that studies be made of current Government employment practices applies only to "all executive departments and agencies."

Executive Order No. 10925 is said to be issued by the President "by virtue of the authority vested in me as President of the United States by the Constitution and statutes of the United States." No specific statute is mentioned, so that it is appropriate to examine the authority referred to in previous Executive order of President Eisenhower No. 10590, dated January 18, 1955, as subsequently amended, for the authority upon which the previous Committee on Government Employment Policy was created. That order refers to section 214 of the act of May 3, 1945, 31 U.S.C.A. sec. 691, as the authority for such an Executive order. This is the statute under which appropriations of executive departments and independent establishments of the Government are available for the expenses of committees, boards, or other interagency groups engaged in activities of common interest to such departments. It has no relation whatever to departments which operate without any appropriation, such as a Federal Reserve bank. It is additionally significant that section 401 of Executive Order No. 10925 provides that the expenses of the President's Committee on Equal Employment Opportunity are to be defrayed under the same statute. Obviously, such a committee, whose expenses are to be paid from appropriated funds of executive departments and other establishments, would receive no expenses from a Federal Reserve bank which operates without appropriated funds, thus indicating that Executive Order No. 10925 was not intended to apply to a Federal Reserve bank.

While Revised Statute 1753 (5 U.S.C.A. sec. 631), empowers the President to prescribe the regulations for admission to the civil service of the United States, that statute can have no applicability to the employment policies of Federal Reserve banks since the employees of Federal Reserve banks are not members of the civil service of the United States. They are employed by the Federal Reserve banks as independent corporations, operating solely with funds not appropriated by Congress.

For a number of years the Chief National Bank Examiner of the Third National Bank Region has occupied space in the premises of the Federal Reserve Bank of Philadelphia under a lease granted by the Federal Reserve bank to the Comptroller of the Currency. The current lease is dated January 14, 1964, commencing January 2, 1964 and ending June 30, 1964, with an option on the part of the Comptroller to renew the term for 1 year. The lease calls for the payment of a monthly rental by the Comptroller of the Currency of $729.17. Paragraph 12 of that lease incorporates into the lease by reference an attached page which is entitled "Nondiscrimination in Employment." That page is an exact copy of section 301 of Executive Order No. 10925 under which the contractor agrees not to discriminate in its employment practices because of race, color, creed, or national origin and to do the various other acts set forth in that section which are deemed necessary to carry out that covenant. However, the regulations of the President's Committee on Equal Employment Opportunity as last revised, contained in volume 28 of the Federal Register, No. 175, at page 9812, September 7, 1963, must be taken into consideration. Section 60–1.4 of that regulation provides an exemption as follows:

"Contracts and subcontracts not exceeding $10,000 other than Government bills of lading, are exempt from the requirements of the equal opportunity clause. * * *"

The effect of such exemption is implemented by section 60–1.4(c) to the effect that—

"Notwithstanding the inclusion in any contract or subcontract of the equal opportunity clause, the contractor or subcontractor shall be exempt from compliance therewith if the contract or subcontract containing such clause is exempt." Therefore, the incorporation of section 301 of Executive Order No. 10925 in the lease of the Federal Reserve bank in favor of the Comptroller of the Currency is of no effect.

In summary:

(a) A Federal Reserve bank is an instrumentality of Congress and is not subject to Presidential Executive Order No. 10925 as amended.

(b) Executive Order No. 10925 is directed only to executive departments and executive agencies of the Government and does not by its terms apply to Federal Reserve banks which are instrumentalities of Congress and are not part of the executive department.

Very truly yours,

MURDOCH K. GOODWIN,
Vice President and General Counsel.

STATEMENT ON FAMILY RELATIONSHIPS AT THE FEDERAL RESERVE BANK OF PHILADELPHIA

1. There are no directors or officers to our knowledge who are related to each other by marriage or birth.

2. There are no employees to our knowledge who are related by marriage or birth to any of the 33 officers or the 9 directors.

3. There are three employees to our knowledge who are related by marriage or birth to department heads. None of these employes is working under the supervision of a relative. There are 20 department heads. The relationship to the department head is as follows:

a. Brother.
b. Son.
c. Second cousin.

4. There are three employees to our knowledge who are related to supervisors. None of these employees works directly under a relative. There are 46 supervisors. The relationship to the supervisor is as follows:

a. Brother-in-law.
b. Nephew.
c. Brother-in-law.

5. We do not have precise information on the number of employees who may be related if neither is in a supervisory or a management position.

Mr. VANIK. Now, I would like to——

Mr. BRYAN. Mr. Vanik?

Mr. VANIK. Yes.

Mr. BRYAN. I would like to reply on two points:

One, I read the President's order and whether I was legally bound by it or not I considered myself bound by it, and we took positive steps to go forward with integration.

Now, as to the matter of nepotism, we have a resolution of our board of directors that you cannot be related to an officer, you cannot be related to a member of the board of directors, or to any other employee unless the President makes a specific exception of the case.

Mr. VANIK. Is that a resolution?

Mr. BRYAN. Yes.

Mr. VANIK. That is fine. I would like to have that in the record.

That is exactly the point I was driving at because I am concerned that there should be equal opportunity for all people to have a chance to get into the bank and get this tremendous experience and get these scholarships and get all of this added education and training that the bank makes available to its personnel.

Attached is a certified copy of the resolution of our board of directors. While I find that employment of relatives of other employees is not strictly prohibited, we have a rigid policy of not employing them and, if marriage occurs among two of our employees, one leaves our service.

(The resolution follows:)

EMPLOYMENT OF RELATIVES

"Director Ottley moved that the recommendation of Governor Wellborn be adopted as to the future policy of this bank not to employ officers and clerks who are related to either officers, directors, or other employees of the bank. The motion was seconded but after some discussion, Director McCrary made a substitute motion that in future, it shall be the policy of the Federal Reserve Bank of Atlanta and its branches not to engage employees that are related to officers and directors, and that it does not look with favor on engaging employees related to other employees. This substitute motion was seconded by Director Hartford, and carried.

"I certify that the foregoing is a true and correct excerpt from the minutes of a meeting of the board of directors of the Federal Reserve Bank of Atlanta held on June 14, 1924, and that the action taken has not been repealed, revoked, or amended.

"This, the 7th day of February 1964.

"[SEAL] "GEORGE HIBBERT,
Secretary, Board of Directors."

Mr. VANIK. I just hope that in this program of recruitment that you develop opportunities for the great numbers of people who are anxious to enter the banking field and would be very anxious to have that experience and spend their lifetime in work in this field.

Thank you, Mr. Chairman.

The CHAIRMAN. The training program, on that I see this criticism.

If you use your funds in the Federal Reserve Bank of Philadelphia or the Federal Reserve Bank of Atlanta, to train people in the banking business, pay their tuition and other expenses, which your reports indicate you are doing, there is this difference.

You are selecting the ones to be trained and the purpose for which they are to be trained. If you do not make that expenditure that would go under the Treasury 100 percent.

I believe you said that, did you not, Mr. Bopp, and you Mr. Bryan?

Mr. BRYAN. Approximately.

The CHAIRMAN. Now, if it came into the Treasury then the people's representatives, who are elected by the people, would have something to say as to how that money should be spent in the way of giving all citizens an opportunity to participate rather than just letting you determine how the money should be spent.

So I think that you gentlemen, as Presidents of banks, have gone rather far afield when you take upon yourselves to do things that the Federal Government is doing now, and the money that you are spending for that is several times what the Government would spend for one person. The Government would help 10 or 12 people, maybe, in a training program that is so necessary now, to every one that you are training and only for the banking business.

And what I cannot understand is that you are training them for the banking business when you are not doing any banking business in a Federal Reserve bank.

You are clearing checks and handling coin and currency, and things like that.

What kind of banking business do you teach them to do?

Will you answer that, Mr. Bopp?

Mr. BOPP. Mr. Chairman, if we did not make these expenditures, in my view, the quality of work that we are doing at the bank would deteriorate.

The CHAIRMAN. What kind of work is it; the type that you get a scientist for or an economist of some kind, or is it the type that almost anyone who is fairly skilled can do?

Well, besides that, I will just ask you some questions and try to make it brief.

These bonds that you say that you have, $1,900 million. I believe it is, you do not actually have those bonds, as you said.

They are in the New York Federal Reserve Bank. You have never seen them, have you?

Mr. BOPP. No, that is correct.

The CHAIRMAN. You never expect to touch them, do you?

Mr. BOPP. That is correct.

The CHAIRMAN. You never bought them. Your decision didn't buy them?

Mr. BOPP. My personal decision did not buy any particular bond——

The CHAIRMAN. That is right, your decision did not buy them and your decision will not sell them.

Yet, they are paying you that $61 million for a part of the Federal Reserve open market portfolio in the New York bank, that your bank had nothing to do with purchasing or selling or clipping the coupons or collecting the interest from the Treasury, from the taxpayers.

Now, it occurs to me that your statement there is just a little bit deceptive.

You say you own those bonds. You say they are assets. You do not own those bonds. You do not own specific bonds.

You just own an interest, just like 11 other banks, in a portfolio of $33 billion which you have estimated to be about so much.

So do you not think, in order to make a truthful statement and full disclosure, that each Federal Reserve bank should state the facts and just state that, "We own a certain percentage of interest in $33 billion in bonds in New York and, therefore, it is worth so much money and from that they send us so much money each year"?

It is really disturbing to me that the Federal Reserve banks assume the attitude that they do in view of the fact that the Government supports them almost 100 percent.

I do not see how Presidents of banks outside of New York can actually justify their salaries.

They are not making any money. Their loans and discounts are practically discontinued.

Things they used to make money on, they do not make money on at all. You have lots of employees, that is true. It is quite a big problem.

I know you gentlemen are Presidents of these banks, and you have to look after these employees and personnel problems are a big thing, but they all relate to things that section 16 of the Federal Reserve Bank Act says that the banks should pay for, but you have worked it around to where the Government is paying for it.

And that is the part that I cannot understand your convictions on.

When you say in there—just read exactly what you say about that $1,900 million in your condition statement.

Mr. BOPP. Oh——

The CHAIRMAN. You do not have it? I will send it back to you.

Mr. BOPP. No; I think I have it here now.

The CHAIRMAN. Here it is. I will send it to you.

Mr. BOPP. Thank you.

The CHAIRMAN. Now, what do you represent about those bonds?

Mr. BOPP. We say "U.S. Government securities." We have it listed as U.S. Government securities.

The CHAIRMAN. Under what heading?

Mr. BOPP. "Loans and securities."

The CHAIRMAN. Loans and securities held by the bank?

Mr. BOPP. Yes; under the assets.

The CHAIRMAN. All right. Now, really, that is not the truth, is it?

I mean, you do not hold those securities. You hold an interest in a portfolio that is in New York. You have never seen those securities.

You never will see them. You do not have certain designated securities.

If you did, you might be correct in saying that even though they are in New York.

But since you just have an interest, a small interest—or I will not say "small," as it is substantial, but a certain percentage, do you not think it would be better for you to state in your statement, and each of the other banks, that you have a certain percentage in the portfolio in New York that would give you an interest of so much, and from that interest you received this year $61 million in interest?

In fact, it would be impossible for you to get your percentage cut off exactly. You would not know how to start, short term securities, long term securities, 4 percent interest, 3 percent interest—it would be physically impossible, I am sure, for each bank to have a certain part of that portfolio allocated to it.

Therefore, it is not correct to say that you hold so much in securities.

It has increased, but would it not be correct if you just stated the truth and said that, "Our bank receives from the Open Market Committee each year $61 million because we have a certain percentage of interest in that portfolio"?

Do you not think that would be right?

Mr. BOPP. There are times when it is published and the open market account has a description of the nature of this ownership. It is not in this particular statement.

The CHAIRMAN. Now, I have a resolution, just introduced, to require the Federal Reserve Open Market Committee to peg the price of Government securities so that the actual yield will not go above 4¼ percent. Now the face value interest rate has been under a 4¼ percent ceiling for more than 40 years—since 1918, to be exact, under Woodrow Wilson.

That has never been changed. That has been a ceiling beyond which you cannot go, and we have held it that way since 1918.

But when prices go below par, the actual yield can exceed that ceiling, and I have introduced a resolution to require the Federal Reserve to prevent that. In other words, to hold the line at 4¼ percent.

Now, when this was done back in 1942 to 1951 the Fed handled that just by buying what was necessary, and the banks got the benefit of the reserves, did they not?

Mr. BOPP. That is correct.

The CHAIRMAN. Now, I do not think we should rely entirely on that. Of course, they could always do it because bankers have something at stake too.

If they began to abuse that reserve, why, they could raise the reserve requirement of the bank and correct it.

Now, I would not like to depend entirely upon the reserve requirements of the bank being raised. I know that is a rather harsh method to use, and it goes right to the profits of the bank, and we should not use it unless we have to use it.

So I have been thinking about introducing an amendment to that resolution to permit the Federal Reserve Board, if they do not have the power now—I am not convinced they do not have the power—to immobilize these reserves.

Does the Federal Reserve Board now have the power to immobilize those reserves that are created under those conditions at the present time?

Mr. BOPP. It has, within limits, power to increase reserve requirements.

The CHAIRMAN. This is a little different from that.

This is to immobilize them. In other words, when you buy a bond from a bank for $1 million, instead of giving that bank credit for that

$1 million upon which it can issue about $10 million to that $1 million, it just immobilizes it. Have the Federal Reserve Board state, by regulation, that the credit cannot be used for the fractional reserve system and, therefore, will not be considered as a part of the reserve for banks.

Could that be done under existing law?

Mr. BOPP. Not under existing law.

The CHAIRMAN. Well, we are thinking about offering an amendment to this to do that.

Do you not think that would be a pretty good thing to do, to protect the people of the country against extortionate interest rates?

Mr. BOPP. I do not think it would work, Mr. Chairman, if I may say so.

The CHAIRMAN. It worked for 12 years, back from 1939 to 1951.

The rate on Government bonds never went above 2½ percent, and no bond went below par.

So it worked perfectly for 12 years when we had the greatest threat of inflation, and when we had the greatest war in history, spending a quarter of a billion dollars a day on the battlefields, and yet all during that time it worked.

Why could it not work? The Federal Reserve can fix the rate at 0.99, 2.1, or they can fix at anything they want and keep it, can they not?

Mr. BOPP. The cost to the country of doing that was the great inflation that we had.

The CHAIRMAN. No, you are mistaken about that. That was not the cause of the inflation.

The cause of the inflation was the lack of the enforcement and the lack of adequate price control allocation laws. You remember that people did not like to observe those laws even in wartime, when their sons were fighting for their country.

They just did not want to observe those laws and it was with difficulty that we got them administered.

Mr. BOLTON. Mr. Chairman?

The CHAIRMAN. But in 1945, immediately after the war, why, everybody wanted those controls off right quick and even our friends, the Republicans were elected in 1946 on that theory, "Get rid of these controls; get rid of them right quick" and we began to get rid of them right after the war and in 1946 we got rid of all of them.

The 80th Congress was elected on that theory, and then by having no controls and allocating power, why, prices went up.

That is what caused the inflation there.

Mr. BOPP. I would agree, Mr. Chairman, that if, in addition to having a ceiling on interest rates we are prepared to adopt the direct kind of controls that we had during the period of the war, that this might work but my own view is that controls, price allocations, et cetera, are not the best way to distribute our economic resources.

The CHAIRMAN. Well, I know, never except in case of a war or extreme emergency. I know that, and we do not want to do that.

But what I cannot understand—most of this money is created money, anyway. You at the banks create it upon the credit of the Nation and why shouldn't we have some control over the interest rates?

Why should we require the people to pay extortionate rates?

And for the Government to pay more than 4¼ percent for its own credit, I think, is an extortionate rate of interest, and why the backers behind it are so persistent I cannot understand.

What is your position on that?

Mr. BRYAN. The same as Mr. Bopp's, I am sorry to say, sir.

The CHAIRMAN. Have you ever discussed this in the Open Market Committee?

Mr. BRYAN. Not that I recall. Incidentally, may I make a comment?

The CHAIRMAN. Yes.

Mr. BRYAN. You say that the New York bank, that we live off of that open market account, and that history has developed our income largely from the Government's interest.

That is a historical development that has many reasons, but I would like to say that the Atlanta bank pays, as a separate corporation, entirely separate, and so does the Philadelphia bank, for these bonds.

So that the New York bank holds them merely as our trustee, as our fiduciary.

The CHAIRMAN. Yes, that is correct, but the New York bank is running the show. That is what I am getting at. They have 12 sets of books up there. They keep your books for you.

They notify you what your condition is at the end of the day. They do that every day, do they not, Mr. Bopp?

Mr. BOPP. Yes, sir.

The CHAIRMAN. And do they not, Mr. Byran?

Mr. BRYAN. They tell us what the figures have been.

The CHAIRMAN. What is the use of these 11 banks?

Mr. BROCK. Mr. Chairman, is it not true that it is not the New York bank that is running the show, in essence, but it is the Open Market Committee that buys itself these bonds?

The CHAIRMAN. All right, then answer this. The law says that every employee in that New York bank is responsible to the President of that bank, not necessarily the Open Market Committee, so that the employees of the New York bank are running the show and they are under the direction and guidance of the President of that bank, who is elected by a board of nine, two-thirds of whom are elected by the private bankers.

Mr. BOLTON. Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. BOLTON. Excuse me, but I am a little confused.

The chairman just agreed with Mr. Bryan that the New York bank holds the bonds which, in the statement, for example, of Mr. Bopp of the Philadelphia bank, indicated that they owned as a trustee.

The CHAIRMAN. That part I do not agree with.

Mr. BOLTON. And if they hold them as a trustee then the statement of Mr. Bopp was 100 percent correct.

This is a question of title.

The CHAIRMAN. Well, the trusteeship part I am not willing to accept at this point.

I would have to give that further consideration. That is like the Federal Reserve claiming they have an indentured trust from the Congress to run all of our money business.

I have never seen any indentured trust, but they keep talking about it. This trusteeship is something new.

Mr. BOLTON. But, at least, in a fiduciary relationship.

The CHAIRMAN. Yes, you would have to accept that, I guess—well, I do not know about that.

Mr. BOLTON. And if they hold them as a fiduciary for the local bank then title actually rests with the person for whom the fiduciary relationship is created, and the New York bank is in the position of a fiduciary, it would seem to me.

I do not mean to belabor the point.

The CHAIRMAN. All right, let me clear this up.

What did you do to pay for those bonds, or any part of them?

What action on your part did you take?

Mr. BOPP. Well, we will have a change in our liabilities. We acquire an asset, and we——

The CHAIRMAN. But you personally, as President, had nothing to do with this. In fact, this law says that you cannot even engage in open market activities at the bank.

You can only buy and sell Government bonds for your member banks if the Federal Reserve Board gives you the power to do so.

In other words, you just do what they tell you you can do.

Otherwise, you cannot enter into it at all, and they have only given you the power to do it in handling securities for your own member banks. That is correct, is it not?

Mr. BOPP. Yes.

Mr. BRYAN. Mr. Patman, could I send you sometime, when they draw the Federal Reserve Bank of Atlanta, a copy of one of those drawings which will clear through the interdistrict settlement fund, showing that the Atlanta bank, as a separate corporation, paid for our share of their transaction?

The CHAIRMAN. I know, but they are just keeping your books. You see, they are handling the whole show. They are running the whole show.

These 20,000 employees—1,000 could run a better Reserve system to carry out the objectives and purposes of the system.

But all of these other things you are doing for the banks, like clearing checks, the law says they should pay for it, but they do not.

In all of these things—you have just gone outside the framework of the act and spent all of this money.

I will start with Philadelphia.

You take bowling fees, $465 for the girls, and $505 for the men, and golf association fees, a banquet, entrance fees to finance a ball game, and all kinds of golf and greens fees, golf supplies, golf tournaments, Thanksgiving dinner, $1,200; Christmas dinner, $1,200; and all of this is with money that would go into the Treasury were it not for the fact that you are intercepting it, and the point that I am making is that you are going way beyond what was intended in the act.

If the postmaster used stamp money for something like that he would be put in jail, because it is public funds he is using.

And then on down here, $2,100 for a dinner at the Ben Franklin Hotel, different kinds of entertaining, flowers and so forth, instructors, and then $1,220 for tuition fees, the graduate school of banking, and all kinds of banking fees; and $485 for the Penn Hills Club, a bank-sponsored meeting, and another meeting, and a number of others about the same, at different hotels, and the membership fees in bankers' associations.

Why should you spend money that would go to the Treasury down here that the people's elected representatives could spend for good purposes?

That is what you are doing. I think it is pretty farfetched. And then the Pennsylvania Bankers Association, $845; $560 to the New Jersey Bankers; $1,400 to the Pennsylvania Bankers again; $1,700 to the Research Institute; $1,600, American Bankers Association, and there are a lot of different dues like that that run up to $1,500 or $1,700, all public money.

Congress has not given you the right to spend it. You say you can spend it because your directors said you could do it, and six of those nine directors are selected by the bankers themselves.

A number of them are bankers. I think you ought to take another look at this. The American Bar Association in San Francisco, and here is a trip to Switzerland. Some of these might be justified, and I know these just represent a small percentage of the actual number.

In the case of Philadelphia this is, and the one from Atlanta would represent probably, both together, 5 to 8 percent of the total.

We got as far as conventions, traveling expenses, conferences, meetings, and so forth—huge amounts.

And the per diem that you pay is from $5 to $10 more than the highest people in the Government can get.

It looks to me like if you are going to spend public money for things like that for your own benefit that you certainly ought to stay within the rules of the Government, and then under miscellaneous there are quite a few on that.

Now the Atlanta statement.

About 5 to 8 percent of the total has some similar ones. It starts off very much like the other one, with the printing of different things and $5,637.50 for the Federal Reserve Club for the year 1962; 451 eligible employees; $150, for the shooters and visitors party, and $356 for a silver tray to award the employees; $2,250 for tuition of an employee for enrollment at the spring session at Harvard University and $2,950 tuition for one officer enrolled at Harvard University, advanced management program.

And here is another one for tuition, and a number of others not as large as these, but there are a number of others.

Federal Reserve bank fees paid to coin experts; fees represent 3 percent of $44,980; $1,300 you paid out to this professional coin collector, and central banking seminar, $3,071. Lunches in various regions of the Atlanta district, $855 at the Middle Tennessee Bankers; $351 in Louisiana; $500 for lunches in Louisiana; $428 for lunches in Louisiana; luncheons continue; meals served in the cafeteria; expenses in connection with the Federal Reserve meetings held in the Atlanta district; payments to Atlanta Transit Co. for sightseeing; 3 days at a hotel suite; $328 in payment to the University of Georgia and then other membership dues; Atlanta Chamber of Commerce, $2,250, $60; $560 Atlanta Improvement Association—that sounds kind of like the development group up at Boston.

Mr. Bryan. No, I am sorry to say it is not.

The CHAIRMAN. $500 to the Georgia Bankers Association; $300 to the NABAC, the Association for Bank Audit, Control, and Operation.

Public relations, membership in the American Bankers Association, $1,600—how in the world you gentlemen—now, you get pretty good salaries, and I am glad you do and it goes up into pretty good money.

I think you are entitled to a good salary because of the job that you hold. I am glad to see you have it, and I am glad to see the Board get a bigger salary. They ought to. But it occurs to me that the public interest ought to be looked at just a little bit more soberly and with a little bit better judgment than to expend the money that would go into the Public Treasury, which is badly needed for our budget, and it should not be spent by you gentlemen by paying the American Bankers Association and the Atlanta chapter of the Institute of Banking and registration fees, which run into a lot of money, and travel expenses for conventions, for conferences and meetings, and so forth, and it runs to lots of money, and for different associations.

I saw one booklet in here about money that I wanted. "Printing of 25,000 copies of booklet, 'Fundamental Facts About U.S. Money.'"

Mr. Bryan, will you send me a copy of that?

Mr. BRYAN. I do not know whether we printed that or not. I am sorry, maybe we did.

The CHAIRMAN. It says right here that you did. "Fundamental Facts About U.S. Money." I would just like to see it.

You know, I am apprehensive that you gentlemen haven't gotten over to the member banks yet that they do not own the Federal Reserve System.

Now, many years ago we brought that out and the Chairman of the Board promised that he would carry on an educational campaign, that the banks do not own the 12 Federal Reserve banks, and that the banks are not entitled to any interest on their reserves that they have in the Federal Reserve banks; that the reserves are not used to buy Government bonds, and that is supposed to have been carried on for several years.

Yet, we see a man who is as important as Mr. Ed Neilan, who is the president of the U.S. Chamber of Commerce, making a statement all over the Nation to the effect that the banks are subsidizing the Government instead of the Government subsidizing the banks and giving as his first example what he says is a fact, that the Federal Reserve banks have used their member bank reserves to buy Government securities and that interest goes into the Treasury, which Mr. Bopp says is not true.

I am glad you nailed that one down, and we will never catch up with him (because a lie has wings, you know, and it will fly far and wide and you just cannot catch up with it.

But Mr. Neilan, I think, has done our country a great disservice in making such a statement as that all over the country.

Would you like to say anything else? Mr. Bryan?

Mr. BRYAN. No.

The CHAIRMAN. Mr. Bopp?

Mr. BOPP. No.

The CHAIRMAN. I am going to make these statements a part of the record at this point.

(The documents follow:)

Federal Reserve Bank of Philadelphia

EMPLOYEE RELATIONS

Date	Amount	
Jan. 24, 1962	$465	Bowling fees, Girls Financial League.
Do	505	Bowling fees, Philadelphia Bowling League (men).
Mar. 12, 1962	155	Golf association fees.
Mar. 28, 1962	242	American Institute of Banking banquet.
Feb. 16, 1962	105	Flowers.
Mar. 9, 1962	105	Do.
Apr. 11, 1962	62	Baseball equipment.
Apr. 17, 1962	300	Entrance fee, Financial Baseball League.
Apr. 16, 1962	157	Golf team expense.
Apr. 23, 1962	152	Greens' fees, etc., Sandy Run Country Club.
May 1, 1962	48	Golf supplies.
June 5, 1962	96	Golf tournament banquet.
May 29, 1962	39	Financial Bowling League banquet (men).
Do	70	Financial Bowling League banquet (women).
Oct. 23, 1962	432	Men's fees, Philadelphia Bowling League.
Nov. 21, 1962	1,200	Thanksgiving dinner, in cafeteria.
Dec. 21, 1962	1,200	Christmas dinner, in cafeteria.
Oct. 31, 1962	30	Luncheons for retirees, in cafeteria.
Nov. 30, 1962	39	Do.
Dec. 31, 1962	34	Do.
Oct. 31, 1962	193	Luncheons—Pioneer meeting in cafeteria.
Nov. 5, 1962	690	Entertainment. [1]
Nov. 21, 1962	2,122	Dinner, Benjamin Franklin Hotel. [1]
Do	478	Flowers. [1]
Nov. 8, 1962	31	Do. [1]
Nov. 9, 1962	100	Cigars and cigarettes. [1]
Nov. 2, 1962	30	Miscellaneous expense. [1]
Jan. 29, 1962	80	Typical payments to instructors in the art class.
Feb. 9, 1962	68	
Mar. 9, 1962	47	
Mar. 30, 1962	100	
May 4, 1962	1,041	Printing of "house" publication "The 3-C."
Do	614	Photoengraving for publication "The 3-C."
Aug. 3, 1962	158	Photoengraving for publication "The 3-C."
Aug. 31, 1962	511	Photoengraving for publication "The 3-C."
Oct. 10, 1962	920	Printing of publication "The 3-C."
Feb. 6, 1963	474	Color plates and pictures for publication "The 3-C."
Mar. 22, 1963	1,857	Printing of publication "The 3-C."
Dec. 31, 1962	1,500	Estimated cost of printing "3-C Calendar."
Feb. 5, 1963	121	Printing of the "3-C Calendar."

[1] Pioneers—annual banquet.

TRAINING AND EDUCATION

Jan. 2, 1962	$1,220	Tuition fees, Stonier Graduate School.
Feb. 6, 1962	240	Reimbursement of tuition fees.
Feb. 14, 1962	199	Do.
Feb. 16, 1962	200	Tuition fees, Rutgers University.
Apr. 2, 1962	300	Tuition fees, American Management Association.
Apr. 5, 1962	224	Tuition fees, Columbia University.
Apr. 23, 1962	318	Tuition fees, NABAC.
Do	258	Do.
June 15, 1962	210	Tuition fees, ABA National Trust School.
Feb. 27, 1963	231	Tuition fees, International Correspondence School.

Federal Reserve Bank of Philadelphia—Continued

RESERVE BANK-SPONSORED MEETINGS IN THE VARIOUS REGIONS OF DISTRICT

Date	Amount	
May 3, 1962	$485	Pennhills Club.[1]
Do	1,161	Americus Hotel.[1]
Do	1,139	Irem Temple Club.[1]
May 15, 1962	1,061	Hotel Penn Alto.[1]
Do	1,579	Cherry Hill Inn.[1]
Do	947	Lycoming Hotel.[1]
Do	1,313	Hotel Hershey.[1]
May 16, 1962	1,287	Allenberry.[1]
June 11, 1962	1,078	Hotel DuPont.[1]
June 11, 1962	1,168	Sheraton Hotel.[1]

[1] At these meetings, the President and other senior officers report on the general business environment, banking developments, and Federal Reserve policy actions. Bankers, businessmen, civic leaders, and university professors attend these meetings.

MEMBERSHIP DUES, ETC.

Jan. 3, 1962	$560	New Jersey Bankers Association.
Feb. 1, 1962	125	Chestnut Street Association.
Mar. 12, 1962	230	Building Owners' Association.
May 9, 1962	845	Pennsylvania Bankers Association (American Institute of Banking assessment).
June 25, 1962	1,400	Pennsylvania Bankers Association.
Apr. 2, 1962	1,752	Research Institute of America.
July 25, 1962	1,600	American Bankers Association.
Aug. 7, 1962	340	Robert Morris Associates.
Aug. 24, 1962	350	National Association Bank Auditors and Comptrollers.
Aug. 29, 1962	350	American Management Association.
Oct. 15, 1962	500	National Industrial Conference Board, Inc.
Jan. 22, 1963	100	Chamber of Commerce of Greater Philadelphia.
Jan. 29, 1963	105	National Office Management Association.
May 28, 1963	100	Pennsylvania State Chamber of Commerce.

Federal Reserve Bank of Philadelphia—Continued

TRAVELING EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

Date	Amount	
Jan. 26, 1962	$213	ABA National Credit Conference in Chicago, Ill., 5 days.
May 11, 1962	173	Convention of National Association of Purchasing Agents in Chicago, Ill., 4 days.
June 15, 1962	154	New Jersey and Pennsylvania Bankers Convention in Atlantic City, N.J., 10 days in May; this amount is described as a direct billing to the bank for lodging and food for 2 officers.
Do	593	Same as above, except 10 officers.
Do	227	AIB National Convention in Atlanta, Ga., 8 days.
June 19, 1962	212	Do.
Apr. 3, 1962	214	National Installment Credit Conference in Chicago, Ill., 4 days in March.
Aug. 10, 1962	484	American Bar Association Convention in San Francisco, Calif., 5 days.
Sept. 27, 1962	107	ABA Convention in Atlantic City, N.J., 4 days; meals and lodging averaged $21.50 a day.
Oct. 3, 1962	326	Same as above, except this amount is described as a direct billing to the bank for lodging and food for 3 men, an average of about $27 a day for each.
Nov. 5, 1962	798	Switzerland, 14 days in October—Bank of International Settlements.
Oct. 29, 1962	280	NABAC Convention in Miami, Fla., 5 days; meals and lodging averaged about $19 a day.
Oct. 29, 1962	275	NABAC Convention in Miami, Fla., 5 days; meals and lodging averaged about $19 a day.
Oct. 31, 1962	289	Same as above, except meals and lodging averaged over $27 a day for 4 days.
Oct. 16, 1962	260	Convention of National Association of Supervisors of State Banks in Bretton Woods, N.H., 8 days in September.
June 10, 1963	359	AIB Annual Convention in Denver, Colo., 4 days in May, plus speech on June 1, 1962; meals and lodging averaged almost $24 a day for the 5 days.
June 11, 1963	307	AIB Annual Convention in Denver, Colo., 7 days in May; meals and lodging averaged about $16 a day.
June 14, 1963	320	Same as above, except average was about $18.
June 20, 1963	321	Same as above, including average of about $18.
May 16, 1963	230	ABA Personnel Conference in Chicago, Ill., 6 days.
June 10, 1963	146	NABAC Convention in Buffalo, N.Y., 5 days in May.
June 20, 1963	391	Libraries Convention in Denver, Colo., 11 days.

Federal Reserve Bank of Philadelphia—Continued

PUBLIC INFORMATION

Date	Amount	
Feb. 9, 1962	$4, 855	Printing of January Business Review.[2]
Mar. 7, 1962	1, 720	Printing of February Business Review.[2]
June 29, 1962	2, 274	Printing of June Business Review.[2]
Oct. 2, 1962	3, 032	Printing of September Business Review.[2]
Oct. 25, 1962	1, 684	Printing of October Business Review.[2]
Jan. 10, 1963	2, 098	Printing of December Business Review.[2]
June 19, 1963	2, 326	Printing of June Business Review.[2]
Feb. 8, 1963	5, 348	Printing of annual report and January 1963 Business Review.
Jan. 29, 1962	6, 278	Reprinting of "Quest for Stability."
Feb. 26, 1962	5, 652	Printing of booklet "The Price System."
Apr. 6, 1962	4, 626	Printing of booklets "Series for Economic Education."
July 6, 1962	909	Reprinting of booklet "The Price System."
Dec. 31, 1962	5, 000	Estimated cost of printing booklets "Series for Economic Education."
Do	1, 370	
Jan. 10, 1963	4, 230	Printing of "Defending the Dollar."
Feb. 14, 1963	4, 286	Printing of "The Mystery of Economic Growth."
Feb. 20, 1963	1, 439	Printing of "The Price System."
Mar. 5, 1963	2, 753	Printing of "Federal Reserve Reports."
Mar. 12, 1963	2, 693	Printing of "The Mystery of Economic Growth."
Mar. 13, 1963	6, 243	Printing of "The Quest for Stability."
Mar. 22, 1963	6, 201	Printing of "The Monetary Policy."

[2] Typical charges for printing this monthly publication.

MISCELLANEOUS

Feb. 6, 1962	$257	Dinner at Hotel Penn Alto to promote sales of U.S. savings bonds.
Feb. 21, 1962	408	Same as above, except at Sheraton Hotel.
June 1, 1962	721	Payment to Federal Reserve Bank of New York for pro rata share of lunch at New Jersey Bankers Association Convention.
Jan. 11, 1962	160	Dow, Jones news service for 1 month; same amount was paid each month through May 1963.
June 11, 1963	180	Same as above, except increased rate.

Federal Reserve Bank of Atlanta

EMPLOYEE RELATIONS

Date	Amount	
Jan. 4, 1962	$543.94	Printing of 1,660 copies of 6–F Messenger, a monthly magazine for employees, 16 pages.
Feb. 9, 1962	386.25	Same as above, except 12 pages.
Aug. 8, 1962	597.00	Same as above, except 16 pages (11 by 8½ inches).
Sept. 10, 1962	434.95	Same as above, except 12 pages (11 by 8½ inches).
Mar. 20, 1963	396.00	Same as above, 12 pages, 11 by 8½ inches; this same amount of $396 was paid for each of 10 other issues not listed above.
May 20, 1963	395.00	Printing of 1,700 copies of 6–F Messenger, 8 pages, 8⅜ by 10⅞ inches (different printer).
June 12, 1963	790.00	Same as above, except 2 issues (May and June).
Jan. 22, 1962	675.00	Federal Reserve Socialites Club, for the year 1962; represents $12.50 per employee eligible for membership; 54 were eligible as of Jan. 1, 1962.
Do	5,637.50	Federal Reserve Bank Club, for the year 1962; computed as above; 451 eligible employees.
Sept. 25, 1962	150.00	Barbecue for the shooters and visitors after the shoot was over (6th annual 6–F handgun championships for individuals and teams—bank guards from the bank's 5 offices).
Sept. 6, 1962	50.75	Trophies for above gun tournament.
Oct. 10, 1962	29.54	Engraving of above trophies.
Nov. 23, 1962	356.75	5 sterling silver trays, awarded to employees after 25 years of service (3 of the trays were for the branches $214.05).

TRAINING AND EDUCATION

Jan. 12, 1962	$370.00	Tuition and other fees and dormitory and dining hall charges for 1 employee enrolled at the Stonier Graduate School of Banking.
Jan. 29, 1962	2,250.00	Tuition for 1 employee enrolled for spring session at Harvard University, program for development of management.
Feb. 19, 1962	235.00	Tuition, dormitory, and other fees for 1 employee enrolled at School of Banking of the South.
Feb. 22, 1962	2,950.00	Tuition, etc., for 1 officer enrolled at Harvard University, advanced management program.
Apr. 6, 1962	243.50	Tuition, dormitory, etc., for 1 employee enrolled at the Graduate School of Banking, University of Wisconsin.
Do	350.00	Enrollment for 1 employee, Georgia Executive Management Seminar, Georgia State College.
June 20, 1962	350.00	Enrollment for 1 employee in advanced programs of the 9th Annual Institute of the American Society of Training Directors at the University of Wisconsin.
July 5, 1962	435.00	Reimbursement of tuition and degree fee to employee who was awarded LL.B. degree at Woodrow Wilson College of Law.
Sept. 13, 1962	2,950.00	Tuition, etc., for 1 officer enrolled at Harvard University, advanced management program.

Federal Reserve Bank of Atlanta—Continued

FEES

Date	Amount	
May 8, 1963	$1,325.94	Fee paid to coin expert for professional services in appraising and acquiring for the bank a coin collection—fee represents 3 percent of $44,198.
Feb. 8, 1963	420.00	Polygraph examinations of 12 prospective employees.
Do	160.00	Employee counselor services by a professional social worker.
Feb. 11, 1963	146.00	Background investigations of prospective employees by a private investigative agency.

CENTRAL BANKING SEMINAR, MAR. 29–30, 1962

Mar. 15, 1962	$3,171.19	Total of 30 checks issued to participants (29 from universities and colleges and 1 consultant) to cover round-trip air fare, 3 days' per diem at $10, and 2 days' hotel charge at $8.24 for each, plus consulting fee of $75 a day for 3 days to the consultant.
Apr. 4, 1962	397.60	Luncheons for participants, served in bank cafeteria, Mar. 29 and 30, 1962.

LUNCHEONS IN VARIOUS REGIONS OF THE ATLANTA DISTRICT

Apr. 25, 1962	$855.00	342 lunches served in connection with economic meeting of middle Tennessee bankers, businessmen, and educators at the George Peabody College for Teachers, Apr. 13, 1962.
May 24, 1962	351.04	328 lunches served to persons attending the bankers farm clinic in Allen Parish, La., May 16, 1962.
Do	500.00	250 lunches, bankers farm clinic, Burnside, La., May 18, 1962.
May 25, 1962	428.00	200 lunches, bankers farm clinic, Franklin, La., May 17, 1962.
Nov. 28, 1962	402.00	140 meals, Citrus Field Day, Winter Haven, Fla., Nov. 13, 1962.
Jan. 24, 1963	315.00	126 meals, Florida Bankers Association Agricultural Committee meeting, Dundee Ranch, Lutz, Fla., Jan. 17, 1963.

Federal Reserve Bank of Atlanta—Continued

MEALS SERVED BANK GUESTS IN BANK DINING ROOM OR CAFETERIA

Date	Amount	
May 3, 1962	$197.34	April 1962 luncheon guests, including luncheon excess of $2.84.
June 5, 1962	399.31	May 1962 luncheon guests, including luncheon excess of $23.98.
Aug. 2, 1962	78.26	July 1962 luncheon guests, including luncheon excess of $13.
Dec. 4, 1962	302.98	November 1962 luncheon guests, including luncheon excess of $12.12.
Mar. 6, 1963	209.11	February 1963 luncheon guests, including luncheon excess of $20.36.
June 4, 1963	107.90	May 1963 luncheon guests, including luncheon excess of $26.01. (The above items are typical monthly charges. When officers and employees are required to attend luncheons in the bank with directors, officers, and official bank guests and the cost of the meal exceeds the amount the officer or employee would normally pay for a lunch, the excess cost is charged to the bank and entered as expense item "luncheon excess.")
Aug. 7, 1962	30.90	Catered lunch at bank on July 16, 1962, for the Secretary, Central Bank of Ghana, and the director of information, Southern Regional Council (cafeteria was closed at that time).

EXPENSES IN CONNECTION WITH FEDERAL RESERVE SYSTEM MEETINGS HELD IN ATLANTA DISTRICT

May 10, 1962	$126.00	3 days' hotel rent for suite which served as headquarters for personnel conference of officers of Federal Reserve banks held in Atlanta.
May 15, 1962	125.00	Payment to Atlanta Transit System, Inc., covering Apr. 30, 1962, tour of Atlanta in a 45-passenger bus—for attendants at the above personnel conference.
Apr. 10, 1963	328.53	Payment to University of Georgia, Athens, Ga., in connection with Federal Reserve System's Agriculture Committee meeting, Mar. 28–29, 1963, covering conference fees for 15 persons, $65.25; dinner at Athens Country Club for 33 persons, $249.65; and coffee breaks and breakfasts, $13.63.
May 8, 1963	204.25	Payment to Dinkler-Plaza Hotel in connection with Federal Reserve System's Committee on Business Analysis meeting, Apr. 23, 1963, covering room, $15.45; banquet for guests, $164.80; and tips, $24.

Federal Reserve Bank of Atlanta—Continued

MEMBERSHIP DUES, ETC.

Date	Amount	
Jan. 2, 1962	$250.00	Atlanta Chamber of Commerce.
Do	60.00	American Management Association, Inc.
Jan. 4, 1962	500.00	Central Atlanta Improvement Association.
May 28, 1962	150.00	National Industrial Conference Board, Inc.
June 29, 1962	75.00	Georgia Association of Credit Management, Inc.
July 5, 1962	500.00	Georgia Bankers Association.
July 6, 1962	300.00	NABAC, the Association for Bank Audit, Control & Operation.
Do	100.00	Financial Public Relations Association.
Aug. 6, 1962	1,600.00	American Bankers Association.
Aug. 24, 1962	2,293.26	Atlanta Chapter, American Institute of Banking; pro rata share of budget for 1962–63.
Nov. 6, 1962	45.00	National Association of Bank Women.
Dec. 13, 1962	32.50	District, Georgia, and American Nurses' Association

REGISTRATION FEES FOR MEETINGS, CONVENTIONS, ETC.

May 28, 1962	$237.50	May 31, 1962, dinner of national convention of American Institute of Banking held in Atlanta, attended by employees of the bank officially connected with the convention.
Feb. 26, 1962	520.50	Pro rata share of AIB national convention expense; Atlanta banks were hosts.
Sept. 26, 1962	375.00	3 registration fees for 1962 International Systems meeting.
July 3, 1962	150.00	2 registration fees for attendance at advanced housekeeping seminar concluded May 25, 1962 (Service Engineering Associates, Inc.).
Apr. 18, 1963	55.00	1 registration fee, including meals, for Conference of National Association of Bank Women, Jekyll Island, Ga. May 23–26, 1963.

***Federal Reserve Bank of Atlanta*—Continued**

TRAVEL EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

Date	Amount	
Feb. 9, 1962	$262.78	American Bankers Association Midwinter Trust Conference in New York City, Feb. 3–9, 1962; meals and lodgings there averaged about $27 a day for 4 days.
Apr. 11, 1962	315.06	Same as above plus shopping for pictures for the bank meals and lodging there averaged about $20 a day for 6 days.
Apr. 3, 1962	[1] $207.53	Florida Bankers Association in Jacksonville, Mar. 22–24, 1962, and appearance as panelist on OEP program in Miami Beach, Mar. 29–30.
May 23, 1962	[2] 118.50	Convention of American Society of Training Directors in Dallas, Tex., May 13–18, 1962.
June 11, 1962	167.21	Annual convention of Special Libraries Association plus meeting of Federal Reserve librarians in Washington, D.C., May 26–June 4, 1962.
Sept. 25, 1962	287.12	Annual convention of National Association of Supervisors of State Banks in Bretton Woods, N.H., Sept. 15–22, 1962.
Oct. 11, 1962	282.27	Do.
Oct. 19, 1962	[2] 112.20	Robert Morris Associates annual meeting in New York City, Oct. 14–17, 1962; meals and lodgings averaged about $26 a day for 3 days; registration fee of $60 was paid Aug. 17, 1962, covering 1 luncheon and 1 banquet.
Oct. 30, 1962	244.48	38th National Convention of NABAC in Miami, Fla., Oct. 19–26, 1962.
Nov. 9, 1962	231.09	Do.
Jan. 10, 1963	[2] 47.07	Meeting of American Economic Association in Pittsburgh, Pa., Dec. 26–28, 1962.
Jan. 24, 1963	[2] 63.83	Same as above, except Dec. 26–29, 1962.
May 20, 1963	[1,2] 58.60	Louisiana bankers farm clinics in Alexandria, New Iberia, and Baton Rouge.
May 30, 1963	[2] 75.40	American Bankers national mortgage conference in Washington, D.C., May 26–29, 1963.

[1] Does not include any amount for use of bank car.
[2] Does not include any amount for airplane fare; the airline companies bill the bank.

Federal Reserve Bank of Atlanta—Continued

PUBLIC INFORMATION

Date	Amount	
Jan. 12, 1962	$2,026.10	Printing of Monthly Review.
May 11, 1962	1,227.50	Do.
Sept. 17, 1962	1,377.20	Same (10,050 copies).
May 20, 1963	1,423.00	Same (10,800 copies). (These are typical charges for printing this monthly publication.)
Jan. 12, 1962	435.60	Printing of Farm Bulletin.
May 11, 1962	316.10	Do.
Sept. 17, 1962	400.90	Same (2,250 copies).
May 20, 1963	435.10	Same (2,550 copies). (Typical charges for printing this monthly publication.)
Feb. 13, 1963	611.70	Printing of 2,000 copies of 48th Annual Statement, 8 pages, self-cover, 1 color, saddle stitched.
Nov. 6, 1962	549.00	Printing of 1,500 copies of booklet "Readings in Southern Finance, No. 3."
Do	660.00	Printing of 3,000 copies of booklet "Readings in Southern Finance, No. 4."
Dec. 26, 1962	1,325.00	Printing of 25,000 copies of booklet "Fundamental Facts About U.S. Money."
Feb. 13, 1963	2,870.00	Printing of 6,000 copies of booklet containing reproductions of selected articles from issues of Monthly Review.
Apr. 12, 1963	625.00	Printing of 40,000 copies of folder "The Federal Reserve System," revised.
June 12, 1963	498.90	Printing of 1,500 copies of booklet "Readings in Southern Finance, No. 5."

MISCELLANEOUS

Jan. 4, 1962	$160.00	Dow Jones News Service for 1 month; same amount was paid each month through May 1963.
June 5, 1963	180.00	Same as above, except increased rate.
Mar. 28, 1963	65.00	Renewal subscription (Apr. 25, 1963–Apr. 25, 1964) to "Washington Information Service on Money, Interest Rates, and Government Securities."
Nov. 29, 1962	51.50	Hotel room in Atlanta, used for Export-Import Bank meeting.
Feb. 1, 1963	52.20	Flowers sent to 2 member banks on the occasion of open house in new bank buildings.

The CHAIRMAN. Any other questions?

Mr. BOLTON. Yes, sir.

The CHAIRMAN. All right.

Mr. BOLTON. Gentlemen, with regard to the personnel system in the bank, is it your purpose and is it the policy of the bank that insofar as it is possible to make promotions, for you to make them inside the bank or to go outside of the bank?

Mr. BOPP. With respect to our bank, every senior officer of the bank was a junior officer. With the exception of the general counsel every junior officer was, prior to that, a member of the staff. So, with the exception of the general counsel, and we have only one man in the legal division, the promotions have been from within.

And I might say that as an oldtime teacher, sir, my great feeling is that one's achievement is represented by those he has had something to do with in teaching, and I would have a feeling of failure should that bank be not prepared to carry on and carry on better after I am gone than while I am there—and with the people who are there when I leave.

This, to me, is awfully deepseated.

Mr. BOLTON. Thank you, Mr. Bopp.

In other words, you feel that it is the policy of the bank for a promotion or in a promotion, that your people can be trained both on and off the job and it is a management decision, to back up that policy, that the training schools have opportunities which you provide for the specific men who are also working in the bank, and that this training is a necessary adjunct of your policy of in-plant promotion?

Mr. BOPP. That is correct.

Mr. BOLTON. The chairman has well pointed out the many expenses that he has taken, in certain instances, exception to, and this is understandable. And I would like to make the point again, and this is the only point I think we disagree upon at all, and that is upon where the control should lie of those expenses.

I notice in some of the items there was a flower expense, recreational expenses, and dinner meetings, and other meetings which I feel both of you gentlemen would feel were policies of management decision, as necessary to carry out the policies of the bank.

Mr. BRYAN. Certainly, that is true, sir, in a general way. Obviously, when you are running a big institution, as when you are running your personal affairs, you sometimes do some foolish things.

Sometimes you make expenditures you would not care to justify, but the overwhelming amount of these expenses, I think, are wisely devoted to the future, not of the banking system—we are not trying to subsidize the banking system by this—but for the future of the Federal Reserve Bank of Atlanta.

And I would like to associate myself with Mr. Bopp. He said that if he does not leave the Federal Reserve Bank of Philadelphia better at the end of his term of service than when he began he would feel somehow degraded and defeated.

Well, that is precisely the way it is with me.

Mr. BOLTON. With regard to these tenures, sir, if there were an outside auditor, who audited your accounts and, therefore, brought similar expenditures of this nature perhaps more out in the open, would you feel that this would be harmful in any way to the system?

Mr. BRYAN. In the long run I think it might be and could very well be, sir, and I would like the privilege of sending you privately a statement that I have made on that on one occasion when I tried to deal with it as carefully as I could, and I would like the privilege of sending Mr. Weltner a copy of the same statement.

What this committee is doing, I think, is perfectly proper in that Mr. Patman is saying, "Look, I think you have been stupid," and I think he has a perfect right to do that.

The committee has a perfect right to do that, and I do not mind being chewed, but at the same time I am a conscientious, hard-working individual, who spent nearly all of his evenings at work and all of his days, too. And I am not deliberately trying to defraud the Government out of a dime.

The CHAIRMAN. May I make that plain, that I am not accusing you of doing that, Mr. Bryan, and I have known you for many years and I know that you would not do anything that you felt was wrong, and you would certainly not deprive the Government of anything that you felt should be turned over to the Government.

I am not impugning your motives or questioning your honesty, either one of you gentlemen, but I say it is a policy that has been built up over 50 years because nobody was looking, and there were no audits.

There were no independent audits for over 50 years, and I say that is a bad thing, and you gentlemen are victims of it. That is what I say. You did not start it. It started long ago.

Thank you.

Mr. BOLTON. And I certainly would like to say for the chairman, and the rest of the members of the committee engaged in these hearings, and speaking for myself, that there is no intent to impugn anyone's motives.

The CHAIRMAN. That is right.

Mr. BOLTON. It is a question of reviewing the situation after 50 years to see whether there are improvements which could be made to carry out the policy of the Congress and of the country.

Mr. Chairman, if I might, I would like to say this.

I regret very much that the gentleman from Ohio, Mr. Vanik, had to leave but we did have a small colloquy regarding the cost of checks and again it comes down to semantics and I would just like to clear it up for the record and put a few figures in.

The CHAIRMAN. And since Mr. Vanik is not here would it be all right for him to answer, if he desires?

Mr. BOLTON. Oh, very definitely.

The check which he was talking about was a, in his language, official draft or a cashier's check, which has an entirely different status and charge than does the average commercial check.

For the record I would just like to say that I had my office call a bank in Cleveland to get the normal standard rates which are being charged at the moment.

So that the record may be absolutely clear, this is a State bank, but I am under the impression that the other banks, both Federal and State, in turn, carry the same rates. And the going rates at the moment are a charge of 6 cents per check, a charge of 3 cents per item deposited and 50 cents a month maintenance charge on a checking account.

However, there is an allowance of 12.5 cents made for each $100 on personal checking accounts and 16⅔ cents for each $100 on commercial accounts as a credit against those charges.

Therefore, a person with an average balance of $500 during a month, the average person I am told at this bank, draws about six checks a month against such an account, and has on an average of two items of deposit.

So this would work out whereby with the credits and the debits added in the entire account would come out to around 5 cents a check for that month for that particular account, which was represented to be an average account.

The CHAIRMAN. Without objection, Mr. Vanik will be allowed to extend his remarks if he so chooses.

Mr. BOLTON. Agreed. I made it clear to my colleague that he would be able to do that, but I wanted to get it in while I had it in my mind, Mr. Chairman.

I almost forgot something else. I would like to ask unanimous consent that this be put in the record also at the conclusion of my remarks about the charge for checks and prior to Mr. Vanik's remarks.

I neglected to say that I made reference to an advertisement. I have not been able to get the advertisement since the discussion, but the type of check referred to was that which is a service done by a bank where a person walks in with the cash and obtains a check which he intends to utilize for mailing purposes and it is called, I believe by the advertising bank, an "Econo" check, and the advertisements that I have heard on the radio for such a draft state that it is at the rate of 10 cents a week.

Mr. BROCK. I have another question, Mr. Chairman.

The CHAIRMAN. Mr. Brock?

Mr. BROCK. When the chairman was discussing about putting a ceiling of 4¼ percent not only on the interest but on the yield—Mr. Chairman, is that correct?

The CHAIRMAN. That is correct.

Mr. BROCK. In your opinion, Mr. Bopp, I gathered from what you said that such an approach is unworkable unless it is accompanied by stringent controls on prices and——

Mr. BOPP. There are circumstances in which that would be the only way to handle it.

Mr. BROCK. Is that your feeling, Mr. Bryan?

Mr. BRYAN. It is.

Mr. BROCK. In other words, were we to put a ceiling on the yield of Government bonds of 4¼ percent we might be taking a step which would be inflationary unless we had the same type of wartime controls as we had in the Second World War?

Mr. BOPP. Quite right. That would not have been necessary for the period that we have just gone through, but there are circumstances in which you have a very active demand and an inflationary development.

Mr. BROCK. But we did see subsequent to the war, and a short period after the war, an increase in prices of about 70 percent, which is about the fastest inflation that we have had in a long time, because we did not have the controls.

Is that correct?

Mr. BOPP. Yes.

Mr. BROCK. My second point along the same line:

When you said that you would restrict or freeze the reserves is that not the same thing as increasing your reserve requirement?

Mr. BOPP. It would strike me so. That is, if one would take 100 percent reserve requirement against an increase in deposits, then on the average of all the deposits it would be higher than before.

Mr. BROCK. That is what I said. And you are, in fact, increasing reserve requirements?

Mr. BOPP. Yes, sir.

Mr. BROCK. Thank you very much.

The CHAIRMAN. I just wanted to suggest, Mr. Bopp, that there is a weapon that you can use in case of an inflationary threat, and that is raising the reserve requirements of the bank.

That is an effective weapon, is it not?

Mr. BOPP. No, sir, not if we are pegging interest rates. We tried that during the period of the past and the Board came to secure authority from Congress to increase requirements and what seemed to happen then is that we simply bought that many additional securities.

The CHAIRMAN. Well, anyway, we will fix it so that there will not be an inflation, and if it can be done so it will not cause inflation of our dollar.

Do you know of any reason why we should not stop it at 4¼ for long-term bonds?

Mr. BOPP. I would want to know the method because the method of controls, as I say, would do it. But it would do harm if——

The CHAIRMAN. Well, I say if the Congress does have a workable way that they can come up with, that will not permit inflation or deterioration of the dollar, you would be willing for the 4¼ to be the limit on U.S. Government bonds, would you not?

Mr. BOPP. If the methods were not methods of direct controls and so on.

The CHAIRMAN. Well, of course, no one wants direct controls in peacetime. You just could not enforce them.

You could hardly do it in wartime.

Mr. BOPP. That is quite right.

The CHAIRMAN. Do you have anything else?

Mr. BOLTON. No, Mr. Chairman.

The CHAIRMAN. We have next week Mr. Hayes, on Monday, and then we have other Presidents through Tuesday and Wednesday, and then we conclude with the Presidents Thursday with Mr. Irons, of Dallas.

Would either one of you gentlemen like to make a statement for the record before we finish?

Mr. BRYAN. No, sir.

Mr. BOPP. No, sir.

The CHAIRMAN. Thank you, gentlemen, for your time.

Mr. BRYAN. Thank you for your courtesy, Mr. Chairman.

Mr. BOPP. Thank you.

The CHAIRMAN. The committee will now adjourn.

(Whereupon, at 12:35 p.m., the subcommittee recessed to reconvene Monday, February 3, 1964, at 10 a.m.)

28-680—64—vol. 1——34

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

MONDAY, FEBRUARY 3, 1964

House of Representatives,
Subcommittee on Domestic Finance,
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Vanik, Moorhead, Pepper, Weltner, Hanna, Wilson, Kilburn, Widnall, Harvey, and Brock.

The Chairman. The committee will please come to order.

The Federal Reserve System and the 12 Federal Reserve banks, with their branches, are an entity of the U.S. Government. Misguided or uninformed individuals may believe that the 12 regional banks are owned by the member banks of the System, but the Board of Governors of the Federal Reserve System properly recognizes the ownership of the Federal Government. The Board stated in January 1945 "* * * the residual interest in the banks is in the Federal Government, which, therefore, maybe regarded in effect as the owner of all of the common stock."

The enabling legislation granted considerable operating latitude to the Board of Governors and the directors of the several banks in the System. There have been indications that some of the banks have tended to make questionable expenditures and have been reminded gently, but pointedly by the Board that "The Board is confident that the Reserve banks will exercise their discretion with respect to expenditures * * * in full recognition of their responsibilties as stewards of public funds," and "Federal Reserve banks * * * were set up by Congress to perform functions prescribed by Congress for public purposes. * * *"

Some of the Reserve banks have taken their responsibility as "stewards of public funds" less seriously than others and the Board has questioned "* * * the appropriateness of expenditures for professional entertainment, tickets for the theater and similar outlays." Even charitable contributions have been questioned by the Board on several occasions. Specifically a letter from the Board, in 1945, addressed to the Chairmen and all of the Presidents of the Federal Reserve banks advised that, "The Board * * * cannot authorize expenditures of Federal Reserve bank funds by way of donations to further purposes, no matter how worthy, which are not directly related to the conduct of the affairs of the banks."

The principle that expenditures of Federal Reserve funds should be directly related to and for the benefit of the Federal Reserve System and the Federal Government has been enunciated many times by the Board. In 1956 the Chairman of the Board of Governors wrote to the chairmen of all of the Reserve banks, that "Reserve bank expenditures for membership should be limited to those organizations whose purposes are directly related to the work of the Reserve bank. * * * This principle applies regardless of whether the membership is in the name of the bank or an individual." Again in 1958 the Chairman of the Board of the Federal Reserve System advised that "It is recognized that certain expenditures might be very appropriate in a purely private business but would be inappropriate in the case of a Federal Reserve bank, in view of the public nature of its funds and operations." Still again in 1958 the Chairman of the Board of Governors pointed out that, "* * * the Board believes that due consideration should be given to the public interest aspect of the Federal Reserve System when use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve banks is contemplated, and that expenditures of this nature should be limited to those which can be justified by the benefits received by the Reserve bank and the Reserve System."

Since the Federal Reserve System carries out governmental functions and handles Government funds without annual congressional review and approval it may tend to use Government funds for inappropriate purposes. The official position of the Board of Governors is that, "The absence of other governmental controls and supervision under existing law places upon the Board and the Federal Reserve banks a peculiar responsibility to be certain that any expenditures are clearly authorized by law and to be able to justify fully any items which may be questioned." The Board of Governors has further suggested in effect that criteria set up for expenditures by U.S. Government agencies be used by the Federal Reserve banks. For example, in May 1946 the Board referred to "* * * the policy to be followed in these matters, that the limitations on local governmental offices should be borne in mind," and stated in 1952 "The residual interest of the Government in the assets of the Reserve banks and the disposition which is now being made of their earnings, raises further doubt as to the propriety of contributions by the Reserve banks which are not made by Government agencies."

Mr. Hayes, we appreciate your coming down here, and so early—9:30, we know it is an unusual time, and especially from New York. We appreciate your attendance. We are trying to get through by 12 o'clock, so we will not have to have a session after the session of the House.

In order to expedite it, I will ask you to put your statement in the record. We have read your statement. In that way, you can comment on it just briefly, and then we will ask you questions about it, and bring out all the points.

Mr. Hayes. If I might just summarize it.

The Chairman. Yes, sir.

And right after your statement, we will put in the information we have obtained from your office from time to time, and put the expenditures, too, right after your statement.

We appreciate the fine cooperation we have received from you and from the Board of Governors, Mr. Martin, and the rest of them. We have had fine cooperation. There has been no lack of cooperation or coordination in working with our committee. We appreciate it.

Mr. Hayes, we are glad to have you as President of the Federal Reserve Bank of New York. We shall be very glad to consider anything you have to tell us.

As I stated, it would be appreciated if you just summarize your statement, and then let us ask questions.

Statement of Alfred Hayes, President of the Federal Reserve Bank of New York

Mr. Chairman, my name is Alfred Hayes. I am President of the Federal Reserve Bank of New York and I am pleased to be here, in response to the invitation of this subcommittee, to participate in this series of hearings on the subject, "The Federal Reserve System After 50 Years."

I should have imagined, Mr. Chairman, that hearings thus entitled would have, as their principal objective, a broad look at the System in the perspective of 50 years of performance. Though I have been an active participant in the work of the System for only about 7½ years, I think that I can say, with some assurance, that the System, during the half century of its existence, has made a creditable record in discharging the responsibilities which the Congress conferred upon it; and I believe, while I would not claim perfection for the System, that it has responded satisfactorily to the demands made upon it.

Against this background I must confess that I am somewhat disappointed that the present review appears to be restricted to the bills now before this subcommittee. Many of the proposals embodied in these bills go back to the late 1930's and have been considered before. I suggest, most respectfully, that a more balanced view of the System and of the environment in which it is, and has been, operating would be obtained if the subcommittee were to take cognizance here of a number of other matters I will mention.

First of all, there is the large question of the future of banking supervision in this country at the Federal level. Today it is no secret that there are strains in the relationship between the System and the Comptroller of the Currency. Involved in this relationship are issues, for example, as to the application of the standards established by law for bank mergers; the interpretation of statutory requirements governing investments in, and underwriting of, securities, by member banks both National and State; the validity of regulations issued by the Board of Governors in respect of the use of savings accounts in member banks by profitmaking corporations; and a number of other matters. I regard the breach in the relationship between these two bank supervisory agencies as being most unfortunate; it occurs to me that this subcommittee might usefully take a hand in trying to heal it.

There are other matters having to do with the Federal Reserve Act itself. When Chairman Martin appeared before this subcommittee at the outset of these hearings, he drew attention, quite properly, to the desirability of adopting the legislation recommended by the Board last August that would remove the last vestige of the "real bills" doctrine. In addition, I might suggest that it would be useful for the Committee on Banking and Currency to consider the recommendations contained in the 1963 Report of the Committee on Financial Institutions to the President of the United States, many of which are before the committee as part of H.R. 7404. Finally, it seems to me that it would be well to bring up for consideration again the matter of modernizing the legislation relating to our financial institutions, as was proposed by the Financial Institutions Act of 1957, which passed the Senate, but never reached the floor of the House.

Such a broad-scale approach, Mr. Chairman, could yield useful results.

Before presenting my comments upon the specific bills that are now before this subcommittee, I should like to note that I do not come here with the point of view that the status quo should be maintained at all costs. Quite the contrary; I believe that the System should be looked at as it has been by virtually every Congress for the past 30 years. I therefore welcome the current inquiry, though I should, as I said, have preferred to see the scope of the hearings widened.

To turn now to the bills:

1. H.R. 3783. This bill, on membership in the Federal Reserve System, is a replica of H.R. 8516, which was introduced in the 1st session of the 86th Congress. On June 10, 1960, I had the privilege of appearing before Subcommittee No. 3 of the Banking and Currency Committee of the House to express the views of the Federal Reserve Bank of New York on H.R. 8516. That position may be summarized as follows:

We advocated retention of the existing arrangement because we saw positive advantages resulting from stockownership by member banks, and because of the absence of any showing of serious disadvantages resulting from such ownership; in respect of provisions of the bill that we interpreted as affording automatic membership in the System to any insured State bank with $10 that wanted to join, we favored the retention of the present procedure under which the Board decides, on the basis of statutory standards, whether an applicant qualifies for membership. I attach a copy of my 1960 statement.

I have reviewed the position I expressed in 1960; if anything, it is firmer now than then.

It is sometimes claimed, Mr. Chairman, that ownership by member banks of the stock of the Federal Reserve banks creates among bankers the impression that they own the System. I have spent a good deal of my business life among bankers and I have never encountered this attitude, which is said to be widespread, or perhaps even general. I have found, on the contrary, that member banks consider that the Federal Reserve System is a central banking system, as well as a regulatory agency.

2. H.R. 9631. This bill proposes structural and other changes in the Federal Reserve System on which I should now like to comment.

Section 1 of that bill would replace the present Board of Governors of the Federal Reserve System, composed of 7 members appointed by the President with the advice and consent of the Senate for 14-year overlapping terms, with a 12-member Federal Reserve Board to be chaired by the Secretary of the Treasury ex officio, the remaining 11 members to be appointed by the President with the advice and consent of the Senate for 4-year overlapping terms. This provision of the bill is closely linked to the provisions of section 3 of the bill, which would abolish the Federal Open Market Committee created by section 12A of the Federal Reserve Act and would transfer to the newly created Federal Reserve Board all the powers, duties, and functions of the Committee, as well as all its "personnel, property, records, and unexpended balances of appropriations." In addition, section 3 would, for the first time, explicitly coordinate the time, character, and volume of open market transactions of the Federal Reserve banks with the objectives of the Employment Act of 1946. I am sure that the members of this subcommittee appreciate that Federal Reserve credit policy is, in fact, carried out with a view to achieving the objectives of the Employment Act of 1946.

As the members of this subcommittee know, both the Secretary of the Treasury and the Comptroller of the Currency served as ex officio members of the Board of Governors until their membership was terminated by the Banking Act of 1935. From 1933 until his membership was thus terminated, the Secretary also served as Chairman of the Board. The present proposal to reinstate the Secretary as a member and as the Chairman of the Board would thus reverse a deliberate action taken by the Congress after the expiration of a trial period that was surely ample to test the value of the arrangement. I know of no reason for such a reversal, for service by the Secretary on the Board could add nothing to the present smoothly working relationships between the Treasury and the Federal Reserve System, but such a reversal could have serious undesirable consequences. The Secretary of the Treasury is under constant pressure to borrow money at the lowest possible interest rate. It seems to me to be obvious that H.R. 9631 would permit that pressure to become the dominant factor in carrying out monetary policy.

The proposal to exchange a new 12–man Federal Reserve Board for the present 12-man Federal Open Market Committee composed of the 7 members of the Board of Governors and 5 of the presidents would alter the essence of the Federal Reserve System and deserves the closest examination.

I surmise that the reasons for this proposal are two: (1) that the concentration of responsibility for all monetary and credit policy in a single regulatory agency is desirable as a matter of symmetry; and (2) that depriving the presidents of voting power in the Federal Open Market Committee would insulate the Federal Open Market Committee against the possibility that the presidents, as members of the Committee, would (or could) act to favor the private interests of the member banks.

In my view (which I believe is generally shared within the System), the membership of the presidents on the Federal Open Market Committee adds strength to that body. The five presidents, four of whom serve in rotation, the fifth (New York) being a permanent member of the Committee, bring to the councils of the Committee the distilled results of constant contact with the economic life and the actual conduct of banking operations in their districts, as well as the appraisals of their economists regarding economic developments, both regional and national. In addition, each president draws upon, and thus makes available to the Committee, the experience of the members of his board of directors. These men include active participants in the financial and businesss affairs of their communities, as well as in the academic and professional fields. Many of them have a broad background and extensive experience obtained through their association with businesses of national or even international scope. Even though six members of each board are elected by the member banks, the directors, in my experience, act solely in the public interest in accordance with their oaths of office, and not as if they were the instructed delegates of narrow constituencies. By this oath of office, each class A and class B director solemnly swears that he will, so far as the duty devolves upon him, "diligently and honestly administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks"; and that he "will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States applicable to this bank."

I believe that to abolish the present form of the presidents' participation in the work of the Committee would be to impair the effective functioning of the Committee, even if the Presidents were to act as consultants to the Committee. Advice received from advisers who have no direct responsibility for action is of a different quality, and in my judgment less valuable, than advice received from those who participate in the action taken and thus have a direct responsibility for its consequences. I greatly fear, moreover, that the removal of the presidents from the Open Market Committee, and their exclusion thereby from a sense of direct participation in the shaping of an important part of national economic policy, would make it more difficult to attract imaginative and resourceful people to a career in the Federal Reserve banks, and would thus in time weaken the System through the gradual erosion of the quality of Federal Reserve bank officers and employees.

I reject as imaginary, and as unfounded in my experience, the theoretical argument that suggests that the member banks are able to make felt in the Open Market Committee a narrow partisan interest that influences the six directors of the Reserve banks whom they elect and in turn the presidents who are elected by the directors, and, thereby, the Committee itself. Such an argument is fallacious, not only because the bankers, even if they wanted to, could not by such a means exert leverage on the presidents for this purpose, but also because it cynically assumes that the presidents, whose appointments must be approved by the Board of Governors, are men of such little scruple that they would violate their oaths of office as members of the Committee, by subordinating the public good to the private interest. The presidents and the staffs of the Reserve banks are public servants in the finest sense of the word.

I do not believe in changing things that are working well simply because they may appear to some to be illogical, or because they might under other conditions work badly. In my view, the Federal Open Market Committee as now constituted is working well; it provides a forum for any necessary reconciliation of the points of view of persons located at the seat of the Government and of others (the Presidents) intimately familiar with economic developments in all regions of the country. The latter are not, in the exercise of their judgments, partisans of the narrow or selfish points of view of any particular segment of the economy or of any particular geographical area; rather they speak and they vote for what they believe to be the interests of the Nation as a whole. For these reasons I am firmly persuaded that it would be a mistake to change the composition of the Committee.

The bill also provides for the appointment of a Federal Advisory Committee to take the place of the present Federal Advisory Council. The Committee would be apponted by the President and would consist of the Comptroller of the Currency, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation and not more than 50 other members who would serve for a term of 1 year. The present Federal Advisory Council consists of one member from each Federal Reserve district selected by the Board of Directors of the Federal Reserve Bank of the district. Both the present Council and the proposed Committee would have the same powers; i.e., to confer with the Board on general business conditions, to make representations to the Board concerning matters within its jurisdiction and to call for information and to make recommendations in regard to various banking matters. The principal change that the bill would make is in the size of the Council and in the manner of appointment of its members.

I have no objections to the proposal to have the members of the Council or Committee appointed by the President. However, if the Council or Committee were to be enlarged to as many as 52 members, I seriously doubt that it would be able to engage in the kind of conference and consultation with the Board of Governors that is most desirable and fruitful when discussing banking or monetary affairs. Also, I see no need to place the Comptroller of the Currency or the Chairman of the Board of the Federal Deposit Insurance Corporation on the Council. The Board has access to the views of these officials and they, in turn, have access to the Board whenever they think an interchange of views would be helpful.

The final feature of H.R. 9631 is a provision for annual audits of the Board and Federal Reserve banks by the Comptroller General. This proposal has been made many times and the arguments in its favor, as well as the arguments against it, have often been stated.

My view is that the arguments against a mandatory General Accounting Office audit greatly outweigh those in its favor. Clearly the Federal Reserve banks should be audited, and audited carefully, by an agency of the United States. Such an audit is now performed by the Board of Governors, the agency charged with the supervision of the Federal Reserve banks. The addition or substitution of an audit by a different Federal agency would add nothing, and could be regarded as an entering wedge that would encroach upon the independence of judgment which Congress has sought to safeguard, and which is indispensable if credit and monetary policies are to be made and executed in an impartial way. The present audit procedures, I believe, are fully effective; they yield complete information which has been made available to the Congress. It should be recognized, however, that no audit procedure, no matter how thorough, can prevent mistakes. The Board's staff of trained and experienced examiners, who are acquainted with the nature of Reserve bank operations, does function satisfactorily; the work of that staff is supplemented by the separate and continuing audit of the affairs of each bank conducted by its general auditor, who is directly responsible to the bank's board of directors and not to its management. And I would say, Mr. Chairman, that we at the Federal Reserve banks adhere as rigorously to the standards governing expenditures prescribed for us as does any postmaster to the standards prescribed for him.

3. *H.R. 9685.*—This bill would require that the Federal Reserve banks pay into the Treasury all interest and discounts received by them on obligations of the United States, and would require both the Board of Governors and the banks to resort to the appropriation procedure for needed operating funds. That procedure would replace the existing procedure pursuant to which, after payment of the expenses of the Reserve banks and of the Board, all the net operating income of the Reserve banks (above appropriate transfers to surplus) is paid over the Treasury Department each year pursuant to action taken by the Board of Governors under a provision of section 16 of the Federal Reserve Act.

My arguments against the proposed change are these: first, that it would replace a needed flexible procedure with a procedure having undesirable rigidity; second, that it would break through the safeguards that the Congress has been careful to provide, against the possibility that partisan influences might be brought to bear on the System's policymaking processes; and, finally, that it would tend to warp the decisionmaking process by putting a premium on the profitability of Federal Reserve bank operations in order to avoid recourse to the appropriations process, and might thus introduce the profit motive into what should be an objective execution of monetary policy. Furthermore, Mr. Chairman, I should emphasize that it seems to me anomalous that a central banking system such as the Federal Reserve System, which is entrusted by Congress with responsibility for the whole money-creating process in order to carry out national policies, should thus be hobbled in carrying out that responsibility. I know of no central bank in the world that is placed under this kind of restraint.

I suspect, Mr. Chairman, that the above considerations, or some of them, may have had an influence upon the Subcommittee on General Credit Control and Debt Management when, in its 1952 report, it expressed the fear "that if the Federal Reserve System were subjected to standard appropriation procedure—with all the structural changes in the System which this would imply—the role of monetary policy in the economic affairs of the Government would inevitably be curtailed and an important bulwark against inflation would be weakened."

4. *H.R. 9686.*—This bill would require commercial banks to pay interest on the Treasury's tax and loan accounts. The Federal Reserve System's functions in the area of monetary and credit policy are greatly facilitated by the tax and loan account mechanism, which tends to smooth out the impact on the banking system of the massive periodic shifts of funds between the Treasury and the general public. (There is a detailed description of the mechanism and its effects in an article appearing in the Monthly Review of the Federal Reserve Bank of New York for April 1958.) I have no doubt that, if this mechanism were not available or if it were not widely used by the commercial banks, the System would be forced to offset the disruptive effects of these shifts on the banking system by more frequent and larger open-market operations. For example, in the past 3 years net open-market pur-

chases or sales exceeded $1 billion during only 2 weeks, while, in the absence of the tax and loan account mechanism, purchases and sales of that magnitude or more might well have occurred during more than 65 weeks in those 3 years. Thus, the smooth operation of the tax and loan account system is of vital concern to the Federal Reserve as well as to the Treasury, and I should be opposed to this bill if its effect would be to disturb that operation. However, while there is some reason to suppose that the enactment of the bill would have such a disturbing effect, I should be disposed to wait for the Treasury's view as to the value to the Treasury of the services rendered by banks to the Treasury and the value to the banks of the balances in the tax and loan accounts before taking a final position for or against the bill.

I should also note that the requirement of section 2, that the benefits conferred on the commercial banks by the Federal Reserve banks be deducted in determining compensation to the banks, could greatly complicate the administration of such a law.

5. *H.R. 9687.*—I should like to comment next on H.R. 9687, a bill that would remove the prohibition against the payment of interest on demand deposits. Over the past few years, we at the Federal Reserve Bank of New York have given serious consideration to the questions raised by such a proposal, and we have concluded that, on balance, it would not be advisable to remove the existing prohibition at this time.

We recognize that the argument for removing the prohibition is a strong one: in essence, it is the argument of market freedom. We also recognize, however, that this argument is largely theoretical in present circumstances. Since 1933, when the prohibition was imposed, the banking system has made adjustments, with the result that competition for demand deposits is now as keen as it would be were banks permitted to pay interest on such deposits. This new form of competition is based on free services of various kinds offered to depositors, the costs of which are supported by demand deposit balances. At the present time, this form of competition has become thoroughly institutionalized; to remove the existing prohibition on interest payments now would disrupt well-established patterns and require difficult readjustments throughout the entire banking system. We do not believe that the situation warrants such drastic action.

Before I conclude, Mr. Chairman, I should like to make a few general observations: Congress has exercised its constitutional power in the field of money by establishing broad objectives of national policy and by delegating to a group of specialists in the Federal Reserve System the making of decisions as to how those objectives are to be reached. The decisions of those specialists are, of course, of vast importance; they involve the exercise of a great degree of discretion and independent judgment. This is inherent in the job. The achievement of our long-term goals can, and frequently does, call for measures that are unpopular in the short run. Here I refer not only to moves toward tightening credit, which may at times be necessary, but also to the widespread criticism that the System sometimes has to face from those who believe that money is too easy. I think it is of great importance that the persons charged with executing monetary policy, with making those decisions, retain freedom—freedom in a practical sense—to make unpopular decisions.

I do not regard the present procedure, as some have done, as "anti-democratic." The freedom of the Federal Reserve System to carry out monetary policies free from short-term political pressures represents a conscious decision that was reached by democratic processes that the national interest is best served by the existence of such freedom. As the Subcommittee on General Credit Control and Debt Management so well said in its 1952 report, "such degree of independence from Congress as the Federal Reserve System enjoys is due to the judgment of Congress that its own long-run purposes—which are those of the United States as a whole—will be best served by such a temporary self-denial of a portion of its inherent prerogative. The subcommittee believes that this policy of congressional self-denial should be continued." Of course, that decision can be revoked at any time; I am fully aware that as a creature of the Congress the Federal Reserve System is subject, through the normal legislative processes, to change in its structure and in its functions in any way that the Congress in its wisdom might determine.

My experience as President of the Federal Reserve Bank of New York tells me that the System is working well and that there is no need to change its structure in the manner proposed by H.R. 3783, H.R. 9631 and H.R. 9685. On the contrary, it is my belief, as I have tried to indicate to you, that the enactment of these proposals would encroach on the independence of the Federal Reserve System in such a way that it could impair the System's ability to do the job delegated to it by the Congress.

Over the past year or so the Federal Reserve has played a vital part in the national effort to defend the dollar internationally. It would be very unfortunate if efforts to improve the operations of the Federal Reserve System were in any way to lend themselves to an interpretation that the independence of the System itself was under attack. In this connection, I should like to repeat language that I used in my statement before Subcommittee No. 3 on June 10, 1960, language which I think is pertinent to all the legislative proposals I have just mentioned, and which reads as follows:

"* * * Confidence in the dollar is an important goal. It is our impression that, in foreign countries as well as in the financial community in this country, such confidence can be attributed, at least in part, to the existence of an independent monetary authority able to pursue its programs unhampered by political pressures. At present there would seem to be no apprehension that the Federal Reserve System, in performing its central banking function, will be diverted to a pursuit of popular, but unsound, programs. A marked change in the organizational structure of the Federal Reserve System might be viewed as a signal of a basic change in the role or status of the Federal Reserve System and could undermine public confidence in the System and the dollar."

While change may be inevitable, Mr. Chairman, it should come about as the result of the play of natural forces; it should not be forced simply because it may seem to be logical. Samuel Johnson once said: "He is no wise man who will quit a certainty for an uncertainty." To be sure, one might quit a badly operating "certainty" for an untried "uncertainty" that offered the promise of betterment. But when, as here, the system sought to be replaced is operating well, Dr. Johnson's counsel seems to me to be pertinent.

STATEMENT BY ALFRED HAYES, PRESIDENT, FEDERAL RESERVE BANK OF NEW YORK, BEFORE SUBCOMMITTEE NO. 3 OF THE HOUSE BANKING AND CURRENCY COMMITTEE, JUNE 10, 1960

Mr. Chairman and members of the committee, you have asked me to comment on H.R. 8516, a bill to provide for the retirement of Federal Reserve bank stock and for other purposes. Before turning to a discussion of the bill itself, I should like to express our appreciation for the opportunity to present the views of the Federal Reserve Bank of New York on this bill which could have such important consequences for the bank and for the Federal Reserve System.

H.R. 8516 would require each member bank to surrender its stock in the Federal Reserve bank of its district to the Reserve bank. The Reserve bank, in turn, would cancel and retire the stock and pay to the member bank the par value of the stock, plus interest from the date of the last dividend, less a membership fee of $10. Upon cancellation and retirement of the stock the Reserve bank would issue to the member bank a certificate attesting its membership in the Reserve bank and in the Federal Reserve System. The bill, apparently, would also make it possible for any insured bank to become a member of the Federal Reserve System merely upon the payment of a $10 membership fee.

It is generally agreed that the stock of the Federal Reserve banks is unlike the stock of ordinary commercial or industrial organizations. Ownership of Federal Reserve bank stock does not imply proprietary interest in or control over the policies and operations of Reserve banks. It implies, rather, private provision of capital for, and membership in, one of a federated system of regional banks which administer and help to formulate monetary and credit policies which will contribute to a sound and growing economy.

The amount of Federal Reserve bank stock which a member bank must own is fixed by law in relation to the member bank's own capital and surplus. The stock cannot be sold, transferred, or hypothecated but can only be surrendered to the Reserve bank upon termination of membership. Dividends on Federal Reserve bank stock are limited to 6 percent per year. In the event of the dissolution or liquidation of a Reserve bank, the residual assets, after payment of all obligations and the par value of the stock, are to be payable to, and become the property of, the United States.

Ownership of Federal Reserve bank stock entitles the member banks to no voice in the management of the Reserve bank other than the right to participate in the election of six of the nine directors of the Reserve bank, the other three being appointed by the Board of Governors. As a result of the election procedure prescribed by the Federal Reserve Act, any one member bank can participate in the election of only two directors. Moreover, each member bank has but one vote in the election of directors regardless of the amount of stock it holds.

Under the Federal Reserve Act, the Board of Governors classifies the member banks in each district into three groups, according to their size (capitalization). As just noted, a member bank in any one of these groups is entitled to vote for two of the six elected directors of its Reserve bank. We had, at the end of 1959, 508 member banks in the Second Federal Reserve District, 20 in group 1, 189 in group 2, and

299 in group 3, the member banks in group 1 having had, at the end of 1959, a combined capital and surplus of slightly more than 80 percent of the combined capital and surplus of all the member banks in the New York district. There are, of necessity, differences in the sizes of banks within any single group, but subject to this byproduct of the present statutory method of classification, the vote of a large bank, within its group, may be said to have a greater weight in the election of the two directors it is entitled to vote for, than does the vote of a bank in one of the groups of smaller banks, when it votes. At the same time there is, as among the three groups, despite the differences in their size and financial importance, an equality of voting power in that each group elects but two directors.

In theory, it is probably true that the Federal Reserve banks could operate without capital stock. The statutory design of member bank ownership of Federal Reserve bank stock has, however, been in existence for 45 years and, we believe, has worked well. In these circumstances, we question the wisdom of abandoning the known for the unknown, of substituting the untried device of a membership certificate for the present system of ownership by member banks of the capital stock of the Federal Reserve banks. The present system of stock ownership is a symbol of the special status of the Federal Reserve in our economy and within our Government; and it has brought into being. and given strength to, a link between the System and the private business community that has enabled the System better to discharge the responsibilities which are vested in it by law.

By describing the Reserve bank stock as a symbol of the System's status within the Government, I mean to refer to what has been called the independence of the Federal Reserve System—independence, that is, from direction by the executive branch in the exercise of its monetary authority. The retirement of the Federal Reserve bank stock could give rise to questions, both at home and abroad, as to the future status of the System, and as to its continued ability to maintain its present independence in achieving its goals. Confidence in the dollar is an important goal. It is our impression that, in foreign countries as well as in the financial community in this country, such confidence can be attributed, at least in part, to the existence of an independent monetary authority able to pursue its programs unhampered by political pressures. At present there would seem to be no apprehension that the Federal Reserve System, in performing its central banking function, will be diverted to a pursuit of popular, but unsound programs. A marked change in the organizational structure of the Federal Reserve System might be viewed as a signal of a basic change in the role or status of the Federal Reserve System and could undermine public confidence in the System and the dollar.

We must not overlook the fact that the Federal Reserve banks were organized originally in much the same way as ordinary business corporations. Accordingly, the banks had capital accounts. The existence of capital accounts is part and parcel of the use of conventional accounting techniques which impose the discipline of the balance sheet. We believe that these procedures have contributed to the efficient and businesslike conduct of the affairs of the Reserve banks.They have also contributed to public acceptance—especially among bankers, investors, and businessmen at home and abroad—of the Federal Reserve banks as financially sound institutions capable of bearing the burdens assigned, or likely to be assigned, to them. These accounting techniques are, as I have noted, conventional, but the convention has importance to many people.

In addition, ownership of the Federal Reserve bank stock stimulates and preserves a greater interest in the Federal Reserve System on the part of the member banks than would otherwise be the case. The stock presents a tangible and readily understood link between the member banks and the System which has probably contributed to making the member banks willing, rather than reluctant, participants in the System's monetary programs.

Although H.R. 8516, would not literally affect the method of electing directors, nor change the role of directors of Federal Reserve banks, there exist, we believe, solid grounds for a fear that the substitution of certificates of membership for shares of stock would weaken the link and wipe out many of the advantages that the System now realizes by reason of the presence of that link.

The service on the boards of directors of the Reserve banks of men who are generally well known and highly regarded in their communities and who have backgrounds in banking, business, agriculture and public affairs, has furnished the Reserve banks with valuable sources of information as to the economic conditions within each district and has helped to foster efficiency and businesslike methods in the operations of the Reserve banks. The links provided by stock ownership have also presented an important avenue for disseminating information about the Federal Reserve System and for educating important regional leaders on System objectives and means of attaining these goals. The value of directors' services, in the aggregate, has been heightened as the result of the program, voluntary in nature, under which there is rotation in the directorates of the Reserve banks. At the Federal Reserve Bank of New York, for example, it is the practice that class A directors, who are bankers, serve only one full term of 3 years, and class B directors, who are actively engaged "in commerce, agriculture or some other industrial pursuit," but who are not bankers, serve only two full terms. In some cases, directors in both classes have served, in addition, unexpired portions of the terms of their predecessors.

In 1952, the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report considered the question of the private ownership of the Federal Reserve bank stock. In its report, the subcommittee said:

"The private ownership of the stock of the Federal Reserve banks also serves as a practical and well-understood link between the System and the private business community, and has been of great help in obtaining the services of able men as directors of the Federal Reserve banks. In theory, an equally effective link might be established by other means—as by the election of local advisory committees—but a newly established link would not enjoy the sanction of tradition and it would be difficult to devise one which would conform so well to the mores of the business and financial communities."

We are in full agreement with the subcommittee's comment.

The Federal Reserve banks are not unique in the respect that their stocks is owned by private banks. Many examples could be given of foreign central banks whose stock is owned in whole or in part by private interests. In our view, private ownership of the stock of a central bank is objectionable when such ownership results in the bank serving the private interests of its stockholders or when it prevents the bank from meeting an economy's needs. Where a central bank is serving the public interest, and is contributing to a sound and growing economy, there would seem to be no reason, unless abuses can be shown, for eliminating the private ownership of its stock. We know of no abuses resulting from member bank ownership of the Federal Reserve bank stock, but rather, as I indicated earlier, we find significant advantages to the System by reason of such ownership.

We recognize that the private ownership of the Federal Reserve bank capital stock can give rise to the occasional misconception that the policies of the System are or may be subject to private domination. We see no evidence that the member banks harbor this misconception. The wide publicity given to actions of the Federal Reserve System within the past few years would seem to have produced, in the minds of the general public, an association of the System with Government. Certainly our own employees view their work as a contribution to the public service, and I know of no more dedicated group anywhere in public life than those I have met during my years in the Federal Reserve System. We are struck by the fact that our directors have readily accepted the established System tradition of service in the public interest, and have not, in fact or appearance, carried out their functions as if they were the instructed delegates of narrow constituencies.

The extent to which any misconception as to private domination exists is, of course, difficult to determine. If it does exist it would seem that the solution is to conduct a continuing program of public information as to the role and functioning of the Federal Reserve System. The Federal Reserve Bank of New York has carried out such a program for many years. We believe it has been effective. We believe such a program, rather than a revision of the organizational structure of the System, is the appropriate method for eliminating whatever misconceptions may exist.

I agree fully with the thoughts expressed in 1952 by Allan Sproul, my predecessor, in replying to a question addressed to the Federal Reserve bank presidents by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, regarding the status of the Federal Reserve banks, when he said in part:

"I share the belief that it was the original intent of those who created the Federal Reserve System, that the Federal Reserve banks should function somewhere between private enterprise and the Government. I believe that it has been the continuing intent of each succeeding Congress that the Federal Reserve banks should be allied to Government but not part of Government. I believe that there has been and is wisdom in this segregation. It has generally protected the Federal Reserve banks from partisan political pressure; it has enabled the Federal Reserve banks to repel the pressure of private interests; and it has provided the country with a central banking system staffed by men who have made central banking a career, and operated the Federal Reserve banks according to standards of efficiency and service which compare favorably with the best in Government undertakings and private enterprise. It is significant that there have been no scandals, no charges of influence peddling, no evidence of favors given and received, in connection with the operations of the Federal Reserve banks."

This unique blending of characteristics of private enterprise and of Government has constituted a source of strength to the Federal Reserve banks and, we believe, to the Board of Governors as well, in the discharge of the central banking functions assigned to them by law.

The second major purpose of H.R. 8516 is understood to be that of making it possible for any insured bank to become a member of the Federal Reserve System upon the payment of a $10 membership fee. We would, of course, like to have as broad a membership in the Federal Reserve System as possible. Broader membership would make the monetary programs of the System more effective, and the new member banks, we believe, would benefit by their membership.

We do not believe, however, that the present requirement that a member bank subscribe to the capital stock of the Federal Reserve bank constitutes a significant deterrent to System membership. The stock, after all, does pay a dividend of 6 percent. The bulk of the nonmember banks in the country are the smaller country banks. While System membership confers many benefits, it is probably the case that for many of the smaller country banks, membership can constitute a substantial expense. The cost to the smaller country bank of System membership can be traced to the difference in reserves required of a member bank and those required under State laws. Where lower reserves are required under State law than are required of a member bank, the State bank upon becoming a member of the System will be required to immobilize funds which otherwise could be earning income. Where State law permits a bank to hold part of its reserves in income-producing securities, such as U.S. Government obligations, a further loss of income will result if it joins the Federal Reserve System. These are real and direct items of expense to the smaller bank.

Other deterrents to membership can be mentioned. Nonpar banks, upon becoming members, would be required to clear checks at par. Capital requirements for the establishment of branches by member banks may be more stringent than the capital requirements under State law. Additional restrictions of Federal law, such as the limitations on dealing in investment securities and the prohibitions against interlocking directorates, become applicable to the State member bank and the bank subjects itself to supervision and examination by both Federal and State authorities.

All these factors enter into the decision by a State bank whether to become a member of the Federal Reserve System. In the final analysis, the cost to the State bank of membership in the System is weighed against the benefits of membership, and the decision is made accordingly. The cost of subscribing to Federal Reserve bank stock is, to some degree, balanced by the stock's dividend feature, and is probably not a deterrent to membership.

One other aspect of opening System membership to any insured bank should be considered. Under present law each application for membership in the Federal Reserve System must be approved by the Board of Governors. While the statutory standards which the Board must consider in passing on an application for membership are similar to the standards which the FDIC must consider in respect of an application to become insured, it seems desirable that the final determination as to the qualification of a particular bank for membership be continued in the Board of Governors. There are undoubtedly some insured banks which would not qualify under present standards to be members of the Federal Reserve System. This is so because any bank, as a result of such things as poor management succession, bad investments, or unsound loan programs, can become a problem bank after it has been insured. We recognize that problem status can arise with respect to member banks as well as nonmember banks, whether insured or not. However, it seems to us unwise to provide by legislation for the undiscriminating acceptance of all insured banks as member banks, and thus to increase the System's supervisory responsibilities in this respect. We believe that the Board of Governors should have the authority to point out to a nonmember bank applying for System membership such deficiencies as may exist in the bank's operations and to indicate the action which the bank might take to meet the standards for admission to the System.

I would not like to see any of the standards now used—standards which may, to be sure, deter some banks from membership—swept away by a simple conversion of the kind implied by this bill. Whatever Congress decides to do about stock ownership itself, I think it essential that the supervisory decision to accept or reject, based upon detailed study of the full banking record, and a considerable body of precedent developed as the result of years of experience, should still remain with the Board of Governors. In our view the Board of Governors should not be precluded from considering an applicant bank's qualifications at the time such application is made.

Before concluding my statement, I should like to make some general observations which are prompted by the introduction of a bill such as H.R. 8516. H.R. 8516 focuses on two limited aspects of the Federal

Reserve System or, for that matter, of our national banking structure. Those aspects are the capital stock of the Reserve banks and admission to the Federal Reserve System. Although these are limited topics they go to the basic organization of the Federal Reserve System. Their consideration prompts the question whether they may be profitably studied of and by themselves.

I am reminded of the story of the man who undertook to fix a chair which had one long leg. When the adjustments were completed, no legs were to be seen.

This suggests to me that the questions raised by H.R. 8516 should be considered in a broader context. A piecemeal approach can create serious problems. For example, if all insured banks were to become member banks, as is contemplated under H.R. 8516, the examination function of the FDIC would all but be eliminated since the Federal Reserve System would presumably then be the responsible examining agency. What would be the appropriate division of other responsibilities then between the FDIC and the Federal Reserve System? What should the continuing scope for independent action by the FDIC be? These questions merely illustrate how a change in one apparently minor aspect of our highly reticulated banking structure could have unintended, but far-reaching and, possibly, adverse, effects on others. It seems to us that a broad, thorough study should be undertaken of the full range of implications for our entire banking system before even such a seemingly minor change should be made in the structure of the Federal Reserve System.

In conclusion, I should like to restate briefly our position. In view of the positive advantages to the Federal Reserve System resulting from stock ownership by the member banks and in the absence of a showing of any serious disadvantages, we believe that it is desirable to retain the present arrangement. While increased membership is an important goal of the Federal Reserve System, we believe that the Board of Governors should have the authority, as limited by statutory provisions, to make the final determination as to the qualifications of a bank for membership. Finally, it is our view that this bill would actually make a fundamental change in the structure of the Federal Reserve System and could have far-reaching implications for the banking system of the Nation; and that such action should be taken, if at all, only after a comprehensive study of the banking system as a whole.

Statement of condition of the Federal Reserve Bank of New York, at the close of business Dec. 31, 1963

[Dollar amounts in thousands]

Assets:	
Gold certificate account	$3,608,466
Redemption fund for Federal Reserve notes	334,006
Total gold certificate reserves	3,942,472
Federal Reserve notes of other banks	109,995
Other cash	31,676
Discounts and advances:	
Secured by U.S. Government securities	1,390
Other	8,608
Acceptances:	
Bought outright	69,978
Held under repurchase agreement	91,742
U.S. Government securities:	
Bought outright	8,696,757
Held under repurchase agreement	10,800
Total loans and securities	8,879,275
Cash items in process of collection	1,688.500
Bank premises	8,110
Other assets:	
Denominated in foreign currencies	41,055
All other	64,881
Total assets	14,765,964
Liabilities:	
Federal Reserve notes	7,939,568
Deposits:	
Member bank reserves	4,994,535
U.S. Treasurer—General account	227,126
Foreign	54,054
Other	167,741
Total deposits	5,443,456
Deferred availability cash items	967,104
Other liabilities	21,014
Total liabilities	14,371,142
Capital accounts:	
Capital paid in	131,607
Surplus	263,215
Other capital accounts	0
Total liabilities and capital accounts	14,765,964
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	29.5
Contingent liability on acceptances purchased for foreign correspondents	$24,673

Federal Reserve note statement of Federal Reserve Bank of New York, at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	8,274,399
Less held by issuing bank, and forwarded for redemption	334,831
Federal Reserve notes, net [1]	7,939,568
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	1,700,000
Eligible paper	0
U.S. Government securities	6,700,000
Total collateral	8,400,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of New York—Current earnings

[In thousands of dollars]

Year	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	37	97		193			19	345
1916	37	530	82	214		20	87	971
1917	2, 456	1, 843	379	66	19	81	86	4, 929
1918	17, 736	5, 412	1, 562	3	27	50	525	25, 315
1919	29, 936	3, 335	1, 888		36		137	35, 332
1920	49, 839	8, 323	1, 976		142		246	60, 525
1921	30, 762	1, 830	1, 956		64		99	34, 710
1922	3, 970	1, 620	5, 227		50		482	11, 349
1923	8, 256	1, 970	1, 087		41		60	11, 413
1924	2, 614	1, 447	4, 166		25		318	8, 569
1925	5, 189	1, 470	2, 985		33		541	10, 217
1926	5, 837	2, 002	2, 380		45		338	10, 601
1927	4, 614	2, 558	2, 961		29		486	10, 648
1928	12, 211	3, 483	2, 421		46		323	18, 483
1929	12, 493	3, 523	2, 459		96		744	19, 314
1930	1, 910	1, 918	5, 895		27		642	10, 393
1931	1, 662	1, 638	3, 614		17		624	7, 555
1932	3, 277	933	11, 158		44		538	15, 949

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of New York—Current earnings

[In thousands of dollars]

Year	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		2, 572	288				14, 256	407	17, 524
1934		430	19	9	4		15, 475	146	16, 082
1935		87	14	294	85		12, 570	82	13, 131
1936		70	11	375	107		9, 909	65	10, 537
1937		86	9	261	68		11, 036	89	11, 549
1938		27	1	201	41		10, 331	105	10, 706
1939		15	1	118	21		10, 888	168	11, 211
1940		15		89	9		12, 741	131	12, 985
1941		28		63	7		11, 197	120	11, 415
1942		36		40	2		13, 877	122	14, 078
1943		86		19			17, 766	127	17, 998
1944		459		5			28, 448	81	28, 993
1945		1, 045					34, 924	56	36, 026
1946		859	43				36, 486	56	37, 444
1947		676	4				38, 131	97	38, 907
1948	1, 411						71, 691	121	73, 223
1949	1, 425						74, 083	132	75, 640
1950	811			1			63, 705	149	64, 666
1951	1, 742					1	88, 247	28	90, 019

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of New York—Current earnings

[In thousands of dollars]

Year	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	3, 296				100, 889		22	104, 207
1953	3, 283				116, 424		28	119, 734
1954	750				111, 698		20	112, 467
1955	3, 055			216	102, 368		26	105, 666
1956	5, 618			547	145, 565		40	151, 770
1957	6, 735			848	186, 431		55	194, 070
1958	1, 592			806	185, 595		66	188, 059
1959	6, 124			1, 075	217, 110		63	224, 372
1960	1, 750			1, 385	273, 849		109	277, 093
1961	541			1, 159	233, 462		80	235, 242
1962	1, 060			1, 256	258, 586	$960	70	261, 931

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of New York—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$123, 887	$484, 771	$3, 273, 707	$22, 804, 966	$29, 771, 326	$53, 727, 557
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses	----------	----------	----------	----------	----------	168, 682
Probable losses	----------	----------	----------	----------	----------	200, 000
All other	----------	----------	10, 654	132, 059	31, 096	6, 050
Total additions	----------	----------	10, 654	132, 059	31, 096	374, 732
Deductions from current net earnings:						
Bank premises—depreciation	----------	----------	----------	803, 800	900, 032	385, 677
Furniture and equipment	----------	70, 707	----------	170, 933	204, 014	201, 491
Reserve for probable losses	----------	----------	----------	200, 000	----------	----------
Reserve for self-insurance	----------	----------	----------	----------	200, 000	250, 000
Reserve for Federal Reserve Board expenses	----------	----------	----------	----------	168, 682	----------
Reserve for depreciation, U.S. bonds	----------	----------	205, 880	----------	----------	25, 299
All other	----------	----------	----------	99, 375	370, 075	111, 692
Total deductions	----------	70, 707	205, 880	1, 274, 108	1, 842, 803	974, 159
Net deductions from current net earnings	----------	70, 707	195, 226	1, 142, 049	1, 811, 707	599, 427
Net earnings	−123, 887	414, 064	3, 078, 481	21, 662, 917	27, 959, 619	53, 128, 130
Distribution of net earnings:						
Dividends paid	----------	127, 113	1, 942, 819	1, 195, 026	1, 291, 047	1, 477, 096
Transferred to surplus account	----------	----------	649, 363	20, 467, 891	23, 964, 678	12, 332, 523
Franchise tax paid U.S. Government	----------	----------	649, 363	----------	2, 702, 894	39, 318, 511
Balance to profit and loss	−123, 887	286, 951	−163, 064	----------	----------	----------

Federal Reserve Bank of New York—Profit-and-loss account, 1914–25—Continued

	1921	1922	1923	1924	1925
Current net earnings	$26, 631, 912	$4, 572, 749	$4, 533, 047	$2, 218, 529	$3, 891, 972
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Probable losses					
All other	3, 654	2, 743	1, 697	176, 240	4, 976
Total additions	3, 654	2, 743	1, 697	176, 240	4, 976
Deductions from current net earnings:					
Bank premises—depreciation	104, 054	365, 053	1, 235, 937	910, 440	522, 269
Furniture and equipment	156, 149	50, 172	58, 021	536, 776	199, 261
Reserve for probable losses					
Reserve for self-insurance	250, 000	294, 072	52, 756	55, 197	57, 320
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	31, 531	144, 602	144, 351	275, 504	14, 800
Total deductions	541, 734	853, 899	1, 491, 065	1, 777, 917	793, 650
Net deductions from current net earnings	538, 080	851, 156	1, 489, 368	1, 601, 677	788, 674
Net earnings	26, 093, 832	3, 721, 593	3, 043, 679	616, 852	3, 103, 298
Distribution of net earnings:					
Dividends paid	1, 608, 721	1, 652, 138	1, 749, 239	1, 796, 530	1, 888, 196
Transferred to surplus account	3, 782, 671	[1] −1, 397, 603	129, 444	[2] 1, 179, 678	1, 215, 102
Franchise tax paid U.S. Government	20, 702, 440	[1] 3, 467, 058	1, 164, 996		
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $270,389 paid as an additional franchise tax for 1920 and $1,334,160 for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $206,946 and $1,862,509, respectively.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of New York—Profit and loss account, 1926–35

	1926	1927	1928	1929	1930
Current net earnings	$3, 641, 091	$3, 678, 469	$11, 506, 321	$11, 801, 168	$3, 048, 014
Additions to current net earnings:					
Profit on U.S. Government securities sold					1, 532, 178
Other additions	174, 366	126, 074	97, 169	546, 928	115, 316
Total additions	174, 366	126, 074	97, 169	546, 928	1, 647, 494
Deductions from current net earnings:					
Special depreciation allowances on bank premises			155, 857	7, 973	
Reserve for losses					
Reserve for self-insurance	59, 845	78, 303	58, 706	68, 298	101, 055
Building for Board of Governors					
All other deductions	5, 864	5, 639	370, 494	8, 601	6, 069
Total deductions	65, 709	83, 942	585, 057	84, 872	107, 124
Net deductions from current net earnings	+108, 657	+42, 132	487, 888	+462, 056	+1, 540, 370
Net earnings	3, 749, 748	3, 720, 601	11, 018, 433	12, 263, 224	4, 588, 384
Dividends paid	2, 100, 191	2, 327, 355	2, 743, 725	3, 544, 314	4, 013, 779
Franchise tax paid U.S. Government					
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	1, 649, 557	1, 393, 246	8, 274, 708	8, 718, 910	574, 605

Federal Reserve Bank of New York—Profit and loss account, 1926–35—Continued

	1931	1932	1933	1934	1935
Current net earnings	$503,693	$9,146,645	$10,040,572	$8,483,669	$4,692,771
Additions to current net earnings:					
Profit on U.S. Government securities sold	1,009,517	1,281,437	426,822	2,481,437	2,678,196
Other additions	97,890	80,939	230,400	239,948	81,796
Total additions	1,107,407	1,362,376	657,222	2,721,385	2,759,992
Deductions from current net earnings:					
Special depreciation allowances on bank premises	------------	------------	1,361,807	------------	1,208,261
Reserve for losses	------------	------------	3,011,181	2,836,228	1,290,413
Reserve for self-insurance	------------	53,695	66,398	57,105	58,843
Building for Board of Governors	------------	------------	------------	------------	368,635
All other deductions	79,019	50,776	60,681	4,587	190,347
Total deductions	79,019	104,471	4,500,067	2,897,920	3,116,499
Net deductions from current net earnings	+1,028,388	+1,257,905	3,842,845	176,535	356,507
Net earnings	1,532,081	10,404,550	6,197,727	8,307,134	4,336,264
Dividends paid	3,891,599	3,562,030	3,509,873	3,567,690	3,411,268
Franchise tax paid U.S. Government	------------	------------	(1)	------------	------------
Paid U.S. Treasurer (sec. 13b)	------------	------------	------------	------------	64,238
Transferred to surplus (sec. 13b)	------------	------------	------------	−7,694	------------
Transferred to surplus (sec. 7)	[2] −2,359,518	6,842,520	2,687,854	4,747,138	860,758

[1] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of New York—**Profit and loss account, 1936–45**

	1936	1937	1938	1939	1940
Current net earnings	$3, 096, 022	$4, 197, 558	$3, 370, 549	$3, 899, 528	$5, 643, 665
Additions to current net earnings:					
Profits on sales of U.S. Government securities	2, 889, 122	664, 580	2, 316, 015	1, 261, 918	3, 408, 167
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	2, 288	54, 622	82, 600	94, 295	637, 888
Total additions	2, 891, 410	719, 202	2, 398, 615	1, 356, 213	4, 046, 055
Deductions from current net earnings:					
Reserves for contingencies	413, 101				
Losses and reserves for losses on industrial advances (net)		206, 500	448, 500	405, 308	102, 972
Special reserves and chargeoffs on bank premises	504, 874		736, 840		
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system	638, 293	638, 544	1, 282, 107		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	729, 105	514, 457			
All other	2, 947	12, 893	11, 046	19, 048	31, 767
Total deductions	2, 288, 320	1, 372, 394	2, 478, 493	424, 356	134, 739
Net additions or deductions (−)	603, 090	−653, 192	−79, 878	931, 857	3, 911, 316
Net earnings	3, 699, 112	3, 544, 366	3, 290, 671	4, 831, 385	9, 554, 981
Paid U.S. Treasury (sec. 13b)	13, 752	4, 997			
Dividends paid	3, 036, 704	3, 070, 594	3, 056, 972	3, 054, 991	3, 065, 085
Transferred to surplus (sec. 13b)			−286, 745	−348, 859	−38, 976
Transferred to surplus (sec. 7)	648, 656	468, 775	520, 444	2, 125, 253	6, 528, 872
Surplus (sec. 7) Jan. 1	50, 825, 074	51, 473, 730	51, 942, 505	52, 462, 949	53, 326, 285
Additions, as above	648, 656	468, 775	520, 444	2, 125, 253	6, 528, 872
Transferred to reserves for contingencies				−1, 261, 917	−3, 408, 167
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	51, 473, 730	51, 942, 505	52, 462, 949	53, 326, 285	56, 446, 990

Federal Reserve Bank of New York—Profit and loss account, 1936–45—Continued

	1941	1942	1943	1944	1945
Current net earnings	$3, 439, 892	$5, 197, 769	$7, 964, 086	$17, 547, 580	$24, 402, 565
Additions to current net earnings:					
Profits on sales of U.S. Government securities	386, 051	967, 507	10, 216, 982	828, 693	802, 592
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)			24, 969	130, 496	129, 671
All other	9, 099	3, 917	3, 035	2, 604	5, 345
Total additions	395, 150	971, 424	10, 244, 986	961, 793	937, 608
Deductions from current net earnings:					
Reserves for contingencies					
Losses and reserves for losses on industrial advances (net)	49, 812	[1]3, 888			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises	479, 889	481, 923	482, 312		
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		1, 122, 130			
Retirement system (interest base and increased benefits adjustments)			2, 388, 556		
Assessment for building for Board of Governors					
All other	3, 056	372	7, 159	4, 783	2, 919
Total deductions	532, 757	1, 600, 537	2, 878, 027	4, 783	2, 919
Net additions or deductions (−)	−137, 607	−629, 113	7, 366, 959	957, 010	934, 689
Net earnings	3, 302, 285	4, 568, 656	15, 331, 045	18, 504, 590	25, 337, 254
Paid U.S. Treasury (sec. 13b)		34, 277	17, 878	80, 059	65, 940
Dividends paid	3, 097, 873	3, 184, 240	3, 280, 516	3, 483, 538	3, 627, 446
Transferred to surplus (sec. 13b)			22, 153	50, 568	62, 662
Transferred to surplus (sec. 7)	204, 412	1, 350, 139	12, 010, 498	14, 890, 425	21, 582, 206
Surplus (sec. 7) Jan. 1	56, 446, 989	56, 651, 401	58, 001, 539	70, 012, 037	84, 902, 462
Additions, as above	204, 412	1, 350, 139	12, 010, 498	14, 890, 425	21, 581, 206
Transferred to reserves for contingencies					
Transferred from reserves for contingencies					10, 376, 137
Surplus (sec. 7) Dec. 31	56, 651, 401	58, 001, 540	70, 012, 037	84, 902, 462	116, 859, 805

[1] Net recoveries.

Federal Reserve Bank of New York—Profit-and-loss account, 1946–55

	1946	1947	1948	1949	1950
Current net earnings	$23, 703, 498	$23, 893, 470	$56, 755, 823	$58, 289, 986	$46, 963, 233
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	433, 503	636, 645	1, 502, 316	7, 652, 704	8, 880, 045
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	116, 186	94, 871			
All other	15, 559	3, 063	3, 788	7, 747	5, 600
Total additions	565, 248	734, 579	1, 506, 104	7, 660, 451	8, 885, 645
Deductions from current net earnings:					
Reserves for contingencies	63, 914	64, 383			55, 142
Retirement system (salary computation adjustment)	531, 195				
Retirement system (adjustment for revised benefits)				667, 315	
Losses on U.S. Government securities sold (net)					
All other	8, 031	5, 752	3, 757	2, 615	4, 616
Total deductions	603, 140	70, 135	3, 757	669, 930	59, 758
Net additions or deductions (−)	−37, 892	664, 444	1, 502, 347	6, 990, 521	8, 825, 887
Net earnings before payments to U.S. Treasury	23, 665, 606	24, 557, 914	58, 258, 170	65, 280, 507	55, 789, 120
Transferred to reserves for contingencies			9, 884, 088	9, 765, 231	
Paid to U.S. Treasury (sec. 13b)	63, 166	24, 808			
Paid U.S. Treasury (interest on Federal Reserve notes)		18, 367, 942	39, 809, 041	46, 165, 513	46, 266, 413
Net earnings after reserves and payments to U.S. Treasury	23, 602, 440	6, 165, 164	8, 565, 041	9, 349, 763	9, 522, 707
Dividends paid	3, 865, 093	4, 052, 771	4, 141, 797	4, 220, 220	4, 381, 836
Transferred to surplus (sec. 13b)	48, 026	65, 566			
Transferred to surplus (sec. 7)	19, 689, 321	2, 046, 827	4, 423, 244	5, 129, 543	5, 140, 871
Surplus (sec. 7) Jan. 1	116, 859, 805	136, 549, 126	138, 595, 953	143, 019, 197	148, 148, 740
Surplus (sec. 7) Dec. 31	136, 549, 126	138, 595, 953	143, 019, 197	148, 148, 740	153, 289, 611

Federal Reserve Bank of New York—Profit and loss account, 1946–55—Continued

	1951	1952	1953	1954	1955
Current net earnings	$69, 419, 789	$81, 839, 982	$96, 499, 219	$90, 004, 187	$82, 952, 199
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)		458, 802	447, 980	111, 317	
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)					
All other	21, 526	882	4, 618	117	59, 877
Total additions	21, 526	459, 684	452, 598	111, 434	59, 877
Deductions from current net earnings:					
Reserves for contingencies	64, 603	75, 609	93, 730	65, 715	54, 159
Retirement system (salary computation adjustment)					
Retirement system (adjustment for revised benefits)			659, 362		
Losses on U.S. Government securities sold (net)	371, 595				34
All other	1, 946	5, 087	9, 370	7, 080	33, 221
Total deductions	438, 144	80, 696	762, 462	72, 795	87, 414
Net additions or deductions (−)	−416, 618	378, 988	−309, 864	38, 639	−27, 537
Net earnings before payments to U.S. Treasury	69, 003, 171	82, 218, 970	96, 189, 355	90, 042, 826	82, 924, 662
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserve notes)	58, 083, 910	69, 832, 434	82, 180, 358	73, 549, 613	69, 806, 747
Net earnings after reserves and payments to U.S. Treasury	10, 919, 261	12, 386, 536	14, 008, 997	16, 493, 213	13, 117, 915
Dividends paid	4, 465, 288	4, 627, 264	4, 878, 435	5, 056, 042	5, 361, 648
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	6, 453, 973	7, 759, 272	9, 130, 562	11, 437, 171	7, 756, 267
Surplus (sec. 7) Jan. 1	153, 289, 611	159, 743, 584	167, 502, 856	176, 633, 418	188, 070, 589
Surplus (sec. 7) Dec. 31	159, 743, 584	167, 502, 856	176, 633, 418	188, 070, 589	195, 826, 856

Federal Reserve Bank of New York—Profit and loss account, 1956–63

	1956	1957	1958	1959
Current net earnings	$127, 225, 436	$167, 403, 077	$159, 920, 243	$195, 364, 026
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	64, 613	41, 083	38, 538	47, 981
Reimbursement for fiscal agency expenses incurred in prior years		128, 582		
Transferred from reserves for contingencies (net)				20, 968, 889
All other	13, 898	44, 511	12, 063	953
Total additions	78, 511	214, 176	50, 601	21, 017, 823
Deductions from current net earnings:				
Reserves for contingencies	56, 055	54, 582	49, 260	
Retirement system (adjustment for revised benefits)		2, 114, 932		
All other	2, 852	515	523	288, 283
Total deductions	58, 907	2, 170, 029	49, 783	288, 283
Net additions or deductions (−)	19, 604	−1, 955, 853	819	20, 729, 540
Net earnings before payments to U.S. Treasury	127, 245, 040	165, 447, 224	159, 921, 062	216, 093, 566
Paid U.S. Treasury (interest on Federal Reserve notes)	109, 579, 944	143, 648, 153	138, 349, 233	227, 544, 018
Dividends paid	5, 489, 626	5, 838, 197	6, 199, 722	6, 546, 841
Transferred to surplus (sec. 7)	12, 175, 470	15, 960, 873	15, 372, 107	−17, 997, 293
Surplus (sec. 7), Jan. 1	195, 826, 856	208, 002, 326	223, 963, 199	238, 901, 893
Transferred from surplus (sec. 13b)			−433, 413	
Surplus (sec. 7), Dec. 31	208, 002, 326	223, 963, 199	238, 901, 893	220, 904, 600

Federal Reserve Bank of New York—Profit and loss account, 1956–63—Continued

	1960	1961	1962	1963
Current net earnings	$246, 341, 203	$202, 466, 251	$225, 816, 066	$252, 718, 103
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	607, 327	859, 086	492, 364	77, 185
Reimbursement for fiscal agency expenses incurred in prior years				
Transferred from reserves for contingencies (net)	1, 837, 333			
All other	26, 143	10, 733	119, 711	112, 711
Total additions	2, 470, 802	869, 819	612, 075	189, 896
Deductions from current net earnings:				
Reserves for contingencies				
Retirement system (adjustment for revised benefits)				
All other	5, 562	3, 827	408, 192	10, 970
Total deductions	5, 562	3, 827	408, 192	10, 970
Net additions or deductions (−)	2, 465, 240	865, 992	203, 884	178, 927
Net earnings before payments to U.S. Treasury	248, 806, 443	203, 332, 243	226, 019, 950	252, 897, 030
Paid U.S. Treasury (interest on Federal Reserve notes)	233, 806, 145	182, 395, 607	210, 885, 742	232, 650, 269
Dividends paid	6, 802, 299	7, 043, 136	7, 419, 208	7, 743, 061
Transferred to surplus (sec. 7)	8, 198, 000	13, 893, 500	7, 715, 000	12, 503, 700
Surplus (sec. 7) Jan. 1	220, 904, 600	229, 102, 600	242, 996, 100	250, 711, 100
Transferred from surplus (sec. 13b)				
Surplus (sec. 7) Dec. 31	229, 102, 600	242, 996, 100	250, 711, 100	263, 214, 800

STATEMENT OF ALFRED HAYES, PRESIDENT, FEDERAL RESERVE BANK OF NEW YORK; ACCOMPANIED BY JOHN J. CLARKE, VICE PRESIDENT AND GENERAL COUNSEL; AND ALAN R. HOLMES, VICE PRESIDENT, RESEARCH DEPARTMENT

Mr. HAYES. Thank you, Mr. Chairman.

I am very pleased to be here in response to the subcommittee's invitation. I would like to introduce my colleagues—Mr. John J. Clarke, vice president and general counsel of the New York bank, and Mr. Alan R. Holmes, vice president in charge of our research department.

The CHAIRMAN. We are glad to have these gentlemen.

Mr. HAYES. I am somewhat disappointed that the present review appears to be restricted to the bills now before the subcommittee. I suggest most respectfully that a more balanced view of the System would be obtained if the subcommittee were to take cognizance of other matters I will mention.

First, there is the large question of the future of banking supervision in this country at the Federal level. Today it is no secret that there are strains in the relationship between the System and the Comptroller of the Currency. I regard the breach in the relationship between these two bank supervisory agencies as being most unfortunate. It occurs to me this subcommittee might usefully take a hand in trying to heal it.

There are other matters having to do with the Federal Reserve Act itself. The legislation recommended by the Board last August that would remove the last vestige of the "real bills" doctrine, and the recommendations contained in the 1963 report of the Committee on Financial Institutions to the President of the United States, many of which are before the committee as part of H.R. 7404.

Such a broad-scale approach, Mr. Chairman, could yield useful results. I believe the System should be looked at, as it has been by virtually every Congress for the past 30 years. I, therefore, welcome the current inquiry, though I should, as I said before, like to see the scope of the hearings widened.

Now, on H.R. 3783, this bill on membership in the Federal Reserve System is a replica of H.R. 8516, which was introduced in the first session of the 86th Congress.

On June 10, 1960, I had the privilege of appearing before Subcommittee No. 3 of the Banking and Currency Committee of the House to express the views of the Federal Reserve Bank of New York on H.R. 8516.

The position may be summarized as follows:

We advocated retention of the existing arrangement because we saw positive advantages resulting from stockownership by member banks, and because of the absence of any showing of serious disadvantages resulting from such ownership.

I have reviewed that position. If anything, it is firmer now than then.

As to H.R. 9631, this bill proposes structural and other changes in the Federal Reserve System on which I should now like to comment briefly.

Section 1 of that bill would replace the present Board of Governors of the Federal Reserve System, composed of 7 members appointed by the President with the advice and consent of the Senate for 14-year overlapping terms, with a 12-member Federal Reserve Board to be chaired by the Secretary of the Treasury, ex officio.

Section 3 of the bill would abolish the Federal Open Market Committee.

As the members of this committee know, both the Secretary of the Treasury and the Comptroller of the Currency served as ex officio members of the Board of Governors until their membership was terminated by the Banking Act of 1935. The present proposal to reinstate the Secretary as a member and chairman of the Board would thus reverse a deliberate action taken by the Congress after the expiration of a trial period that was surely ample to test the value of the arrangement.

I know of no reason for such a reversal. But such a reversal could have serious undesirable consequences.

The Secretary of the Treasury is under constant pressure to borrow money at the lowest possible interest rate. It seems to me to be obvious that H.R. 9631 would permit that pressure to become the dominant factor in carrying out monetary policy.

In my view, which I believe is generally shared within the System, the membership of the presidents on the Federal Open Market Committee adds strength to that body. The five presidents bring to the Council of the Committee the distilled results of constant contact with the economic life and the actual conduct of banking operations in their districts, as well as the appraisals of their economists.

I believe to abolish the present form of the presidents' participation in the work of the Committee would be to impair the effective functioning of the Committee—even if the presidents were to act as consultants to the Committee.

I do not believe in changing things that are working well simply because they may appear to some to be illogical, or because they might under other conditions work badly. In my view, the Federal Open Market Committee as now constituted is working well. It provides a forum for any necessary reconciliation of the points of view of persons located at the seat of the Government and of others, the presidents, intimately familiar with economic developments in all regions of the country.

For these reasons I am firmly persuaded it would be a mistake to change the composition of the Committee.

The bill also provides for the appointment of a Federal Advisory Committee to take the place of the present Federal Advisory Council. The Committee would be appointed by the President, consist of the Comptroller of the Currency, Chairman of the Board of Directors of the FDIC, and not more than 50 other members who would serve for a term of 1 year.

I have no objection to the proposal to have the members of the Council or Committee appointed by the President. However, if the Council or Committee were to be enlarged to as many as 52 members, I seriously doubt that it would be able to engage in the kind of conference and consultation with the Board of Governors that is most desirable and fruitful when discussing banking or monetary affairs.

The final feature of H.R. 9631 is a provision for annual audits of the Board and Federal Reserve banks by the Comptroller General.

My view is that the arguments against a mandatory General Accounting Office audit greatly outweigh those in its favor. Clearly the

Federal Reserve banks should be audited, and audited carefully, by an agency of the United States. Such an audit is now performed by the Board of Governors, the agency charged with the supervision of the Federal Reserve banks.

The addition or substitution of an audit by a different Federal agency would add nothing.

The present audit procedures, I believe, are fully effective. They yield complete information which has been made available to the Congress.

I would say, Mr. Chairman, that we at the Federal Reserve banks adhere as rigorously to the standards governing expenditures prescribed for us as does any postmaster to the standards prescribed for him.

As for H.R. 9685, this bill would require that the Federal Reserve banks pay into the Treasury all interests and discounts received by them on obligations of the United States and would require both the Board of Governors and the banks to resort to the appropriation procedure for needed operating funds.

My arguments against the proposed change are that it would break through the safeguards that the Congress has been careful to provide against the possibility that partisan influences might be brought to bear on the system's policymaking processes and that it would tend to warp the decisionmaking process by putting a premium on the profitability of Federal Reserve Bank operations in order to avoid recourse to the appropriations process. I know of no central bank in the world that is placed under this kind of restraint.

As for H.R. 9686, this bill would require commercial banks to pay interest on the Treasury's tax and loan accounts. The Federal Reserve System's functions in the area of monetary and credit policy are greatly facilitated by the tax and loan account mechanism.

I should be opposed to this bill if its effect would be to disturb that mechanism. However, while there is some reason to suppose that the enactment of the bill would have such a disturbing effect, I would be disposed to wait for the Treasury's views before taking a final position for or against that bill.

As for H.R. 9687, this would remove the prohibition against the payment of interest on demand deposits.

Over the past few years, we at the Federal Reserve bank in New York have given serious consideration to the question raised by such a proposal, and we have concluded that on balance it would not be advisable to remove the existing prohibition at this time.

Before concluding, Mr. Chairman, I would like to make a few general observations.

Congress has exercised its constitutional power in the field of money by establishing broad objectives of national policy, and by delegating to a group of specialists in the Federal Reserve System the making of decisions as to how those objectives are to be reached.

The decisions of those specialists are, of course, of vast importance. They involve the exercise of a great degree of discretion and independent judgment. This is inherent in the job.

The achievement of our long-term goals can and frequently does call for measures that are unpopular in the short run. Here I refer not only to moves toward tightening credit, which may at times be necessary, but also to the widespread criticism that the System sometimes has to face from those who believe that money is too easy. I think it is of great importance that the persons charged with executing monetary policy, with making those decisions, retain freedom—freedom in a practical sense—to make unpopular decisions.

I do not regard the present procedure, as some have done, as "antidemocratic." The freedom of the Federal Reserve System to carry out monetary policies free from short-term political pressures represents a conscious decision that was reached by democratic processes that the national interest is best served by the existence of such freedom. As the Subcommittee on General Credit Control and Debt Management so well said in its 1952 report:

> Such degree of independence from Congress as the Federal Reserve System enjoys is due to the judgment of Congress that its own longrun purposes—which are those of the United States as a whole—will be best served by such a temporary self-denial of a portion of its inherent prerogative. The subcommittee believes that this policy of congressional self-denial should be continued.

Of course, that decision can be revoked at any time; I am fully aware that as a creature of the Congress the Federal Reserve System is subject, through the normal legislative processes, to change in its structure and in its functions in any way that the Congress in its wisdom might determine.

My experience as President of the Federal Reserve Bank of New York tells me that the System is working well and that there is no need to change its structure in the manner proposed by H.R. 3783, H.R. 9631, and H.R. 9685.

Over the past year or so the Federal Reserve has played a vital part in the national effort to defend the dollar internationally It would be very unfortunate if efforts to improve the operations of the Federal Reserve System were in any way to lend themselves to an interpretation that the independence of the System itself was under attack. In this connection, I should like to repeat language that I used in my statement before Subcommittee No. 3 on June 10, 1960, language which I think is pertinent to all the legislative proposals I have just mentioned, and which reads as follows:

> * * * Confidence in the dollar is an important goal. It is our impression that, in foreign countries as well as in the financial community in this country, such confidence can be attributed, at least in part, to the existence of an independent monetary authority able to pursue its programs unhampered by political pressures. At present there would seem to be no apprehension that the Federal Reserve System, in performing its central banking function, will be diverted to a pursuit of popular, but unsound, programs. A marked change in the organizational structure of the Federal Reserve System might be viewed as a signal of a basic change in the role or status of the Federal Reserve System and could undermine public confidence in the System and the dollar.

While change may be inevitable, Mr. Chairman, it should come about as the result of the play of natural forces; it should not be forced simply because it may seem to be logical. Samuel Johnson once said: "He is no wise man who will quit a certainty for an uncertainty." To be sure, one might quit a badly operating "certainty" for an untried "uncertainty" that offered the promise of betterment. But when, as here, the system sought to be replaced is operating well, Dr. Johnson's counsel seems to me to be pertinent.

(The documents referred to follow:)

FEDERAL RESERVE BANK OF NEW YORK
MAIN OFFICE

Fees - Directors and Others

Period	Page	Month	Amount	Payee
1st Half 1962	2	Jan.	$ 225	Philip D. Reed Jan. 4, 11 and 12
			$ 150	James D. Wise Jan. 4 and 11
		Feb.	$ 225	Everett N. Case Feb. 1, 8 and 15
			$ 150	George Champion Feb. 1 and 15
		Mar.	$ 75	Albert L. Nickerson March 15
2nd Half 1962	2	July	$ 300	Everett N. Case July 5, 12, 19 and 26
			$ 225	George Champion July 12, 19 and 26
			$ 150	Kenneth H. Hannan July 12 and 26
		Aug.	$ 300	A. Leonard Mott Aug. 2, 9, 16 and 23
1st Half 1963	2	Jan.	$ 150	Kenneth H. Hannan Jan. 3 and 17
			$ 300	George Champion Jan. 3, 10, 17 and 24
		Feb.	$ 225	Albert L. Nickerson Feb. 1, 7 and 21
			$ 75	B. Earl Puckett Feb. 28
			$ 300	Philip D. Reed Feb. 7, 14, 21 and 28
		Mar.	$ 75	A. Leonard Mott March 7
			$ 150	Albert L. Nickerson March 7 and 28
			$ 300	B. Earl Puckett March 7, 11, 21 and 28
	3	June	$ 225	Ralph H. Rue June 6, 20 and 24
			$ 300	James D. Wise June 6, 20, 24 and 27

The above items represent directors fees paid at the rate of $75 per meeting for attendance at meetings of Board of Directors, Executive Committee, or other meetings on the dates indicated.

1st Half 1962	2	Jan.	$3,000.00	Horace S. Ely Corporation

Yearly ammortization of commission of $21,000 paid for arranging the leasing of space on first and second floors in 89-97 Maiden Lane, property of the Bank, for a term of seven years (Sept. 1, 1961 to August 31, 1968) at $80,000 per year rental.

2nd Half 1962	2	Aug.	$ 670.00	Horace S. Ely & Company

Commission for arranging the leasing of portion of 8th floor at No. 89-97 Maiden Lane for a term of three years ten months (July 1, 1962 to April 30, 1966) at $6,000 per annum.

(2)

FEDERAL RESERVE BANK OF NEW YORK
MAIN OFFICE

Fees - Directors and Others

Period	Page	Month	Amount	Payee
1st Half 1963	2	Jan.	$1,680.00	Horace S. Ely & Company

Commission paid in 1963 for arranging the lease of the major portion of the 8th floor at No. 89-97 Maiden Lane for a term of five years (July 1, 1962 to June 30, 1967) at $33,600 per annum.

1st Half 1963	2	Jan.	$3,000.00	Horace S. Ely & Company

Yearly ammortization of commission described for item on first half of 1962, page 2, January in amount of $3,000.

2nd Half 1962	3	Nov.	$2,770.67	Stanford Research Institute

New York's share of fee for research and development projects relating to check handling and data processing equipment for Federal Reserve Banks. Cost distributed to all Federal Reserve Banks on a capital and surplus ratio.

1st Half 1962	2	Mar.	$ 225.00	J. Taggart, H. Wallich, H. Barger

Dr. Taggart, Dean, Graduate School of Business, N. Y. U., Dr. Wallich, Professor of Economics, Yale University, and Dr. Barger, Professor of Economics and Chairman of Economics Department, Columbia University, served on a committee to select 25 college teachers of money and banking from applicants to attend a seminar held at this Bank and to advise on the content and the nature of the program to be presented during the seminar. The above item represents the payment of fees at the rate of $75 per day for work at the Bank on selection of the Program.

1st Half 1962	7	Apr.	$ 150.00	Harold Barger

This item represents fees paid to Professor Barger for attendance for two days at the seminar referred to above. Professor Barger participated in discussion of monetary theory, particularly in foreign exchange, and in evaluating the effectiveness of the seminar after its conclusion.

(1)

FEDERAL RESERVE BANK OF NEW YORK
MAIN OFFICE

All Other

Period	Page	Month	Amount	Payee
1st Half 1962	233	Jan.	$ 81.82	Cafeteria Account-Miscellaneous Receipts
	233	Feb.	76.52	"
	233	Mar.	56.18	"
	234	Apr.	65.42	"
	234	May	85.70	"
	234	June	89.00	"
2nd Half 1962	235	July	71.08	"
	235	Aug.	98.46	"
	235	Sept.	38.25	"
	235	Sept.	76.34	"
	236	Oct.	53.66	"
	236	Nov.	89.18	"
	236	Dec.	101.84	"
1st Half 1963	234	Jan.	44.00	"
	234	Jan.	106.76	"
	234	Feb.	42.75	"
	234	Feb.	85.26	"
	234	Mar.	56.44	"
	235	Apr.	82.70	"
	235	May	36.75	"
	235	May	70.38	"
	235	June	123.54	"

The above items represent charges made in the months indicated in connection with serving luncheons during those months in the Bank to our directors, and certain officers, prior to regular directors' meetings. The bank absorbs the full cost of serving directors; officers pay their own checks on the same basis as they do for their regular luncheons.

1st Half 1962	220	Jan. Week Ended 1/14/62	665.85	Graham Accounting & Statistical Corp.
	220	Jan. Week Ended 1/21/62	680.23	"
	220	Feb. Week Ended 1/28/62	1,309.50	"
2nd Half 1962	223	Dec. Week Ended 12/2/62	3,610.24	"
	223	Dec. Week Ended 12/9/62	3,112.77	"
	223	Dec. Week Ended 12/16/62	2,892.04	"
	223	Dec. Week Ended 12/23/62	4,741.54	"

(2)

FEDERAL RESERVE BANK OF NEW YORK
MAIN OFFICE

All Other

Period	Page	Month	Amount	Payee
1st Half 1963	219	Jan. Week Ended 1/6/63	$4,493.82	Graham Accounting & Statistical Corp.
	219	Jan. Week Ended 1/13/63	4,974.08	"
	219	Jan. Week Ended 1/20/63	4,813.09	"
	220	Apr. Week Ended 3/24/63	3,027.38	"
	220	May Week Ended 5/12/63	1,236.60	"
	220	June Week Ended 6/23/63	3,269.70	"
	220	June Week Ended 6/2/63	770.85	"
	220	June Week Ended 6/9/63	2,816.78	"
	220	June Week Ended 6/16/63	3,475.58	"
2nd Half 1962	223	Dec. Week Ended 12/8/62	772.13	Office Temporaries, Inc.
	223	Dec. Week Ended 12/15/62	1,224.53	"
1st Half 1963	219	Jan. Week Ended 1/12/63	1,204.95	"
	219	Jan. Week Ended 1/19/63	1,562.38	"
	219	Feb. Week Ended 2/2/63	1,513.08	"
	219	Feb. Week Ended 2/9/63	1,431.15	"
	219	Feb. Week Ended 2/24/63	957.00	"
	219	Mar. Week Ended 2/23/63	904.80	"
	219	Mar. Week Ended 3/2/63	1,220.90	"
	219	Mar. Week Ended 3/9/63	962.80	"
	219	Mar. Week Ended 3/16/63	1,119.40	"
	220	Apr. Week Ended 3/30/63	1,017.18	"
	220	Apr. Week Ended 4/6/63	1,155.65	"
	220	Apr. Week Ended 4/13/63	1,164.35	"
	220	May Week Ended 4/20/63	1,637.78	"
	220	May Week Ended 4/27/63	1,510.90	"
	220	May Week Ended 5/11/63	1,301.38	"
	220	June Week Ended 5/25/63	1,318.78	"

The above items represent expenditures for the cost of hourly rate services between the hours of approximately 5:00 p.m. and 11:00 p.m. of I.B.M. proof machine operators provided through the corporations at our request to process checks on our premises and equipment during periods volume requires and when conditions in the labor market are unfavorable for employment of the necessary number of full-time staff members.

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All Other

Period	Page	Month	Amount	Payee
1st Half 1963	223	Jan. Month of December 1962	$ 4,609.70	Nassau County Clearing House
	223	Feb. Month of January 1963	3,491.78	"
	224	June Month of May 1963	6,896.58	"
	224	June Month of May 1963	1,599.71	Bergen County Clearing Association

The above items represent additional amounts required over estimates to meet this Bank's share of operating expenses.

Period	Page	Month	Amount	Payee
	265	Mar. 13 Placements	1,760.93	A.A.C. Employment Service, Inc.
	265	Mar. 4 Placements	499.72	"
	266	Apr. 16 Placements	2,162.98	"
	266	May 5 Placements	398.08	"
	266	June 5 Placements	677.72	"
	266	Apr. 1 Placement	115.00	Bell Personnel Service
	266	June 1 Placement	139.42	"
	266	Apr. 1 Placement	115.00	Drake Industrial & Restaurant Agency
	265	Mar. 2 Placements	278.80	The Heights Personnel Service Agency
	266	Apr. 3 Placements	418.20	"
	266	May 3 Placements	418.20	"
	265	Mar. 1 Placement	139.42	Mahony Employment Agency
	266	June 1 Placement	150.65	Mercury Employment Agency
	265	Mar. 1 Placement	167.38	"
	266	Apr. 1 Placement	167.38	"
	266	May 2 Placements	301.30	"
	266	June 1 Placement	103.50	Tact Employment Agency
	266	May 1 Placement	167.37	Jack Philpot
	266	May 1 Placement	139.45	Nana Watson
	266	May 1 Placement	139.45	Eleanor Williams
	266	May 1 Placement	65.20	Gloria Taylor
	266	June 1 Placement	71.50	Shirley N. Jackson
	266	June 1 Placement	71.50	Philip Mungin
	266	June 1 Placement	65.50	Ida M. Tyson

The above items represent expenditures for obtaining employees. Employment agency fees normally paid by the employees are paid by the Bank in order to obtain hirees for positions for which a scarcity of qualified applicants exists in the labor market. Payments are made directly to employment agencies or by reimbursement to the hirees.

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All Other

Period	Page	Month	Amount	Payee
1st Half 1962	260	Jan. Help wanted ads for December 1962	$ 432.30	Albert Frank-Guenther Law Inc.
	260	Feb. Help wanted ads for January 1962	1,850.82	"
	260	Mar. Help wanted ads for February 1962	601.35	"
	261	May Help wanted ads for April 1962	480.00	"
2nd Half 1962	261	Aug. Help wanted ads for April and May 1962	1,716.86	"
	261	Aug. Help wanted ads for June 1962	735.56	"
	261	Aug. Help wanted ads for July 1962	346.20	"
	261	Sept. Help wanted ads for August 1962	349.40	"
	262	Oct. Help wanted ads for September 1962	582.90	"
	262	Nov. Help wanted ads for October 1962	879.25	"
	262	Dec. Help wanted ads for November 1962	644.70	"
1st Half 1963	261	Jan. Help wanted ads for December 1962	413.72	"
	261	Feb. Help wanted ads for January 1963	469.98	"
	261	Mar. Help wanted ads for February 1963	59.97	"
	262	Apr. Help wanted ads for March 1963	499.80	"
	262	May Help wanted ads for April 1963	446.50	"
	262	June Help wanted ads for May 1963	457.95	"
	266	May Help wanted ads for April 1963	100.00	A.A.C. Employment Agency

The above items represent expenditures for help wanted ads in various local newspapers to attract applicants for positions available in the Bank.

Period	Page	Month	Amount	Payee
1st Half 1962	264	Jan. 29 Reports	166.18	Retail Credit Company
	264	Feb. 19 Reports	106.60	"
	264	Mar. 27 Reports	140.90	"
	265	Apr. 30 Reports	175.90	"
	265	May 15 Reports	90.75	"
	265	June 37 Reports	204.90	"
2nd Half 1962	265	July 36 Reports	209.05	"
	265	Aug. 52 Reports	292.07	"
	265	Sept. 69 Reports	378.51	"
	266	Nov. 34 Reports	194.30	"
	266	Dec. 33 Reports	183.20	"

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All Other

Period	Page	Month	Amount	Payee
1st Half 1963	265	Jan. 36 Reports	$ 213.80	Retail Credit Company
	265	Feb. 18 Reports	95.65	"
	265	Mar. 60 Reports	304.25	"
	266	Apr. 34 Reports	174.50	"
	266	May 47 Reports	268.55	"
	266	June 60 Reports	324.60	"
1st Half 1962	264	Feb. 61 Reports	108.70	Credit Bureau of Greater New York Inc.
	264	Mar. 82 Reports	146.75	"
2nd Half 1962	265	July 102 Reports	188.25	"
	265	Aug. 66 Reports	189.55	"
	266	Oct. 53 Reports	106.95	"
1st Half 1963	265	Jan. 59 Reports	121.00	"
	265	Feb. 64 Reports	129.50	"
	265	Mar. 115 Reports	235.62	"
	266	Apr. 128 Reports	258.99	"
	266	May 128 Reports	263.54	"
	266	June 96 Reports	197.60	"

The above items represent expenditures for reports of the Retail Credit Company and the Credit Bureau of Greater New York used in the investigation of applicants for employment.

Period	Page	Month	Amount	Payee
1st Half 1962	282	Jan.	412.54	Cafeteria Account - Miscel. Receipts
	282	Feb.	444.88	"
	282	Mar.	556.51	"
	283	Apr.	769.63	"
	283	May	585.41	"
	284	June	380.06	"
2nd Half 1962	285	July	373.48	"
	285	Aug.	350.76	"
	285	Sept.	555.26	"
	286	Oct.	593.39	"
	286	Nov.	401.73	"
	286	Dec.	531.62	"
1st Half 1963	287	Jan.	807.38	"
	288	Feb.	593.26	"
	289	Mar.	689.68	"
	290	Apr.	732.72	"
	290	May	742.90	"
	290	June	466.07	"

The above items represent charges made in the months indicated in connection with providing luncheons during those months, in the Bank, to domestic and foreign bankers, Government officials, and others having business with the Bank. The Bank absorbs the cost of luncheons so provided.

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All Other

Period	Page	Month	Amount	Payee
1st Half 1962	272	Jan.	$ 123.78	Beekman Cleaners
		Weeks Ended 12/22, 29/61		
	273	May	$ 137.40	"
		Weeks Ended 4/27, 5/11/62		
	273	June	$ 116.62	"
		Weeks Ended 6/8, 15/62		
		The above items represent expenditures for the periods indicated for laundry service of uniforms, gowns, coats, sheets, etc., for the Medical Department.		
2nd Half 1962	267	July	$ 625.00	Kent Coat & Apron Supply Corp.
	267	Sept.	$ 625.00	"
	268	Oct.	$ 625.00	"
		The above items represent expenditures for the months indicated for rental of uniforms and laundry service for the cafeteria personnel.		
1st Half 1962	268	Mar.	$ 256.50	McCormack Incorporated
		Silver trays presented in recognition of 35th service anniversary.		
	269	Apr.	$3,699.66	Hamilton Watch Company
		Watches presented in recognition of 35th service anniversary.		
	269	Apr.	$ 94.26	L. G. Balfour Company
		Bracelets and tie bars presented in recognition of 25th service anniversary.		
	269	Apr.	$ 130.00	Gabe's "House of Flowers"
		Corsages for employees attending the Service Anniversary Luncheon April 10, 1962		
	269	Apr.	$ 328.69	Cafeteria Account - Miscellaneous Receipts
		Cost of 106 meals in the Bank at the Service Anniversary Luncheon April 10, 1962.		
2nd Half 1962	269	Sept.	$ 53.25	Gabe's "House of Flowers"
		Flowers presented in recognition of 40th service anniversary.		
	269	Sept.	$ 275.30	Rester Jewelers, Incorporated
		Engraving watches presented on 35th service anniversary.		
	270	Dec.	$ 85.75	Hamilton Watch Company
		Watch presented in recognition of 35th service anniversary.		

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All Other

Period	Page	Month	Amount	Payee
1st Half 1962	262	Jan.	$ 160.00	American Institute of Banking
1st Half 1963	263	Jan.	$ 180.00	"

The above items represent registration fees for representatives of the Bank at the Annual Banquet of the New York Chapter, American Institute of Banking on February 3, 1962 and February 3, 1963. To stimulate a continuing interest on the part of employees to further their education, the Bank participates in the activities of the American Institute of Banking and sends selected representatives to the annual dinner.

Period	Page	Month	Amount	Payee
2nd Half 1962	278	Oct. French Instruction	$ 565.00	Berlitz School of Languages
	278	Dec. French Instruction	$ 445.00	"
1st Half 1963	277	Jan. French Instruction	$ 520.00	"
2nd Half 1962	278	Nov. Spanish Instruction	$ 605.00	V. Moore
	278	Dec. Spanish Instruction	$ 491.00	"
	278	Dec. Spanish Instruction	$ 350.00	"
1st Half 1963	277	March Spanish Instruction	$ 580.00	"
	278	April Spanish Instruction	$ 570.00	"
	278	June Spanish Instruction	$ 565.00	"

The above items represent expenditures in the month indicated for instruction in foreign languages. In view of the frequent contacts of this Bank with representatives of central banks of French and Spanish speaking countries, it is desirable to have certain of our officers and employees, chiefly from the Foreign and Research Departments, reasonably proficient in the use of these languages.

Period	Page	Month	Amount	Payee
2nd Half 1962	277	Aug. Registration fee for participation by a representative of the Cash Custody Department in a management course.	$ 850.00	American Management Association
	278	Nov. Registration fee, tuition and sustanance charges for eight representatives of the Bank.	$2,910.00	The Stonier Graduate School of Banking
1st Half 1963	277	Jan. Registration fee for Special Representative, Bank Relations Department, at the Bankers Institute for Executive Management, Feb. 3-15, 1963.	$ 395.00	New York State Bankers Association

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All Other

Period	Page	Month	Amount	Payee
1st Half 1963	277	March	$ 850.00	American Management Association
		Registration fee for participation by a representative of the Building Operating Department in a management course.		
	277	March	$ 195.00	Service Engineering Associates Inc.
		Registration fee for three representatives of the Building Operating Department to participate in a seminar in Housekeeping Management and Supervision held April 22-24.		
	278	April	$ 450.00	Trust Division, New York State Bankers Association
		Registration fees for 2 representatives of the Bank Examination Department in a course in Estate Administration during the week of June 17, 1963.		
	278	May	$ 400.00	American Bankers Association
		Registration fees for a representative of the Bank Examination Department in a course on Trust Administration at Northwestern University.		
	278	May	$ 750.00	New York State Bankers Association
		Registration fee for six representatives of the Bank Supervision and Relations Function to attend sessions of the Bankers School of Agriculture.		

Attendance at specially devised courses of instruction at educational institutions, and at conferences and seminars of specialized management organizations is an important segment of the Bank's training and development program for selected senior employees and officers.

Period	Page	Month	Amount	Payee
1st Half 1962	277	April	$1,875.00	Columbia University
		Registration fee for Mr. MacInnes, Jr. Asst. Vice President, to attend The Executive Program in Business Administration June 10-July 21, 1962.		
1st Half 1963	278	April	$2,000.00	
		Registration fee for Mr. Jensen, Asst. Vice President, to attend the Executive Program in Business Administration June 16 through July 27, 1963.		

To attend The Executive Training Program at the Graduate School of Business Administration, Columbia University, Arden House, Harriman, New York as part of the Bank's Executive Training and Development Program. Enabled Mr. MacInnes, and Mr. Jensen to study policy determination and executive problems from an organization-wide point of view. Helped them acquire new knowledge, improve their skills, and develop new approaches to managerial tasks.

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All Other

Period	Page	Month	Amount	Payee
1st Half 1963	264	April	$ 13.50	Beekman Downtown Hospital Alumni Association

Cost of dinner-meeting attended by the Bank's Medical Director, who is a member of the Courtesy Staff of Beekman Downtown Hospital and maintains professional contacts with the members of the medical staff since the hospital is used by our employees for emergency work, such as night emergencies, X-ray studies, first aid treatment, etc.

Period	Page	Month	Amount	Payee
	264	April	$ 10.00	Academy of Medicine

Registration fee of the Bank's Medical Director's attendance at a joint meeting of the New York State Society of Industrial Medicine and the Section on Occupational Medicine of the New York Academy, on May 22, 1963. The Medical Director is a member of these organizations and attendance at meetings of such professional societies is of importance in maintaining and improving the standards of the Bank's Medical Division.

Period	Page	Month	Amount	Payee
	263	March	$ 20.75	New York Personnel Management Association

Cost of a dinner-meeting attended by the representatives of the Personnel Department. The meeting afforded the opportunity of acquiring knowledge and understanding of more recent approaches to recruitment and selection of personnel, with emphasis on the evaluation of recruitment sources in the New York area.

Period	Page	Month	Amount	Payee
	263	Jan.	$ 110.00	Greater N.Y. Assoc. of Industrial Nurses, Inc.
1st Half 1962	262	Jan.	$ 121.00	"

Cost of attendance of Personnel officers and representatives of the Medical Department at the Nurse-Management Dinner-Meeting on February 19, 1963 and on February 13, 1962. Attendance at this annual dinner is an effective and efficient method of maintaining contact with the industrial nursing profession in the New York area and of keeping informed of the latest developments in this specialized field.

Period	Page	Month	Amount	Payee
1st Half 1963	263	Feb.	$ 43.00	F. L. Smedley

Expenses incurred by F. L. Smedley, Assistant Vice President, for dinner for members of the Steering Committee of the Conference of Personnel officers and the Subcommittee on Personnel. Federal Reserve members of the System Steering Committee of the Conference of Personnel Officers, and the System Subcommittee on Personnel of the Conference of Presidents met at this Bank and, following the meeting, were taken to dinner and the cost of the meals was paid by this Bank.

FEDERAL RESERVE BANK OF NEW YORK
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All Other

Period	Page	Month	Amount	Payee
2nd Half 1962	286	Oct.	$ 200.00	Economic Club of New York
	286	Dec.	200.00	"
1st Half 1963	235	Apr.	140.00	"
	288	Feb.	60.00	"
	290	Apr.	120.00	"
	290	Apr.	150.00	The Academy of Political Science Dinner

The above items represent the cost of attendance by officers of the Bank at dinner meetings held in New York by the Economic Club and The Academy November 13 and December 14, 1962, March 5, April 22 and May 8, 1963.

The dinner meetings of the Economic Club and The Academy are a forum for major addresses on economic topics, and provide an opportunity to exchange views with leading businessmen and economists.

1st Half 1962	284	June	$ 90.00	National Industrial Conference Board
1st Half 1963	290	May	205.00	"

Registration fees for attendance by officers and economists of the Research Department at annual meetings of National Industrial Conference Board to participate in seminars dealing with current economic and financial problems, and to exchange views with leading economists and businessmen on current economic problems.

1st Half 1963	287	Jan.	$ 11.00	National Foreign Trade Council Inc.

Cost for two members of Research Department to attend luncheon of Balance of Payments Group on January 15, 1963. The luncheon afforded an opportunity for an exchange of views with other economists specializing in balance of payments problems and was useful in the work of the staff members.

1st Half 1963	290	Apr.	$ 230.89	Fraunces Tavern Restaurant

Cost of luncheon for occasional guides from the Bank's staff. The Public Information Department supplements its staff of guides to handle periods of peak demand, by using personnel from other departments as occasional guides. The occasional guides make an important contribution to the success of the Bank's guided tour program, which is an important part of increasing public awareness of the work of the Bank.

1st Half 1963	290	May	$ 100.00	New York Financial Writers Association

Cost of dinner attended by press officers and the Vice President in charge of Bank Supervision on May 27, 1963 at which the Comptroller of the Currency was guest speaker.

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All Other

Period	Page	Month	Amount	Payee
1st Half 1963	288	Feb.	$ 20.00	T. O. Waage
		Expense incurred by T. O. Waage on February 25, 1963 for luncheon attended by the Manager and Chief, Public Information Department and also Dr. Lazare Teper, Research Director, International Ladies Garment Workers Union. Dr. Lazare Teper, research director of the International Ladies Garment Workers Union was invited to a luncheon to discuss the possibility of developing broader contact with labor movement. Such contact would provide a means of discussing general economic problems and increasing mutual understanding.		
1st Half 1962	282	Jan. 15 registration fees for 1962 midwinter dinner.	$ 300.00	New York State Bankers Association
	283	Apr. 7 registration fees for 1962 annual convention.	$ 210.00	New Jersey Bankers Association
	283	May 10 registration fees for 1962 annual convention.	$ 200.00	New York State Bankers Association
2nd Half 1962	285	Aug. 7 registration fees for 1962 annual convention.	$ 175.00	American Bankers Association 88th Annual Convention
	285	Sept. 9 registration fees for 1962 Investment Seminar, New York State Bankers Association.	$ 225.00	Investment Seminar, New York State Bankers Association
1st Half 1963	287	Jan. 19 registration fees for 1963 midwinter dinner.	$ 313.88	New York State Bankers Association
	288	Feb. One registration fee for 1963 Savings Conference.	$ 25.00	American Bankers Association
	290	Apr. 8 registration fees for 1963 convention.	$ 240.00	New Jersey Bankers Association
	290	May Registration fees for various 1963 meetings of Trust Division of New York State Bankers Association.	$ 112.00	New York State Bankers Association
	290	May 10 registration fees for 1963 annual convention.	$ 200.00	New York State Bankers Association

The above items represent registration fees paid to enable members of staff of our Bank to participate in meetings of the banking groups listed to attend workshop meetings and lectures, and to visit with individual bankers discussing common problems, and explaining Federal Reserve policies and functions.

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All Other

Period	Page	Month	Amount	Payee	
1st Half 1963	288	Feb.	$ 5,350.35	The Waldorf Astoria	
		Cost of a luncheon sponsored by the Federal Reserve Bank of New York in connection with the annual mid-winter meeting of the New York State Bankers Association. Representatives of New York State banks attend this luncheon at which a major policy address is customarily delivered by the President of the Bank.			
1st Half 1963	290	June	$ 2,239.18	Haddon Hall Hotel	
		New York's share of the cost of a luncheon sponsored by the Federal Reserve Banks of New York and Philadelphia in connection with the annual meeting of the New Jersey Bankers Association. Representatives of New Jersey State banks attend this luncheon at which a major policy address is delivered either by the President of the Federal Reserve Bank of New York or the President of the Federal Reserve Bank of Philadelphia. These luncheons serve to remind bankers of the direct interest the central bank has in their affairs and provide an opportunity to discuss matters of interest in the System with bankers.			
2nd Half 1962	285	Aug.	$ 82.58	G. Garvy	
		Share of U. S. delegation party for Russian hosts in connection with the XV International Banking Summer School at the University of Moscow, July 1-14, 1962. After checking with the American Embassy in Moscow, the party was organized jointly by the American and Canadian delegation, with the United States cost shared pro rata among the members of the American delegation, numbering eighteen. Several members of the American Embassy attended the party in order to make contacts with leading members of Soviet banking institutions.			
1st Half 1963	290	May	$ 228.50	Alfred Hayes	$126.95
				Tyson's Theatre Ticket Service	$101.55
		Expenses incurred by Mr. Hayes, accompanied by his wife and Mr. and Mrs. Rouse, in entertaining two representatives of a foreign central bank at dinner ($122.00) and theatre ($45.30) on May 17, 1963; and, accompanied by Mrs. Hayes, for entertaining a representative of a foreign central bank and two representatives of a domestic bank having foreign branches at the theatre ($56.25) on May 14, 1963; and for entertaining ($4.95) a representative of a foreign bank on February 19, 1963.			
1st Half 1963	288	Feb.	$ 36.25	E. W. Carroll	
		Expenses incurred by Mr. Carroll, accompanied by his wife, in entertaining a representative of a foreign central bank at dinner on February 1, 1963.			
1st Half 1963	287	Jan.	$ 45.75	P. P. Lang	$ 26.75
				Metropolitan Opera House	$ 19.00
		Expense incurred by Mr. Peter P. Lang in entertaining a representative of a foreign central bank at dinner and the opera on January 3, 1963.			

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All Other

Period	Page	Month	Amount	Payee	
1st Half 1963	287	Jan.	$ 79.95	H. L. Sanford	$ 52.50
				Grand Central Theatre Service	$ 27.45
				Expenses incurred by H. L. Sanford, accompanied by his wife, in entertaining a representative of a foreign central bank at dinner and the theatre on January 10, 1963.	
1st Half 1963	288	Feb.	$ 72.70	T. J. Roche	$ 40.15
				Margaret Hill Theatre Ticket Agency	$ 32.55
				Expenses incurred by Mr. T. J. Roche, accompanied by his wife, in entertaining a representative of a foreign central bank at dinner and the theatre on February 1, 1963.	
1st Half 1963	288	Feb.	$ 31.00	John Walsh	
				Expenses incurred by John Walsh in entertaining two representatives of a foreign central bank at dinner on February 18, 1963.	
1st Half 1963	288	Feb.	$ 37.88	E. S. Rothman	
				Expenses incurred by Messrs. Rothman and Morisse in entertaining two representatives of a foreign central bank at dinner on February 20, 1963.	
1st Half 1963	288	Feb.	$ 43.00	John Walsh	
				Expenses incurred by Messrs. Fay and Walsh in entertaining two representatives of a foreign central bank at dinner on February 25, 1963.	
1st Half 1963	289	Mar.	$ 56.45	W. H. Rushmore	
				Expenses incurred by W. H. Rushmore and J. Masterson in entertaining two representatives of a foreign central bank at dinner on February 28, 1963.	
1st Half 1963	290	Apr.	$ 95.20	F. H. Schott	$ 61.00
				Grand Central Theatre Service	$ 34.20
				Expenses incurred by F. H. Schott, accompanied by his wife, in entertaining two representatives of an international monetary organization at dinner and theatre on April 12, 1963.	
1st Half 1963	290	Apr.	$ 65.65	R. G. Rouse	
				Expenses incurred by Mr. Rouse, accompanied by Messrs. Coombs, Roche and Walsh, in entertaining two representatives of a foreign central bank at dinner on April 18, 1963.	
1st Half 1963	290	May	$ 110.00	Mr. Coombs	
				Expenses incurred by Mr. Coombs, accompanied by his wife, and Mr. and Mrs. Sanford, Mr. and Mrs. Roche and Mr. Young in entertaining three representatives of a foreign central bank and an international monetary organization at dinner.	
1st Half 1963	290	June	$ 105.75	Alfred Hayes	
				Expenses incurred by Mr. Hayes, accompanied by Mr. and Mrs. Coombs, in entertaining three representatives of a foreign central bank at dinner on June 3, 1963.	

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All Other

Period	Page	Month	Amount	Payee
1st Half 1962	234	May	$ 75.00	National Machine Accountant's Association

Registration fee for attendance by George Manger at the data processing conference and business exposition, June 19 - 22, 1962, held at the Statler Hilton Hotel, New York City.

	234	Apr.	$ 150.00	National Machine Accountant's Association

Registration fee for attendance by J. M. Halpern and R. F. Moreschi at the annual convention June 19-22, 1962, held at the Statler Hilton Hotel in New York City.

This association is an organization devoted to the improvement of all areas of machine and computer accounting in business and industry. Persons attending the meeting acquire familiarity with up-to-date developments in accounting machine and computer applications.

1st Half 1963	235	June	$ 435.49	University Club

Reception given by Federal Reserve Bank of New York at the University Club on June 24, 1963 for members of the House Banking and Currency Committee in connection with their visit to the New York Bank in order to give the Committee members an opportunity to meet informally with leading members of the New York financial community.

	235	June	$ 157.92	Cafeteria Account - Miscellaneous Receipts

Cost of luncheon served at the Bank to members and staff of the House Banking and Currency Committee at the time of the Committee's visit to the Bank on June 24, 1963.

	234	March	$ 77.20	Commuters Cafe, Inc.

Cost of luncheons in connection with a meeting of trust examiners and officers from various Reserve Banks held at this Bank on February 7, 1963. Luncheon was provided at an outside restaurant since the Bank's dining room facilities could not accommodate the large group. The meeting was arranged to exchange ideas and discuss problems of mutual interest relative to trust department examination.

1st Half 1963	235	May	$ 110.00	Bankers Athletic League of New York

Registration fees for participation in the annual golf tournament for Bank officials held by the Bankers Athletic League.

	234	March	$ 75.00	University of Chicago

Registration fee for representatives of the Research Department to attend the Business Economists Conference sponsored by the University of Chicago, on April 18 and 19. Afforded an opportunity to exchange views with leading business economists; useful in rendering advice to Bank on business conditions.

1st Half 1962	233	Jan.	$ 70.00	National Association of Bank Auditors and Comptrollers

Registration fee for two representatives of Auditing Department at Regional National Association of Bank Auditors and Comptrollers convention held at Baltimore, Maryland April 1-4, 1962. Fee refunded because of non-attendance. See credit for $70.00, page 234, month of April (unchecked).

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Period	Page	Month	Amount	Payee
2nd Half 1962	282	July Months of March & April	$ 70.00	Christies Flowers, Inc.
	282	July Month of June	35.00	"
	282	Aug. Months of May & July	90.00	"
	283	Oct. Months of August & September	70.00	"
	283	Nov. Month of October	35.00	"
	283	Dec. Month of November	35.00	"
1st Half 1963	281	March Month of January	186.00	"
	282	June Month of May	132.50	"

The above items represent expenditures for the maintenance and replacements of plants located in the Bank.

1st Half 1962	221	Mar.	$ 1,250.00	New York Clearing House Association
2nd Half 1962	218	July	1,250.00	"
1st Half 1963	221	Jan.	1,250.00	"
	221	Feb.	1,250.00	"

The above items represent the monthly proportion of the Bank's yearly payment to the New York Clearing House Association as a special "non-voting" member. Payment is in part for use of clearing facilities at an agreed upon annual rate.

Participation in the clearing house exchanges is an economic and efficient means of collecting checks drawn on or payable at Clearing House banks, as well as providing participation in coupon exchanges and in the presentment of items to members of the City Collection Department of the Clearing House.

1st Half 1963	290	May	$ 95.00	Mr. Marcus A. Harris

Expenses incurred by Mr. Harris, Vice President, in connection with dinner for members of Subcommittee on Collections who attended meetings of the Subcommittee at the Federal Reserve Bank of New York on May 7 and 8, 1963 to continue discussions of matters presented at a meeting held to consider collection matters assigned to it by the Conference of Presidents.

1st Half 1963	287	Jan.	$ 35.00	M. C. Drexler

Registration fee for attending Middle Atlantic Conference of Building Owners and Managers on January 13-15, 1963. The Association is composed mainly of owners and managers of large commercial buildings which periodically studies new equipment and methods and conducts wage and salary surveys for jobs in this field. Such meetings provide an opportunity to obtain useful technical and practical information, and to keep abreast of current developments and thinking in respect of property management and power plant operation.

FEDERAL RESERVE BANK OF NEW YORK
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All Other

Period	Page	Month	Amount	Payee
			ADJUSTMENTS	
1st Half 1962	276	Jan.	$1,439.52 *	Research Institute of America
	276	Mar.	4.00	"
	277	Apr.	72.60	"
2nd Half 1962	277	Sept.	1,439.52 Cr.	Adjusting entry
	277	Sept.	76.60 Cr.	"
	237	Sept.	1,516.12 *	"

* Checked on schedules; others unchecked.

The offsetting adjusting entries were to properly allocate to "General Overhead Function" as "All Other-Membership Dues and Contributions" the incorrect allocation of charges for dues made in January, March and April to "Personnel Function, Training and Education Unit" as "All Other-Education". For a description of the charge in January for $1,439.52, see first half 1962, page 276, month of January. The charges of $4 in March and $72.60 in April represent payments to Research Institute of America for changes in and additions to associate memberships.

Period	Page	Month	Amount	Payee
1st Half 1963	261	Feb.	$ 273.90 *	The Heights Personnel Service Agency
	261	Feb.	50.00	A.A.C. Employment Service
	261	Feb.	323.90 Cr.	Adjusting entry
	265	Feb.	323.90 *	"

* Checked on schedule, others unchecked.

The offsetting adjusting entries were to properly allocate to "All Other-Other" the incorrect allocation of charges to "All Other-Advertising for Employees". The charges for $273.90 and $50 represent payments for placing applicants in positions in the Bank.

Period	Page	Month	Amount	Payee
1st Half 1963	236	Jan.	$1,440.00	New Jersey Bankers Association
	236	Feb.	1,440.00 Cr.	Adjusting entry
	263	Feb.	1,440.00	"

The offsetting adjusting entries were to properly charge on the Bank's records, the cost of membership dues improperly charged to General Overhead instead of Bank Relations Department. For a description of the original charge in January, see first half 1963, page 236, month of January.

FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee
	The following items represent charges for Dow-Jones News Service tickers located in key areas in the Bank to provide prompt news of financial and other developments.			
1st Half 1962	181	Jan.	$288.00	Dow Jones & Co., Inc.
	181	Feb.	288.00	"
	181	Mar.	128.00	"
	182	June	128.00	"
	182	June	128.00	"
2nd Half 1962	178	Aug.	288.00	"
	178	Aug.	128.00	"
1st Half 1963	180	Jan.	288.00	"
	180	Feb.	288.00	"
	180	Feb.	128.00	"
	180	Mar.	288.00	"
	180	Jan.	128.00	"
	181	May	128.00	"
	181	June	284.80	"
	181	June	142.40	"
	181	June	142.40	"
	The following items represent expenditures for refunds for textbooks made to various employees attending accredited schools and colleges in accordance with the educational program of the Bank. The Bank's educational program encourages employees to continue their education to the end of preparing themselves to assume positions of greater responsibility and thus aids the Bank in maintaining a trained and experienced staff.			
1st Half 1962	150	Feb.	$156.57	10 employees
	150	Feb.	104.62	10 employees
	150	Feb.	204.21	10 employees
	150	Mar.	114.06	6 employees
	151	June	137.38	10 employees
	151	June	122.17	12 employees
	151	June	126.79	11 employees
1st Half 1963	146	Feb.	136.03	4 employees
	146	Feb.	245.28	19 employees

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FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee
1st Half 1963	146	Mar.	$367.16	22 employees
	147	June	113.02	6 employees
	147	June	108.07	7 employees
	147	June	143.99	10 employees
	147	June	137.28	14 employees

FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee
				The Market Statistics Department of the Bank prepares daily a report on "Composite Closing Quotations for U. S. Government Securities". This report initiated primarily at the request of the U. S. Treasury Department, is available to the general public upon request. The mailing list currently includes various Government agencies, banks, security dealers, newspapers, universities, research bureaus, and others. The following items represent the cost of printing and mailing this report for the weeks indicated.
1st Half 1962	177	Jan.	$ 586.12	L. H. Bohlin & Co. Weeks ended Dec. 15, 22, 1961
	177	Jan.	492.96	L. H. Bohlin & Co. Weeks ended Dec. 29, 1961 & Jan. 5, 1962
	177	Feb.	586.80	L. H. Bohlin & Co. Weeks ended Feb. 2, 9, 1962
	177	Mar.	459.36	L. H. Bohlin & Co. Weeks ended Feb. 16, 23, 1962
	178	Apr.	537.60	L. H. Bohlin & Co. Weeks ended Mar. 23, 30, 1962
	178	May	752.48	L. H. Bohlin & Co. Weeks ended Apr. 6, 13, 20, 1962
	178	May	546.59	L. H. Bohlin & Co. Weeks ended May 4, 11, 1962
	178	June	493.30	L. H. Bohlin & Co. Weeks ended June 1, 8, 1962
2nd Half 1962	176	July	548.36	L. H. Bohlin & Co. Weeks ended June 15, 22, 1962
	176	Aug.	768.16	L. H. Bohlin & Co. Weeks ended July 6, 13, 20, 1962
	176	Aug.	1,096.84	L. H. Bohlin & Co. Weeks ended July 27, 1962 & Aug. 3, 10, 17, 1962
	176	Sept.	767.12	L. H. Bohlin & Co. Weeks ended Aug. 24, 31, 1962 & Sept. 7, 1962
	177	Oct.	559.28	L. H. Bohlin & Co. Weeks ended Sept. 14, 21, 1962
	177	Oct.	787.24	L. H. Bohlin & Co. Weeks ended Sept. 28, 1962 & Oct. 5, 12, 1962
	177	Nov.	846.58	L. H. Bohlin & Co. Weeks ended Oct. 19, 26, 1962 & Nov. 2, 1962
	177	Nov.	678.32	L. H. Bohlin & Co. Weeks ended Nov. 9, 16, 23, 1962
	177	Dec.	848.70	L. H. Bohlin & Co. Weeks ended Nov. 30, 1962 & Dec. 7, 14, 1962
1st Half 1963	168	Jan.	453.16	L. H. Bohlin & Co. Weeks ended Dec. 28, 1962 & Jan. 4, 1963
	168	Feb.	1,268.70	L. H. Bohlin & Co. Weeks ended Jan. 18, 25, 1963 & Feb. 1, 8, 1963
	169	Apr.	1,673.97	L. H. Bohlin & Co. Weeks ended Feb. 15, 22, 1963 & Mar. 1, 8, 15, 22, 1963
	169	Apr.	551.80	L. H. Bohlin & Co. Weeks ended Mar. 29, 1963 & Apr. 5, 1963
	169	May	831.50	L.H. Bohlin & Co. Weeks ended Apr. 19, 26, 1963 & May 3, 1963
	169	June	778.77	L. H. Bohlin & Co. Weeks ended May 17, 24, 31, 1963

FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee

The Monthly Review is published by the Bank and includes, besides a review of the business situation, timely articles on the money market, international finance, and other economic and banking subjects. It is distributed to member and non-member banks, foreign central banks, colleges, universities, and other organizations and persons in the interest of developing better public understanding of economic, monetary and banking matters. The following items relate to expenditures for printing the "Review":

Period	Page	Month	Amount	Payee
1st Half 1962	173	Mar.	$4,971.10	Guide-Kalkhoff-Burr Inc. Month of March 1962
	174	May	3,526.68	Guide-Kalkhoff-Burr Inc. Month of May 1962
2nd Half 1962	170	July	3,568.50	Guide-Kalkhoff-Burr Inc. Month of July 1962
	170	Aug.	3,499.90	Guide-Kalkhoff-Burr Inc. Month of August 1962

The above item represent actual payments for printing the "Review" for the months indicated.

Period	Page	Month	Amount	Payee
1st Half 1962	173	Jan. Estimated cost month of January	$4,750.00	Sundry Items Payable
	173	Feb. Estimated cost month of February	3,812.80	Sundry Items Payable
	174	Apr. Estimated cost month of April	4,112.12	Sundry Items Payable
	174	June Estimated cost month of June	3,800.00	Sundry Items Payable
2nd Half 1962	170	Sept. Estimated cost month of September	3,800.00	Sundry Items Payable
	171	Oct. Estimated cost month of October	4,937.56	Sundry Items Payable
	171	Nov. Estimated cost month of November	4,937.00	Sundry Items Payable
	171	Dec. Estimated cost month of December	4,937.00	Sundry Items Payable
1st Half 1963	172	Jan. Estimated cost month of January	4,500.00	Sundry Items Payable
	172	Feb. Estimated cost month of February	5,067.00	Sundry Items Payable
	172	Mar. Estimated cost month of March	5,067.00	Sundry Items Payable
	173	Apr. Estimated cost month of April	5,067.00	Sundry Items Payable
	173	May Estimated cost month of May	8,489.57	Sundry Items Payable
	173	June Estimated cost month of June	4,352.52	Sundry Items Payable

The above items represent the estimated cost of printing the "Review" when actual payment has not been made at the end of the month. Current expense is charged and Sundry Items Payable is credited. The charge to current expense is adjusted when actual payment is made the following month.

Period	Page	Month	Amount	Payee
1st Half 1962	173	Feb.	$ 398.01	Guide-Kalkhoff-Burr Inc. Month of December 1961
1st Half 1963	172	Feb.	780.92	Guide-Kalkhoff-Burr Inc. Month of January 1963

The above items represent adjustments as described in the preceding note.

FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee

The Weekly News Review reproduces excerpts from newspaper articles relating to business conditions, government finance, and monetary and credit developments. More than 40,000 copies are distributed free to member banks on the understanding that they will mail them to customers. The reason for the understanding is (a) to prevent wasteful ordering for distribution in bank lobbies, and (b) to induce banks to weigh the mailing cost, which is several times our production cost, against the value they think their depositors gain. The benefit to the System is the improved understanding of the economy and monetary policy that may result from continuing information about these subjects. Bankers tell us the Review is especially useful in smaller cities and towns with limited access to the metropolitan and business press.

Period	Page	Month	Amount	Payee
1st Half 1962	175	Jan.	$ 320.00	Jarrett Press, Inc. Jan. 8, 1962
	175	Feb.	320.00	Jarrett Press, Inc. Jan. 29, 1962
	175	Mar.	320.00	Jarrett Press, Inc. Feb. 26, 1962
	175	Mar.	624.00	Jarrett Press, Inc. Mar. 19, 26, 1962
2nd Half 1962	174	July	312.00	Jarrett Press, Inc. June 25, 1962
	174	July	960.00	Jarrett Press, Inc. July 2, 9, 16, 1962
	174	Aug.	312.00	Jarrett Press, Inc. July 30, 1962
	174	Sept.	624.00	Jarrett Press, Inc. Aug. 20, 27, 1962
	175	Nov.	1,280.00	Jarrett Press, Inc. Nov. 5, 13, 19, 26, 1962
1st Half 1963	174	Jan.	960.00	Jarrett Press, Inc. Dec. 31, 1962, Jan. 7, 14, 1963
	174	Feb.	320.00	Jarrett Press, Inc. Jan. 21, 1963
	174	Feb.	1,280.00	Jarrett Press, Inc. Jan. 28, Feb. 4, 11, 18, 1963
	174	Mar.	640.00	Jarrett Press, Inc. Feb. 25, Mar. 4, 1963
	174	Mar.	345.00	Jarrett Press, Inc. Mar. 11, 1963
	174	Mar.	345.00	Jarrett Press, Inc. Mar. 18, 1963
	175	Apr.	345.00	Jarrett Press, Inc. Mar. 25, 1963
	175	Apr.	345.00	Jarrett Press, Inc. Apr. 1, 1963
	175	Apr.	345.00	Jarrett Press, Inc. Apr. 8, 1963
	175	Apr.	345.00	Jarrett Press, Inc. Apr. 15, 1963
	175	May	690.00	Jarrett Press, Inc. Apr. 22, 29, 1963
	175	May	690.00	Jarrett Press, Inc. May 6, 13, 1963
	175	June	1,035.00	Jarrett Press, Inc. May 20, 27, June 3, 1963
	175	June	345.00	Jarrett Press, Inc. June 10, 1963

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FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee
2nd Half 1962	173	Dec.	$ 9,815.69	Metro Seliger Corporation
	Printing "Federal Reserve Operations in the Money and Government Securities Market". This booklet contains information on Federal Reserve System operations not readily available in other sources, and is used extensively in undergraduate and graduate classes. It is distributed only on request.			
1st Half 1963	168	Jan.	$ 693.70	Guide-Kalkhoff-Burr Inc.
	Notice of new publications ("Open Market Operations" and "Perspective on 1962") which was sent to several mailing lists, including high school social science teachers, and college teachers of money and banking.			
	176	Mar.	$ 19,463.91	Metro Seliger Corporation
	Printing "Money: Master or Servant?". Developed in response to a need for basic information on the nation's money and banking system and the work of the Federal Reserve System, and at the specific request of the Joint Council on Economic Education.			
1st Half 1962	180	Apr.	$ 638.25	Boro Typographers, Inc.
	Preparation of type for booklet "Money and Economic Balance".			
	180	June	$ 200.00	Edward F. Howard Company
	Payment for a release incorporated in booklet "Money & Economic Balance".			
2nd Half 1962	172	Sept.	$ 3,071.21	Guide-Kalkhoff-Burr Inc.
	First printing "Money and Economic Balance".			
	173	Nov.	$ 4,984.79	Guide-Kalkhoff-Burr Inc.
	Second printing "Money and Economic Balance". "Money and Economic Balance" is a basic teaching aid on the Federal Reserve System for high school teachers to be used with the student publication "Keeping Your Money Healthy".			
1st Half 1962	179	Mar.	$ 152.75	Guide-Kalkhoff-Burr Inc.
	Shipping and packaging of the "Story of Checks".			
1st Half 1963	176	Jan.	$13,964.66	Guide-Kalkhoff-Burr Inc.
	Second printing of the "Story of Checks".			
	177	May	$ 1,663.73	Guide-Kalkhoff-Burr Inc.
	Shipping and packaging of the "Story of Checks". "Story of Checks" was prepared in response to a request by secondary schools for information on check collection in the United States.			

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FEDERAL RESERVE BANK OF NEW YORK
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Printing & Supplies

Period	Page	Month	Amount	Payee
1st Half 1963	176	Jan.	$ 1,264.45	Metro Typographers Inc.
	Preparation of the booklet "Open Market Operations".			
	176	Feb.	$ 15.08	Metro Typographers Inc.
	Preparation of the booklet "Open Market Operations".			
	176	Feb.	$13,803.48	Queens Lithographing Corporation
	Printing of booklet "Open Market Operations". "Open Market Operations" is a short, simplified explanation of the Federal Reserve System's activity in carrying out the instructions of the Federal Open Market Committee. It is used extensively by college groups and interested lay groups.			
1st Half 1962	172	May	$ 2,930.00	Seliger Printing Co., Inc.
	Reprint pages 29-46 inclusive Annual Report 1961 to meet requests for a section of the report titled "The Quest for Balance in the International Payments System". In the interest of economy, the section of the report was reprinted as a separate piece.			
	171	Mar.	$ 6,424.20	Guide-Kalkhoff-Burr Inc.
	Printing "Perspective 1961". "Perspective" is a nontechnical resume of the past year's economic developments. It has been of special value in college economics courses.			
2nd Half 1962	172	July	$ 6,742.85	Adams & Grace Company
	Printing the booklet "Foreign Central Banking: The Instruments of Monetary Policy". "Foreign Central Banking: The Instruments of Monetary Policy", originally prepared by one of the Bank's staff as a doctoral dissertation, was revised and published to provide information on monetary techniques and policies of foreign central banks.			
1st Half 1962	171	Mar.	$23,464.00	Seliger Printing Company, Inc.
	Printing the "Annual Report for 1961".			
1st Half 1963	171	Apr.	$24.386.57	Metro Seliger Corporation
	Printing the "Annual Report for 1962". The "Annual Report" of the Federal Reserve Bank of New York provides a detailed discussion of domestic and international economic developments as well as Bank operations in the previous year. There is a heavy demand for the report from the financial community, economists, business organizations, colleges and universities.			

New York

At least one ticket at $35 was purchased by the New York bank for admission to the "Financial Follies of 1962" sponsored by the New York Financial Writers Association at the Hotel Astor in New York on November 16, 1962.

The bank sponsored a seminar and entertained some 24 college instructors who attended a reception and dinner party. Canapes and dinners cost $283.75 and beverages $127.10.

The bank sent a representative to the convention of the Investment Bankers Association in Hollywood, Fla., during November 1962. In addition to paying the expenses of its representative, it paid for entertaining or providing refreshments for certain investment bankers.

The bank sends representatives to bankers association meetings and pays the representatives expenses including golfing fees for caddies, locker room attendants, and greens.

A clerk in the foreign department was sent to England and Belgium at bank expense amounting to $1,472.62. He traveled to and from Europe by ship, stayed in London from May 30 through June 26 and in Brussels from June 27 through July 2. During his stay in London, he entertained some British banking officials. The purpose of his trip is not stated on the voucher.

Comment: The fact that Federal Reserve bank officials entertain British banking officials at Federal Reserve bank expense is puzzling. Presumably the Federal Reserve officials are cultivating the British officials to gain their assistance in borrowing money or some other favorable action. However, the United States is presumably assisting Great Britain and not vice versa.

If mistaken good manners justifies entertainment here at Government expense of foreign visitors by Federal Reserve officials one might expect reciprocal action from foreign bank officials when Federal Reserve personnel visit them at their banks.

One of the officers traveled to and from Europe in September, October, November, and December 1962. His first trip of this series took him to England, Holland, Germany, and Switzerland. The second trip was to Switzerland and return. The third trip was to France, Germany, and Switzerland and return while the fourth was to France and Switzerland and return. Each trip lasted 4 to 6 days. The stated purpose of the trips was to visit central banks and to attend monthly meetings of the Bank for International Settlements.

An officer of the New York Federal Reserve bank made a trip around the world accompanied by his wife. Their itinerary include Japan, Hong Kong, Philippines, Republic of Vietnam, Burma, India, Pakistan, Iran, Kuwait, Jordan, and Israel. The stated purpose of the journey was to visit central banks or monetary authorities in the countries visited.

A review of the hotel bills submitted in support of the officer's expenses indicates the following allocation of lodging expense between him and his wife:

Period 1962	Place	Officer	Wife	Total
Sept. 29–Oct. 17	Japan	$159.78	$29.27	$189.05
Oct. 18–Oct. 20	Hong Kong	38.14	1.78	39.92
Oct. 21–Oct. 24	Philippines	35.74	8.49	44.23
Oct. 25–Oct. 26	Vietnam	27.76	10.11	37.87
Oct. 27–Oct. 29	Burma	47.35		47.35
Oct. 30–Nov. 14	India	269.10	7.10	276.20
Nov. 15–Nov. 20	Pakistan			
Nov. 21–Nov. 29	Iran	100.27	6.46	106.73
Nov. 29	Kuwait	18.83		18.83
Nov. 30–Dec. 4	Jordan	25.76	32.05	57.81
Dec. 5–Dec. 12	Israel	95.23	45.32	140.55

No hotel charges were claimed for 6 days in Japan, 3 days in India, 7 days in Pakistan, 3 days in Iran, and 3 days after leaving Israel. The 7 days in Pakistan were spent at the home of a Pakistani bank official. Presumably the Federal Reserve bank official and his wife were staying in private homes when hotel costs were not claimed. Since the New York bank appears to be reasonably generous in entertaining foreign bank officials in New York at Government expense, some reciprocity might be expected when a New York official is visiting abroad.

Hotel accommodations in Calcutta, India, were particularly expensive, amounting to about $35.50 per day, at the current rate of exchange. Recently, congressional staff stayed at this same hotel at a cost of about $9.89 per day. In two instances, the official was reimbursed for hotel lodging at two places on the same day; at Ramsar and Teheran in Iran on October 23 and at Jerusalem and Amman in Jordan on December 2.

Federal Reserve Bank of New York expenditures during year 1962 for entertainment—Head office

I. FOREIGN GUESTS

A. Bank function—Foreign department. Relationship—Visits by representatives of foreign central banks, foreign monetary authorities, international organizations, and others, for discussion and consultation on domestic, foreign and international economic and financial matters, and operations of foreign functions conducted on behalf of the Federal Reserve System and Treasury Department.

	Date	Guests	Number in group	Expense
1	Jan. 2	Representatives of foreign central bank	4	$39.00
2	Jan. 3	Representative of foreign central bank	2	9.15
3	do	Representatives of foreign central bank	3	47.00
4	Jan. 5	do	4	36.00
5	Jan. 9	Representative of foreign central bank	2	19.50
6	Jan. 20	Representatives of foreign central bank	3	31.00
7	Jan. 21	Representatives of foreign central bank and foreign monetary authority.	4	17.70
8	Jan. 23	Representatives of foreign central bank	4	83.70
9	Jan. 24	Representative of foreign central bank	2	8.77
10	Jan. 25	Representatives of foreign central bank	3	41.40
11	Jan. 26	Representative of foreign central bank	2	44.90
12	Jan. 30	do	2	16.50
13	Jan. 31	do	3	36.00
14	Feb. 6	Representatives of foreign central bank	3	2.45
15	Feb. 13	Representative of foreign central bank	2	6.85
16	Feb. 14	do	4	80.93
17	Feb. 15	do	4	60.96
18	Feb. 16	do	2	6.00
19	Feb. 26	Representatives of foreign central bank	4	51.00
20	Mar. 1	do	4	86.33
21	do	do	3	28.00
22	Mar. 2	do	3	13.62
23	do	do	5	29.00
24	Mar. 7	do	6	138.30
25	Mar. 13	Representative of foreign central bank	2	18.00
26	do	do	2	36.83
27	Mar. 17	do	5	15.00
28	Mar. 18	do	3	48.00
29	Mar. 27	do	5	74.00
30	do	do	2	5.25
31	Mar. 28	do	2	8.63
32	do	do	2	12.50
33	Mar. 29	do	4	96.00

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Federal Reserve Bank of New York expenditures during year 1962 for entertainment—Head office—Continued

	Date	Guests	Number in group	Expense
34	Mar. 30	Representatives of foreign central bank	6	$83.90
35	Apr. 1	do	4	32.10
36	Apr. 3	do	3	7.00
37	Apr. 6	Representative of foreign central bank	2	19.50
38	Apr. 9	Representatives of foreign central bank	4	13.40
39	Apr. 10	do	3	32.00
40	Apr. 12	Representative of foreign central bank	2	7.25
41	Apr. 13	do	2	5.25
42	May 1	do	2	24.00
43	May 2	do	2	48.75
44	May 3	do	2	25.00
45	May 4	Representatives of foreign central banks	6	134.90
46	do	Representatives of foreign central bank	3	12.00
47	May 7	do	3	33.00
48	May 8	Representative of international organization	2	17.50
49	May 9	Representative of foreign central bank	2	19.00
50	May 10	Representative of international organization	2	23.00
51	May 12	do	3	25.50
52	May 16	do	3	20.00
53	do	do	3	69.30
54	May 17	do	2	8.40
55	May 18	do	2	24.00
56	May 22	do	2	27.50
57	May 28	Representative of foreign central bank	2	20.00
58	May 29	do	3	45.50
59	May 31	Representatives of foreign central banks	4	14.00
60	June 8	Representatives of foreign central bank	3	32.00
61	June 14	do	4	14.00
62	June 15	Representative of foreign central bank	3	16.00
63	June 16	Representative of foreign monetary authority	2	5.75
64	June 20	Representative of foreign central bank	2	49.55
65	June 21	Representatives of foreign central banks	9	164.90
66	June 22	Representative of foreign central bank	4	57.91
67	June 23	do	3	36.70
68	June 24	do	5	18.75
69	July 4	do	3	42.90
70	July 5	do	3	19.00
71	July 6	do	3	45.50
72	do	do	3	32.55
73	July 9	do	2	47.75
74	July 12	do	2	12.50
75	July 13	do	2	17.00
76	July 17	do	2	4.00
77	do	do	2	19.00
78	July 19	do	2	22.41
79	July 20	do	3	16.05
80	July 31	Representatives of foreign central bank	3	22.65
81	Aug. 1	Representative of foreign central bank	2	10.24
82	Aug. 10	do	2	20.50
83	Aug. 13	do	2	4.70
84	Aug. 21	do	2	7.65
85	Aug. 23	do	2	23.00
86	Aug. 24	do	2	8.52
87	Aug. 30	do	2	14.00
88	Sept. 5	Representatives of foreign central banks and foreign monetary authorities	45	509.84

Federal Reserve Bank of New York expenditures during year 1962 for entertainment—Head office—Continued

	Date	Guests	Number in group	Expense
89	Sept. 6	Representatives of foreign office of member bank	4	$86.20
90	Sept. 12	Representative of foreign central bank	2	29.00
91	Sept. 13	do	2	17.00
92	Sept. 15	Representatives of foreign central bank	4	35.00
93	Sept. 18	Representatives of international organization	4	17.00
94	do	Representaitve of foreign central bank	2	2.25
95	Sept. 19	Representatives of foreign central bank	4	14.00
96	Sept. 20	do	5	30.00
97	Sept. 24	Representative of foreign central bank	2	25.45
98	Sept. 25	Representatives of foreign central banks	4	23.69
99	do	Representatives of foreign central bank	9	212.25
100	Sept. 26	Representatives of foreign central bank and of reconstruction loan agency of foreign government	3	12.00
101	Sept. 27	Representatives of foreign central bank	5	122.75
102	Sept. 28	Representatives of foreign central bank, foreign monetary authority, and member bank with foreign offices	10	30.00
103	Oct. 1	Representative of foreign central bank	2	7.93
104	Oct. 2	do	3	33.00
105	Oct. 4	do	2	23.00
106	Oct. 10	Representatives of foreign central bank	3	34.00
107	do	Representative of foreign central bank	2	13.00
108	Oct. 13	Representatives of foreign central bank	3	10.00
109	Oct. 15	do	5	67.00
110	do	do	4	11.00
111	Oct. 16	Representative of foreign central bank	2	5.25
112	Oct. 17	do	2	9.40
113	Oct. 18	Representatives of foreign central bank	4	71.60
114	Oct. 19	Representative of foreign central bank	3	8.00
115	do	Representatives of foreign central bank	4	81.60
116	Oct. 20	Representatives of foreign central banks	4	66.00
117	Oct. 22	Representative of foreign central bank	2	18.00
118	Oct. 23	do	3	45.50
119	Oct. 25	do	2	8.50
120	Oct. 26	do	2	15.00
121	Oct. 29	Representatives of foreign central bank	3	10.54
122	Oct. 30	do	5	18.00
123	Nov. 1	do	3	7.50
124	Nov. 18	Representative of foreign central bank	2	22.00
125	Nov. 27	do	2	27.00
126	Nov. 28	do	3	40.90
127	Dec. 5	do	2	38.25
128	Dec. 10	do	2	21.00
129	Dec. 11	Representatives of foreign central bank	3	5.00
130	do	Representatives of foreign central banks	6	66.50
131	Dec. 12	Representatives of foreign central bank	5	26.42
132	Dec. 13	Representatives of foreign central banks	4	114.25
133	Dec. 14	do	6	17.65
134	Dec. 19	Professor of foreign university	2	11.60
		Total	463	4,946.32

Hotel Delmonico
Park Avenue at 59th Street
New York 22, New York
ELdorado 5-2500

Federal Reserve Bank [illegible]

M[illegible] Charles P. Atkins [illegible]
33 Liberty St.
New York N.Y.

BILLS PAYABLE WHEN RENDERED
PLEASE MAKE CHECKS PAYABLE TO
DELMONICO HOTEL CORPORATION

$ 531.73
Less Tx 21.54 509.84[illegible]

IF RECEIPT IS DESIRED, PLEASE RETURN BILL INTACT WITH YOUR REMITTANCE. OTHERWISE RETURN ONLY TOP STUB AND YOUR CANCELLED CHECK WILL BE YOUR RECEIPT.

DELMONICO HOTEL CORPORATION

	RENT			
45	COVERS @ 7.25	326	25	
	CAKE			
	FLOWERS ** [illegible]	7	73	
	CIGARS			
	CIGARETTES			
	GRATUITIES	64	29	
	BEVERAGES *	106	50	
1	5th Bourbon @ 13.00			
1	" Canadian [illegible] 12.50			
4½	" Scotch @ 13.00 58.50			
1	" Gin 10.00			
4	Cocktails .95 3.80			
12	Minerals .75 9.00			
	106.80 *			
	The above expenses incurred at a reception and dinner for the trainees of the Center for Latin American Monetary Studies on September 5, 1962.			
	Approved for payment,			
	H. L. Sanford, CITY SALES TAX **	21	66	
	Vice President	531	73	

PAID
SEP 11 1962
DISBURSING DIVISION

The University Club
1 West 54th Street
New York 19, N. Y.

Mr. Alfred Hayes
Mr. Horace Sanford

February 15th, 1962

4	Dinners a la Carte	$ 27.75	
	Room & Guest Charge	8.00	
	BEVERAGES:		
8	Martinis	6.80	
1	Pint #13	3.50	
1	Bottle #83	4.75	
		50.80	
	Cash Advance (Service 15%)	7.62	
	NYC Sales Tax	2.14	
	NYC Room Occupancy Tax	.40	
			$ 60.95

O. K. for payment

H. A. Kimber

Vice President

3/7/62
Membership in name of Mr. Hayes.
Tax exemption waived under circumstances HR.

PAID
FEB 27 1962
DISBURSING DIVISION

FEDERAL RESERVE BANK OF NY
FEDERAL RESERVE BK OF PHILA
ROBT THOMAN
BANK RELATIONS,NY 35 NY

HADDON HALL,
LEEDS & LIPPINCOTT CO
ATLANTIC CITY, N. J.

MEMO.		DATE	EXPLANATION	AMT. CHARGED	AMT. CREDITED	BAL. DUE
	1	MAY17-62	RESTR	1,916.00		
	2	MAY17-62	MISCL TIP	* 287.40		
	3	MAY17-62	BEVRG	* 81.50		
	4	MAY17-62	TAX	* 2.45		
	5	MAY17-62	MISCL TIP	* 12.25		* 2,299.60
	6	MAY17-62	MISCL	* 10.00		
	7	MAY17-62	PDOUT	* 100.00		* 2,409.60
	8	MAY18-62	ADJST		* 2.45	* 2,407.15
	9	MAY18-62	TRNDR	* 27.30		* 2,434.45
	10	MAY18-62	MISCL	* 146.00		* 2,580.45
	11					
	12					
	13					
	14					
	15					
	16					
	17					
	18					
	19					
	20					
	21					
	22					
	23					
	24					

*- Transferred from attached bill

PRINT-ART, INC., ATLANTIC CITY, N. J.

LAST BALANCE IS AMOUNT DUE
unless otherwise indicated
BILLS ARE PAYABLE WHEN PRESENTED

#66

The University Club
1 West 54th Street
New York 19, N. Y.

Mr. Alfred Hayes
(Mr. Sanford)

June 22nd, 1962

4	Dinners a la Carte	$ 28.30	
	Room & Guest Charge	10.00	
	BEVERAGES:		
1	Bottle #41	6.00	
1	Whiskey Sour	.95	
6	Martinis	5.10	
		50.35	
	Cash Advance (Service 10%)	5.04	
	NYC Sales Tax	2.02	
	NYC Room Occupancy Tax	.50	
			$ 57.91

OK to pay

PAID

Approved for Payment
Vice President-~~Manager~~

BANQUET INVOICE

Please Enclose This Stub With Your Check

The Waldorf-Astoria

PARK AND LEXINGTON AVENUES
49TH AND 50TH STREETS
NEW YORK 22, N. Y.

$

FEDERAL RESERVE BANK OF NEW YORK
ATT MR ROBERT C THOMAN
33 LIBERTY STREET
NEW YORK 5, NEW YORK

FG
VO 33916

PLEASE DETACH AND RETURN THIS STUB WITH YOUR REMITTANCE
RETAIN LOWER PORTION OF STATEMENT • YOUR CANCELLED CHECK IS A RECEIPT

MR WEIR

THE WALDORF-ASTORIA, NEW YORK 22, N. Y.
THIS IS AN INVOICE OF BANQUET CHARGE ONLY — STATEMENT WILL FOLLOW —

ITEM	DATE	CHARGES	CREDITS	BALANCE
VOUCHER 33916 FILE A 3750	JAN 22'62			
RECEPTION LUNCHEON				
GRAND BALL ROOM				
675 LUNCHEONS @ 6.50		4387.50		
TOMATO JUICE		4.00		
BEVERAGES		92.95		
FLOWERS		100.00		
SPOTLIGHT - 1-2000 WATT FIXED				
SPOT		15.00		
GRATUITIES		717.50		
NYC SALES TAX 5%		224.22		
NYC SALES TAX 3%		3.45		5544.62

7.68 or about $8 per person

675) 5544.62

35-19

PAY LAST AMOUNT IN THIS COLUMN

PAC

August 17, 1962

Expenses incurred by George Garvy, Adviser, Research Department, during official Bank business trip to the Soviet Union to attend the XV International Banking Summer School at the University of Moscow (July 1-14, 1962), including stopovers in London (to visit the Bank of England), Leningrad, and Helsinki, and covering the entire period from June 26 through July 22, 1962.

		Prepaid by Bank	Expended by G. Garvy	Totals
Transportation		$1,263.50	$ 59.52	$1,323.02
Hotel Rooms 1/		274.80	52.18	326.98
Meals (including tips)			83.12	83.12
Miscellaneous items:				
Entertainment 2/	$82.58			
Valet & Laundry	13.75			
Tips (other than meals)	9.19			
Postage	.70			
Other 3/	13.67		119.89	119.89
		$1,538.30	$314.71	$1,853.01

Amounts advanced by Federal Reserve Bank of New York:

Transportation	$1,263.50	
Intourist Arrangements	274.80	
Advances	548.11	
Total		2,086.41
Net balance returned to Federal Reserve Bank of New York		$ 233.40

1/ Breakdown of hotel bills and rates of exchange paid by Mr. Garvy attached.
2/ Share of U.S. delegation party for Russian hosts.
3/ Includes cost of cable ($7.04).

Correct
G. Garvy

August 17, 1962

BREAKDOWN OF HOTEL BILLS

Country	Rate of Exchange	Total Amount Hotel Bill	$ Amount
London	1 pound = $2.80½	15 pounds, 15 shilling	$44.18
Helsinki	1 Markka = $ .0032	2,500 Markka	8.00
		Expended by G. Garvy	$52.18

The following hotel bills were prepaid by the Federal Reserve Bank of New York as explained on debit tickets (2) dated June 27, 1962:

Moscow	June 29-July 1	(Paid American Express Company, New York, N.Y.)	$ 88.20
Leningrad	July 14-19	(Paid Board of Governors of the Federal Reserve System for American Express Company, Washington, D.C.)	186.60
Total prepaid Federal Reserve Bank of New York			$274.80

FEDERAL RESERVE BANKS OF NEW YORK AND PHILADELPHIA
LUNCHEON TO MEMBERS AND GUESTS
OF
NEW JERSEY BANKERS ASSOCIATION
WEDGWOOD ROOM - HADDON HALL HOTEL
ATLANTIC CITY, N.J., THURSDAY, MAY 17, 1962

Breakdown of invoice from Haddon Hall Hotel:

479 luncheons at $4.00 each		$1,916.00 ✓
Gratuities to waiters (15%)		287.40 ✓
Flowers		146.00 ✓
Musical Trio		100.00 ✓
Reception (including gratuities)		93.75 ✓
Public Address System		10.00 ✓
	*	$2,553.15
Cost of luncheon tickets previously paid by Federal Reserve Bank of New York	**	23.11
Total		$2,576.26
FRB of New York's share (72%)		$1,854.91
FRB of Philadelphia's share (28%)		721.35
		$2,576.26

Vr 135

E35995

$479 \overline{)2,576.26}$ 5.4
2395
1812
1916

DISBURSING DIVISION

* ~~[illegible]~~

* The cost of Mr. Treiber's bill of $27.30 is deducted from the total bill of $2,580.45

** This is added and offset, except for $4.19, the difference between cost of tickets & Mr. Treiber's room. The [illegible]

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	26	May	F. C. Schadrack Jr.	Montreal & Ottawa, Canada	5/5 - 10/63	$ 7.37	$ 26.52	$ 67.00	$ 2.00	$ 102.89
	52	May	J. Hein	"	"	$ 13.03	$ 33.64	$ 65.42	$ 1.64	$ 113.73
			Training visits to the Bank of Canada to study Canadian money and foreign exchange markets and Bank of Canada operations.							
	25	Mar.	Daniel J. Taylor	England, Netherlands and Switzerland	1/12 - 2/9/63	$975.60				$ 975.60
	25	Feb.	Daniel J. Taylor	"	"	$ 28.12	$159.50	$321.33	$136.57	$ 645.52
			Training visits to the Bank of England, Netherlands Bank and Swiss National Bank to study foreign exchange markets and operations.							
1st Half 1962	53	Apr.		Federal Reserve Bank of New York	4/23 - 25/62					$1,401.00
			H. Walter Baumgartner	$ 92.00						
			Nicholas G. Bohatink	108.00						
			Kuan - I - Chen	81.00						
			Vernon J. Dixon	58.00						
			Gerald C. Fischer	124.00						
			John O. Gallagher	58.00						
			Raghuvir Gupta	115.00						
			George Kalamatousakis	94.00						
			Eugene M. Lerner	58.00						
			Norman A. Mercer	83.00						
			Sidney Nemetz	58.00						
			Edward M. Richard	92.00						
			Newton Y. Robinson	105.00						
			Stephen W. Rousseas	94.00						
			Charles J. Stokes	51.00						
			Paul E. Suplizio	72.00						
			Joseph Zaremba	58.00						
				$1,401.00						

Expense payments to 17 participants in the Fifth Central Banking Seminar held at Federal Reserve Bank of New York, covering travel accommodations to and from New York City, hotel expenses, and allowance for meals not furnished by this Bank. The seminar is designed to give the participants, drawn from the ranks of younger faculty members at colleges and universities in the Second Federal Reserve District, a better understanding of Federal Reserve operations, policy formation and policy execution, and thus provide them with a broader understanding of central banking problems and a greater appreciation of the possibilities and limitations of central bank action.

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	44	May	J. M. Halpern	San Francisco, Calif.	4/28 - 5/5/63	$ 5.65	$ 51.40	$ 96.00	$ 1.50	$154.55
	44	May	J. M. Halpern	San Francisco, Calif.	5/6 - 10/63	$373.80				$373.80
			Lecture and Seminar participation at The Regional Automation Training Program for Bank Examiners at Federal Reserve Bank of San Francisco. The Inter-Agency Committee on Automation presented this seminar in order to formulate and stimulate an approach to the problems of examining under automated procedures and of coping with the radical change in data processing and record keeping. Twenty-four examiners from Federal Reserve Banks, FDIC regional offices and State banking departments attended. Mr. Halpern's wife accompanied him on this trip; all her expenses were paid in full by him.							
	40	May	F. H. Rohrbach	Chicago, Ill.	5/12 - 14/63	$102.75				$102.75
	29	May	C. R. Pricher	Chicago, Ill.	5/12 - 14/63	$109.50				$109.50
			To attend 1963 National Personnel Conference sponsored by American Bankers Association to evaluate the conference for possible future participation and to be exposed to personnel administration as practiced in banks throughout the country. Afforded opportunity to assimilate knowledge helpful in measuring and improving effectiveness of this Bank's personnel administration policies and procedures and in improving personal performance in present and future positions.							
1st Half 1962	43	June	F. L. Smedley	Atlanta, Georgia	4/28 - 5/2/62	$120.65				$120.65
			To attend conference of Personnel officers at Federal Reserve Bank of Atlanta. Provided an opportunity to review and discuss personnel matters of current interest. Provided an opportunity for cross-fertilization of ideas and approaches to personnel policies and practices which should prove beneficial to the individual banks and the System as a whole.							
2nd Half 1962	39	July	William M. Schultz	Dallas, Texas	5/16 - 18/62	$205.95				$205.95
			To attend last two days of 18th annual conference of American Society of Training Directors. Provided opportunity to attend lectures and participate in group work sessions dealing with motivation, executive development, management appraisal, pre-supervisory training, and re-training for automation; better enabled him to meet responsibilities in the areas of training and manpower development, as Manager in the Personnel Department.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

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Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	39	Feb.	John H. Stern	Buffalo, N. Y.	1/20 - 2/1/63	$ 12.40	$ 61.65	$100.00	$ 14.98	$ 189.03
			Robert C. Relyea	Buffalo, N. Y.	1/23 - 2/1/63	$ 124.95	$ 38.60	$ 42.00	$ 4.00	$ 209.55
			Visit to Buffalo Branch to obtain information on and review job descriptions of employees at the Branch. Provided basis for more correct evaluations of the duties performed.							
	27	Jan.	C. A. Coombs	Paris, Zurich, Basle & Amsterdam	1/10 - 15/63	$ 22.81	$ 25.28	$ 45.93	$ 27.21	$ 121.23
			Visits to the Central banks of Switzerland and the Netherlands and attendance at the monthly meeting of the Bank for International Settlements in Basle to engage in negotiations relating to "swap" arrangements, and to discuss London Gold Pool operations, and various other operations problems requiring attention.							
	28	Mar.	C. A. Coombs	Basle, Switzerland	2/8 - 11/63	$ 975.60				$ 975.60
	28	Mar.	C. A. Coombs	Basle, Switzerland	3/8 - 11/63	$ 975.60				$ 975.60
	29	May	C. A. Coombs	Basle, Switzerland	4/5 - 8/63	$ 975.60				$ 975.60
			To attend the monthly meetings at the Bank for International Settlements, Basle, Switzerland to engage in negotiations relating to "swap" arrangements and to discuss London Gold Pool operations, and various other operational problems requiring attention.							
	29	May	Alfred Hayes	England, France, Italy & Switzerland	3/29 - 4/18/63	$1,064.00	$103.02	$344.70	$272.38	$1,784.10
			Visits to the Central Banks of England, France and Italy and to attend the monthly meeting of the Bank for International Settlements in Basle, Switzerland for the exchange of information on international financial developments and discussion of policies for dealing with problems of mutual interest.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	28	July	A. Leonard Mott	New York	July 5,19,26,1962	$165.00				$165.00
	31	Nov.	A. Leonard Mott	New York	Nov. 1,8,15,29,1962	$220.00				$220.00
1st Half 1963	27	Jan.	A. Leonard Mott	New York	Jan. 3,17,1963	$110.00				
			R. H. Rue		Jan. 3,17,1963	$ 78.00				$188.00
	27	Jan.	A. Leonard Mott	New York	Jan. 3,17,1963				$ 80.00	
			R. H. Rue		Jan. 3,17,1963				$ 80.00	$160.00
	28	Feb.	A. Leonard Mott	New York	Feb. 7,14,21,28,1963	$220.00				
			R. H. Rue		Feb. 7,14,21,28,1963	$156.00				$376.00
	28	Feb.	A. Leonard Mott	New York	Feb. 7,14,21,28,1963				$160.00	
			R. H. Rue		Feb. 7,14,21,28,1963				$160.00	$320.00
	28	Mar.	A. Leonard Mott	New York	March 7, 1963	$ 55.00				
			R. H. Rue	New York	March 7, 1963	$ 38.00				
			R. H. Rue	Washington, D.C.	March 21, 1963	$140.00				$233.00
	29	Apr.	A. Leonard Mott	New York	April 4,18,25,1963	$165.00				
			R. H. Rue		April 4,18,25,1963	$114.00				$279.00
	29	May	A. Leonard Mott	New York	May 2,16,23,1963	$165.00				
			R. H. Rue		May 2,16,1963	$ 76.00				$241.00
	29	May	A. Leonard Mott	New York	May 2,16,23,1963				$ 60.00	
			R. H. Rue		May 2,16,1963				$ 40.00	$100.00
	30	June	A. Leonard Mott	New York	June 6,20,24,27,1963	$220.00				
			R.H. Rue		June 20,24,1963	$114.00				$334.00

The above items represent payment to directors for transportation and subsistence allowance in respect of attendance at meetings on the days indicated. Directors of the Bank who reside more than 50 miles from the place where a meeting of directors is held or who travel away from their home city on official business of the Bank receive their necessary travel expenses and a subsistence allowance of $20 per day or portion thereof they are absent from the community in which they reside.

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	29	May	T. O. Waage	Chicago, Ill.	5/2 - 3/63	$109.50				$109.50
			To attend meeting of an ad hoc Subcommittee on the Rationale Underlying System Relationships with Member Banks to make a critical review of services rendered to, and relationships with, member and nonmember banks. The benefit to the System resides in the value of continual reappraisal of explicit and implied obligations placed on the Federal Reserve Banks.							
	29	May	W. F. Treiber	Minneapolis, Minn.	5/9 - 13/63	$127.23	$ 8.70	$ 18.50	$ 2.00	$156.43
			To deliver speech at Federal Reserve Bank of Minneapolis at seminar held for college teachers of money and banking in its District. Since the Federal Reserve Bank of New York conducts all open market operations in Government securities for the System, and is involved in the day-to-day effort to maintain appropriate conditions in the New York money market, it was asked to provide speaker on these matters. The System benefits through improved understanding of the ends it seeks and the means it uses.							
1st Half 1962	57	Apr.	T. O. Waage	Dallas, Texas	3/12 - 14/62	$212.20				$212.20
			To deliver speech and participate in a panel discussion at Central Banking Seminar at Federal Reserve Bank of Dallas held for college teachers of money and banking in its District. Since the Federal Reserve Bank of New York conducts all international finance for System, it was asked to provide speaker on "International Responsibilities and Relationships of Monetary Policy." The System benefits by expanding support for its efforts to protect the dollar at home and abroad.							
2nd Half 1962	53	Sept.	T. O. Waage	Chicago, Ill.	9/6 - 7/62	$109.50				$109.50
			To participate in Seminar on Central Banking at Federal Reserve Bank of Chicago for college teachers of money and banking in Seventh District. Since the Federal Reserve Bank of New York handles all international banking for System, a speaker on "International Developments and Their Implications for Monetary Policy" was requested from New York. Improved understanding of the Federal Reserve's problems and policies helps to assure support for efforts to protect the dollar at home and abroad.							

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FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	53	July	Richard E. Speagle To address Annual Meeting of Delaware County Banking Association in Margaretsville, New York, on "County Banks and the Vacation Industry". Provided a valuable point of contact between the Federal Reserve System and the smaller banks.	Margaretsville, N.Y.	6/13 - 14/62	$ 62.71				$ 62.71
	53	Sept.	Leon R. Holmes To participate in training program at Buffalo Branch.	Buffalo	9/9 - 21/62	$ 12.50	$ 59.80	$ 90.00	$ 10.00	$172.30
	26	Sept.	J. McDonnell Trip to Board of Governors of pick up galleys of "Treasury and Federal Reserve Foreign Exchange Operations", first joint interim report of the Treasury-Federal Reserve operations, and to deliver same at this Bank the same day. Printing schedule, as well as confidential nature of the report, necessitated the use of special messenger rather than reliance on mails.	Washington, D.C.	9/14/62	$ 35.65	$ 2.25		$ 4.00	$ 41.90
	26	Aug.	Francis H. Schott To attend meeting in Chicago to address Economics Seminar Group at Graduate School of Business, University of Chicago on the U.S. Balance of Payments and Defense of the Dollar.	Chicago	7/11 - 12/62	$109.50				$109.50
1st Half 1963	26	June	Thomas J. Roche To attend the 41st annual meeting of the Bankers Association for Foreign Trade as the official representative of this Bank. Extended and renewed personal contacts with international banking officers of commercial banks from all parts of the country and provided opportunity informally to discuss U.S. foreign exchange operations.	Bedford Springs, Penn.	5/26 - 30/63	$ 68.65		$ 89.24	$ 19.60	$177.49
2nd Half 1962	27	Nov.	P. Fousek To attend first meeting of the Inter-agency Committee on Long Range Plans for the Payments System at the Treasury Department as one of this Bank's two official representatives.	Washington, D.C.	10/9/62	$ 32.50				$ 32.50

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FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	49	Sept.	Various Central Bank Officials	Local Transportation	9/10,12,13 & 14/62	$237.32				$237.32
	50	Oct.	"	"	9/15,16/62	$118.88				$118.88
	50	Oct.	"	"	9/11,12,22,23 & 24/62	$394.60				$394.60
	50	Oct.	"	"	9/14,22,24,25,26 & 27/62	$609.69				$609.69
	50	Oct.	"	"	9/13,24,26,27,28 & 29/62	$136.08				$136.08
	50	Oct.	"	"	9/30/62, 10/1, 4/62	$126.07				$126.07
	50	Nov.	"	"	10/5,7,10,11,12/62	$207.47				$207.47
	50	Nov.	"	"	10/10,16,17,22,25/62	$178.49				$178.49
	50	Dec.	"	"	11/27, 28/62	$101.01				$101.01
1st Half 1963	49	March	"	"	9/15,16,17,18,19,20, 21, 22/63	$298.80				$298.80
	50	June	"	"	5/9,13,14,15,16,17, 18/63	$335.00				$335.00

Cost of rental from Carey Cadillac Service on the dates indicated to provide local transportation for visiting senior foreign central bank officials.

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
	49	March	Officers and Directors	Local Transportation	2/7,21,28/63	$128.14				$128.14

Cost of rental from Carey Cadillac Service on the dates indicated for local transportation for two senior officers of the Bank and for members of this Bank's Board of Directors and one Director of our Buffalo Branch, in connection with their attendance at meetings of our Directors. On the occasions of these expenditures, all Bank cars were in use.

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1962	46	Feb.	W. R. Irwin	Buffalo, N.Y.	1/21-26/62 1/28-2/2/62	$ 12.25	$ 57.00	$102.50	$ 6.50	$178.25
1st Half 1963	40	June	Robert R. Edmiston	Buffalo, N.Y.	6/9 - 14/63	$ 53.32	$ 30.35	$ 45.00	$ 5.50	$134.17
	40	June	Robert A. Rough	Buffalo, N.Y.	6/2-7/63 6/9-14/63	$110.70	$ 68.30	$ 95.00	$ 11.00	$285.00
			Visits to Buffalo Branch as part of the Bank's Management Training Program. Provides the trainees with an opportunity to gain an understanding of the working relationship between the Branch and the Head Office.							
2nd Half 1962	43	July	A. A. MacInnes, Jr.	Arden House, N.Y.	6/10-7/21/62	$109.56			$122.80	$232.36
			To attend Executive Training Program at the Graduate School of Business Administration, Columbia University, Arden House, Harriman, New York, as part of the Bank's Executive Training and Development Program. Enabled Mr. MacInnes to study policy determination and executive problems from an organization-wide point of view. Helped him acquire new knowledge, sharpen his skills, and develop new approaches to managerial tasks.							
	43	July	Paul B. Huylebroeck	Chicago, Ill.	7/8 - 25/62	$ 7.65	$ 50.33	$ 98.88	$197.31	$354.17
	43	Aug.	Paul B. Huylebroeck	Chicago, Ill.	7/8 - 25/62	$109.60				$109.60
			To attend International Business Machine School for Key Punch Machine Repair. Afforded opportunity to obtain knowledge of and develop skills in key punch machine repair and maintenance in respect of machines owned by this Bank.							
	44	Oct.	Irene Novak	Saratoga Springs, N. Y.	10/14 - 19/62	$ 40.88		$102.50	$ 16.30	$159.68
			To attend Cornell off-campus conference, "Managerial Development for Women" sponsored by The New York State School of Industrial and Labor Relations Extension Division. Afforded opportunity to learn of new developments in the areas of basic management functions, interviewing techniques, women supervising women, work simplification, communications, and morale and motivation. Aided in the preparation of new in-Bank training programs and the revision and up-dating of existing ones.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	30	June	John C. Houhoulis	Denver, Colo.	5/24 - 6/5/63	$255.10	$ 62.00	$ 99.84	$ 22.90	$439.84
1st Half 1962	43	June	John C. Houhoulis	Atlanta, Ga.	5/27 - 6/1/62	$ 7.50	$ 57.99	$ 74.16	$ 12.60	$152.25
	45	Apr.	John C. Houhoulis	Atlanta, Ga.	5/27 - 6/1/62	$122.06				$122.06
			To attend the annual American Institute of Banking Conventions in 1962 and 1963 as the representative of the Bank in his capacity as Vice Chairman of the Bank's Education Committee. Provided an opportunity to keep informed on subject of self-training within the banking industry and afforded an opportunity to exchange ideas concerning the methods of improving the American Institute of Banking product. Aided in the direction of educational activities at the Bank.							
2nd Half 1962	31	Oct.	Alfred Hayes	Washington, D.C.	9/16 - 21/62			$237.21		$237.21
			To attend the Annual Meetings of International Bank and Fund for the exchange of information on international financial development and discussion of policies for dealing with problems of mutual interest.							
1st Half 1963	27	Jan.	Alfred Hayes	Brussels, Amsterdam, Frankfort and Basle	12/20 - 1/14/63	$975.60				$975.60
	27	Jan.	Alfred Hayes	"	"	$ 18.83	$ 31.83	$ 52.38	$ 81.65	$184.69
			Visits to the Central Banks of Belgium, Netherlands, Holland and Germany and to attend the monthly meeting of the Bank for International Settlements in Basle, Switzerland for the exchange of information on international financial developments and discussion of policies for dealing with problems of mutual interest.							
1st Half 1962	51	May	F. W. Schiff	Puerto Rico	4/25 - 5/5/62	$ 19.05	$ 87.80	$240.70	$ 25.15	$372.70
	51	June	F. W. Schiff	"	"	$211.75				$211.75
1st Half 1963	29	Apr.	George Garvy	"	3/17 - 22/63	$169.60	$ 53.90	$168.00	$ 16.45	$407.95
			Accompanied by Mrs. Garvy whose expenses were paid in full by Mr. Garvy.							
	29	Apr.	F. W. Piderit	Virgin Islands and Puerto Rico	3/17 - 29/63	$ 38.05	$110.25	$413.40	$ 16.85	$578.55
	29	May	F. W. Piderit	"	"	$235.75				$235.75
	48	Apr.	J. P. Jensen	"	3/17 - 4/2/63	$ 37.50	$111.00	$545.40	$ 10.65	$704.55
	48	Apr.	J. P. Jensen	"	"	$180.60				$180.60
			Accompanied by Mrs. Jensen whose expenses were paid in full by Mr. Jensen.							
			Visits to member and nonmember banks in Puerto Rico and the Virgin Islands, part of the Second Federal Reserve District since 1957, to resolve various operating problems, discuss membership and general banking matters, and meet with government officials and economists on problems of mutual interest. Also, lectured to banking faculty and students at the Inter-American University at San Juan.							

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FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	58	Nov.	M. McWhinney	Washington, D. C.	10/22 - 26/62			$ 52.00		$ 52.00
			Attendance at meetings of the System Research Advisory Committee and Committee on Current Reporting Series at the Treasury and at the Board for the interchange of ideas with Treasury and Board staffs on current financial problems; chaired regular discussion of problems relating to System data collection.							
1st Half 1962	43	May	B. Fjeldsted	Reno, Nevada to N.Y.	3/23/62	$243.40				$243.40
1st Half 1963	51	Feb.	Robert L. Crouch	Chicago to N.Y.	1/25/63	$109.90	$ 3.50			$113.40
	51	March	Harry P. Guenther	Minneapolis to N.Y.	2/21/63	$138.51	$10.75	$ 15.76		$165.02
	51	March	Attiat Farag	Dallas, Texas to N.Y.	3/ 1/63	$188.15	$ 2.13	$ 12.60		$202.88
			Visit to the Research Department as job applicants at the request of this Bank. As potential employees, at the Ph. D. level, they appeared especially promising and were invited to visit the Bank as part of the Research Department recruiting program.							
	52	June	David E. Bodner	England, Germany, Switzerland, and Netherlands	5/1 - 6/12/63	$ 30.00	$192.00	$365.00	$ 70.00	$657.00
	52	June	" " "	"	"	$437.85				$437.85
			Established contact with numerous central and commercial bankers, studied foreign exchange markets of countries visited, and workings of Euro-dollar market, preparatory to assuming position of Special Assistant with Trading Desk in Foreign function of Bank.							
	52	May	F. W. Deming	Atlanta, Georgia	4/22 - 24/63	$124.80				$124.80
			Attendance at meeting of the System Committee on Business Analysis. Delivered talk on Predicting the Effects of Tax Cut Proposals on Spending and the Budget. Afforded opportunity for interchange of views with business economists of System which was useful in work as head of Business Conditions Section.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	36	June	R. J. Young, Jr.	Chicago, Ill.	5/14 - 16/63	$175.18				$175.18
			To discuss with attorneys of Federal Reserve Bank of Chicago their experience in transition to operations under the new Uniform Commercial Code, to confer with counsel to that Bank in connection with the adoption of the Uniform Commercial Code by states in both the Second and Seventh Federal Reserve Districts, and to review forms, documents and other instruments used, respectively, by that Bank and by this Bank in the conduct of day-to-day operations.							
2nd Half 1962	35	Aug.	Helen M. Burns	San Francisco, Calif.	6/30, 7/1-7/62	$290.20				$290.20
			To attend the annual meeting of the American Association of Law Libraries, 1962. Provided an opportunity to become better informed concerning current developments in law library techniques, and to become informed concerning systems of information retrieval, and the application of mechanized processes to library use.							
1st Half 1963	36	May	J. J. Clarke	Mexico City, Mexico	4/27 - 5/14/63	$ 2.66	$ 86.52	$ 83.20	$ 37.81	$210.19
	36	May	J. J. Clarke	"	"	$327.20				$327.20
			To deliver lectures in Spanish to a group of approximately 40 trainees of CEMLA on the subject: "Camaras de Compensacion: Los Instrumentos Negociables y su Cobranza a Traves del Sistema Bancario de los EE. UU." (Clearing Houses: Negotiable instruments and their collection through the banking system of the United States.) The lectures contributed to a better understanding by trainees in attendance of law and practices in the United States in respect of negotiable instruments, and afforded an opportunity for exchanging ideas and experiences regarding matters of interest to the central banking community, and for establishing and improving contacts with representatives of Latin American central banks, financial institutions and governmental agencies. The membership includes practically all of the central banks and monetary authorities of Latin America, and, as "collaborating members", various Latin American financial and research institutions besides the Inter-American Development Bank and the Board of Governors of the Federal Reserve System.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	25	Jan.	M. N. Trued	Basle, Paris and Amsterdam	1/9 - 19/63	$ 45.49	$ 38.54	$ 69.99	$ 28.99	$ 183.01
	25	March	M. N. Trued	"	"	$1,030.20				$1,030.20
			To attend monthly meeting of central banks at Bank for International Settlements and visits to Bank of France and Netherlands Bank, to consult with officials of foreign central banks on current foreign exchange and gold operations. Facilitated coordination of current operations in most of the major currencies.							
	25	March	Thos. J. Roche	Switzerland and England	2/7 - 13/63	$ 975.60				$ 975.60
	25	March	Thos. J. Roche	"	"	$ 20.24	$ 24.50	$ 54.21	$ 60.92	$ 159.87
			To attend monthly meeting of central banks at Bank for International Settlements and visit to Bank of England, to consult with officials of foreign central banks on current foreign exchange and gold operations. Facilitated coordination of current operations in most of the major currencies. As a result of the visit to the Bank of England, obtained up-to-date information on that bank's activities, particularly in the London gold market.							
	26	June	Peter P. Lang	Washington, D. C.	6/5 - 6/63	$ 6.18	$ 8.50			$ 14.68
			To visit State Department, International Monetary Fund, and Board of Governors of the Federal Reserve System. Trip made at request of the State Department, for consultation and report on a proposed program of monetary reform in the Congo (Leopoldville). Assisted the U.S. Government in formulating a position on the Congo Government's plans for adjustment of its exchange rates.							
	36	May	R. J. Young, Jr.	Buffalo, N. Y.	5/9 - 11/63	$ 95.99	$ 2.50		$ 3.61	$ 102.10
			To assist Buffalo Branch in negotiations regarding agreement with International Business Machines with respect to the procurement of high-speed electronic check handling equipment by the Branch, render professional legal advice to the officers of the Buffalo Branch during contract negotiations, and to confer with, and advise, such officers in respect of the other pending matters requiring the advice of counsel.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	40	May	W. M. Schultz	Philadelphia, Pa., and Chicago, Ill.	5/5 - 10/63	$ 11.02	$ 34.25	$ 57.98	$ 4.80	$108.05
	40	May	W. M. Schultz	Philadelphia, Pa., and Chicago, Ill.	"	$105.65				$105.65
			To attend System's Personnel Conference in Philadelphia. Provided an opportunity for the Personnel Officers of the Reserve Banks and the Board of Governors to review and discuss personnel subjects of current interest. To attend the last two days of 19th Annual Conference of American Society of Training Directors at Chicago. Afforded an opportunity to learn of latest developments and trends in the fields of organization and manpower training, evaluation of management, development of executive knowledge in the management sciences, methods and techniques and to attend lectures on such subjects as motivation, organization and planning, programmed learning sensitivity training, communications, listening and the incident process, and to participate in group work sessions related to such subjects. Better enabled him to meet responsibilities for developing in-bank training programs and keeping his superior officers informed of the latest techniques and developments in the broad field of manpower planning.							
	26	May	Jas. A. Herman	France, Switzerland, Belgium and England	3/23 - 5/4/63	$975.60				$975.60
	26	May	Jas. A. Herman	"	"	$ 49.81	$279.98	$447.74	$204.38	$981.91
			Training visits to the Bank of England, Bank of France, Swiss National Bank and National Bank of Belgium to study foreign exchange markets and operations.							
	26	May	F. W. Schott	Basle, Zurich, Paris and London	5/9 - 16/63	$987.60	$ 39.00	$ 92.36	$ 24.64	$1,143.60
			To attend monthly meeting of central banks at Bank for International Settlements and visits to Swiss National Bank, Bank of France and Bank of England and to consult with officials of foreign central banks on current foreign exchange and gold operations. Facilitated coordination of current operations in most of the major currencies.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	30	June	R. W. Stone	London, England	5/8 - 25/63	$921.60	$114.27	$287.50	$ 19.20	$1,342.57
			To study the operations of the Bank of England and the London discount market. Afforded opportunity to acquire knowledge of the operations of the Bank of England and the London discount market, the relationships between them, and the similarities and dissimilarities between central bank and market operations in London and New York.							
	39	March	William W. Whealan, Jr.	Easton, Bethlehem and Philadelphia, Pa.	3/3 - 8/63	$ 34.07	$ 41.75	$ 41.60	$ 8.00	$ 125.42
			To visit Lafayette College, Lehigh University and the University of Pennsylvania to recruit college seniors for the Management Training Program at this Bank. Also visited Federal Reserve Bank of Philadelphia. The visits to the three universities resulted in the employment of one of the four campus-recruited men. The visit to the Federal Reserve Bank of Philadelphia, which came between two recruitment days at the University of Pennsylvania, offered an opportunity to observe the personnel operations of another Federal Reserve Bank.							
	40	May	Irene E. Novak	Chicago, Ill.	5/5 - 10/63	$ 8.25	$ 34.10	$ 61.80	$ 1.50	$ 105.65
	40	May	Irene E. Novak	Chicago, Ill.	5/5 - 10/63	$109.50				$ 109.50
			To attend the 19th Annual Conference of American Society of Training Directors. Afforded an opportunity to learn of latest developments and trends in the fields of organization and manpower training, evaluation of management, development of executive knowledge in the management sciences, methods and techniques and to attend lectures on such subjects as motivation, organization and planning, programmed learning sensitivity training, communications, listening and the incident process, and to participate in group work sessions related to such subjects.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	29	Aug.	M. A. Harris Attendance at joint meeting of Subcommittee on Collections and Subcommittee of Counsel on Collections. The Subcommittees are working Subcommittees of the Conference of Presidents of the Federal Reserve Banks and concern themselves with operating and policy matters in the area of the collection of cash and noncash items. The meeting on July 25, 1962 was held for the purpose of considering collection matters, and legal questions related thereto, concerning the collection operations of the Federal Reserve Banks.	Chicago, Ill.	7/24 - 25/62	$109.50				$109.50
1st Half 1963	27	Jan.	R. G. Rouse To attend convention of Investment Bankers Association in Hollywood, Florida. Afforded opportunity to meet and discuss matters of mutual interest with the Governmental Security Committee of Investment Bankers Association, and members and officers of the association. Mrs. Rouse, whose expenses were paid in full by Mr. Rouse, accompanied her husband.	Miami, Florida	11/25 - 30/62	$146.10				$146.10
	27	Jan.	R. W. Stone To attend Convention of Investment Bankers Association in Hollywood, Florida. The trip resulted in a broadening and deepening of the range of Mr. Stone's contacts in the investment community and afforded an opportunity to acquire information and exchange views on economic and financial matters with a large number of informed persons.	Ft. Lauderdale, Fla.	11/27 - 30/62	$193.40				$193.40
	28	March	A. J. Stanton To visit the Federal Reserve Banks of Minneapolis, Chicago and Kansas City, in connection with the check mechanization program, to observe various types of high-speed check handling equipment in operation at such Banks. Observation of the equipment in operation on work similar to that to be done at this Bank provided assistance in the evaluation being made at the Bank to determine the type of equipment to be ordered for use here.	Minneapolis, Minn., Chicago, Ill. and Kansas City, Kan.	1/13 - 18/63	$225.25				$225.25

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
2nd Half 1962	58	Oct.	Leonard Lapidus To attend "Current Reporting Series Meeting", Board of Governors. Regular System discussion of problems relating to System data collection.	Washington, D.C.	10/24 - 26/62	$ 27.45	$ 14.50	$ 28.00	$ 3.30	$ 73.25
	49	Sept.	F. W. Deming To participate in meetings of the American Statistical Association in Minneapolis. Afforded opportunity for interchange of ideas with leading econometricians, which was useful in work as head of Business Conditions Section.	Minneapolis, Minn.	8/30 - 9/10/62	$149.90				$149.90
	50	Oct.	A. A. MacInnes, Jr. To attend Annual Meeting of Treasury Division Association of American Railroads as the Federal Reserve System representative on a joint American Bankers Association, Association of American Railroads, Federal Reserve committee engaged in devising a means under which interline settlement drafts and other negotiable instruments issued by railroads could be redesigned to make them susceptible of electronic high-speed handling. A new recommended procedure and system was presented at the meeting, was subsequently adopted by substantially all railroads and will go into operation on January 1, 1964, thereby facilitating the processing of such items in the future. Mr. MacInnes was accompanied by his wife, whose expenses he paid in full.	Colorado Springs, Col.	9/23 - 10/1/62	$269.70	$ 76.39	$ 61.20	$ 16.64	$423.93
	50	Nov.	G. Bossy Attendance at annual meeting of the American Statistical Association for discussion of paper. Presented critique of paper by Professor Freund on <u>Some Short Run Effects of Common Market on United States Trade</u>. (Reprinted in <u>Proceedings</u> of Association.)	Minneapolis, Minn.	9/7 - 10/62	$149.90				$149.90

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FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	49	Feb.	Carl H. Allen	Buffalo, N. Y.	2/5 - 2/7/63	$100.99	$ 11.50		$ 2.00	$114.49
			Travel to Buffalo Branch to speak at Functional Analysis Seminar of a bankers' meeting held at our Buffalo Branch on 2/6/63.							
	50	May	E. E. Blanchette	See below	5/9,15,16,17,18 & 20/63	$ 16.00	$ 27.50	$ 63.00	$ 3.50	$110.00
			Attendance at Political Science meeting, New York City; visited Banks in Bergen County, N. J.; attendance at opening in West Pelham, N. Y.; and attendance at New Jersey Bankers Association convention at Atlantic City, N. J. Attendance at bankers' conventions and meetings gives the Bank's representatives the opportunity of participating in talks, workshop meetings and visiting with individual bankers and others to discuss mutual problems and explain Federal Reserve policies, procedures and operations.							
	50	May	L. Lapidus	Chicago, Ill.	4/9 - 10/63	$109.50				$109.50
			Trip to Federal Reserve Bank, Chicago. Discussion of problems relating to space requirements in connection with study of such requirements of this Bank.							
2nd Half 1962	57	July	A. M. Wojnilower	Minneapolis, Minn.	5/10 - 11/62	$149.90				$149.90
			To attend meeting of the Committee on Computers in Research at the Federal Reserve Bank of Minneapolis. Discussion of problems relating to computer operations as applied to Federal Reserve research with other Research personnel involved in such operations.							
	57	Aug.	Irving M. Auerbach	Chicago, Ill.	6/5 - 6/62	$109.60				$109.60
			To visit Government securities dealers in Chicago, Illinois. Discussed problems related to the collection of data from reporting Government securities dealers in Chicago.							
	57	Sept.	M. McWhinney	Chicago, Ill. Washington, D.C.	8/14 - 15/62	$112.09				$112.09
			In connection with work for the Committee on Current Reporting Series. Chaired regular discussion among System economists of problems relating to data collection of Federal Reserve System.							

FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1963	21	Feb.	James O. Aston	Toronto, Canada	1/13 - 2/1/63	$ 75.80	$108.00	$177.90	$ 10.75	$372.45
			To receive training and instruction at Ferranti-Packard, Ltd. in the operation and programming of an FP-6000 computer system prior to its delivery to this Bank for use in high-speed processing of checks. Mrs. Aston, whose expenses were paid in full by Mr. Aston, spent one week of the period with her husband.							
	21	Feb.	Ronald V. Lester	Toronto, Canada	1/13 - 2/1/63	$ 79.25	$120.35	$189.80	$ 17.00	$406.40
	21	March	Ronald V. Lester	Toronto, Canada	1/13 - 2/1/63	$132.00				$132.00
			To receive training and instruction at Ferranti-Packard, Ltd. in the operation and programming of an FP-6000 computer system prior to its delivery to this Bank for use in high-speed processing of checks. Mrs. Lester, whose expenses were paid in full by Mr. Lester, visited her husband for one weekend during his stay in Toronto.							
	21	March	A. A. MacInnes, Jr.	Minneapolis, Minn., Chicago, Ill. and Kansas City, Kan.	1/13 - 18/63	$218.10				$218.10
			Visits to Federal Reserve Banks of Minneapolis, Chicago and Kansas City to observe high-speed check processing equipment. Observation of the equipment in operation on work similar to that to be done at this Bank provided assistance in the study being made at the Bank to determine the type of equipment to be ordered for use here.							
	49	Feb.	E. E. Blanchette	Trenton, Monmouth Counties, N. J. and Buffalo, N. Y.	1/25 - 2/7/63	$100.74	$ 14.25		$ 2.00	$116.99
			1/30 Attending New Jersey Bankers Association meeting Trenton, N. J. - 1/31 visits to banks in Monmouth County and 2/5 - 2/7 travel to Buffalo Branch. Attendance at bankers conventions and meetings gives the Bank's representatives the opportunity of participating in talks, workshop meetings and visiting with individual bankers and others to discuss mutual problems and explain Federal Reserve policies, procedures and operations.							

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FEDERAL RESERVE BANK OF NEW YORK
EXPENDITURES FOR TRAVELING EXPENSE

Period	Page	Month	Name	Destination	Dates of Travel	Transp.	Meals	Lodging	Other	Total
1st Half 1962	53	May	F. Klopstock To attend meeting of the Debits Subcommittee at the Federal Reserve Bank of Chicago. Discussed with other members of subcommittee problems relating to collection of debit statistics, preparatory to preparation of System Report on subject.	Chicago, Ill.	4/1 - 3/62	$109.60				$109.60
	53	June	F. Klopstock Attendance at meetings of the System Committee on Current Business Analysis at Federal Reserve Bank of Kansas City. Delivered talk on Balance of Payments. Exchange of views with System economists on matters of mutual interest.	Kansas City, Kan.	4/18 - 19/62	$169.00				$169.00
	53	June	F. W. Schiff Attendance at meetings of the System Committee on Current Business Analysis at Federal Reserve Bank of Kansas City. Afforded opportunity for interchange of ideas with business economists of System; useful as basis for rendering advice to the Bank on business outlook.	Kansas City, Kan.	4/17 - 19/62	$169.00				$169.00
2nd Half 1962	49	July	J. Raymond Murray Attendance at New York State Bankers Association. Attendance at bankers conventions and meetings gives the Bank's representatives the opportunity of participating in talks, workshop meetings and visiting with individual bankers and others to discuss mutual problems and explain Federal Reserve policies, procedures and operation.	Spring Lake, N. J.	6/27 - 30/62	$ 16.66	$ 10.80	$ 72.00	$ 2.25	$101.71
	49	Sept.	F. W. Schiff To participate in meetings of the American Statistical Association in Minneapolis. Presented critique of paper by Professor Arthur Okun on Potential GNP, Its Measurement and Significance (Critique reprinted in Proceedings of the Association.)	Minneapolis, Minn.	9/6 - 10/62	$ 95.04	$ 31.50	$ 24.00	$ 12.55	$163.09

B. Bank function—Research department. Relationship—Visits by representatives of foreign central banks, foreign monetary authorities, international organizations and others for discussion and consultation on domestic, foreign and international economic and financial matters.

	Date	Guests	Number in group	Expense
1	Jan. 20	Representative of foreign commercial bank	2	$14.80
2	Feb. 24	Representatives of foreign central bank	4	33.85
3	Mar. 2	do	4	74.45
4	Mar. 21	Professor of foreign university	2	27.00
5	May 11	Representative of international organization	2	43.00
6	May 14	Representative of foreign central bank	2	23.00
7	May 30	do	3	53.15
8	May 31	do	2	20.00
9	July 13	do	4	20.00
10	July 18	do	4	11.06
11	July 25	Representative of foreign monetary authority	4	86.50
12	Sept. 28	Representatives of foreign central bank	4	83.60
13	do	Representatives of foreign research institution	4	66.85
14	Oct. 5	Representative of foreign central bank	5	18.02
15	Oct. 11	Representatives of foreign central bank	4	74.20
16	do	Representative of foreign central bank	3	55.35
17	Nov. 9	do	3	55.70
18	Nov. 18	do	3	67.20
19	Nov. 12	Representatives of foreign central bank	4	67.65
20	Nov. 28	Representative of foreign central bank	3	65.90
21	Dec. 19	Representatives of foreign central banks	4	16.50
		Total	70	977.78

C. Bank function—Central bank relations. Relationship—Visits by representatives of foreign central and commercial banks for discussion and consultation with senior management on matters relating to central banking.

	Date	Guests	Number in group	Expense
1	Jan. 26	Representative of foreign central bank	2	$33.12
2	Feb. 5	do	2	61.65
3	Mar. 20	do	5	183.50
4	Apr. 3	Representatives of foreign central bank	4	44.00
5	Apr. 5	do	4	81.15
6	Apr. 18	do	12	470.70
7	May 1	do	4	83.95
8	Sept. 12	Representative of foreign central bank	4	110.60
9	Sept. 13	Representatives of foreign central bank	6	184.00
10	Sept. 17	do	6	58.00
11	Sept. 24	Representative of foreign central bank	4	45.03
12	Sept. 25	Representatives of foreign central bank	4	136.00
13	Oct. 17	do	4	54.00
14	do	Representative of foreign commercial bank	2	26.85
15	Nov. 27	Representatives of foreign central bank	3	142.40
		Total	66	1,714.95

D. Miscellaneous

	Date	Guests	Number in group	Expense
1	May 5	Representative of foreign central bank	3	$30.00
2	Sept. 24	do	2	6.75
3	do	Reception and luncheon at the bank for representatives of foreign central banks and foreign monetary and fiscal authorities in the United States to attend annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development	104	490.69
4	Oct. 11	Representative of foreign central bank	3	4.74
5	Dec. 13	do	2	2.70
		Total	114	534.88

II. DOMESTIC GUESTS

A. Bank function—Bank relations department. Relationship—Meetings with representatives of member and other banks, State and Federal supervisory authorities, and others for discussion and consultation on Federal Reserve bank and commercial bank operations, Federal Reserve policies and procedures, and maintenance of member bank relations.

	Date	Guests	Number in group	Expense
1	Jan. 22	Representatives of New York State banks attending a luncheon sponsored by the Federal Reserve Bank of New York in connection with the annual midwinter meeting of the New York State Bankers Association, at which luncheon a major policy address is customarily delivered by the President of the bank	676	$5,320.10
2	May 17	Representatives of New Jersey State banks attending a luncheon sponsored by the Federal Reserve Banks of New York and Philadelphia in connection with the annual meeting of the New Jersey Bankers Association, at which luncheon a major policy address is delivered either by the President of the Federal Reserve Bank of New York or the President of the Federal Reserve Bank of Philadelphia	479	1,854.91
3	Various	This item represents the cost of entertainment of 381 representatives of organizations indicated, on 155 occasions, at an average cost of $3.90 per occasion	381	604.95
		Total	1,536	7,779.96

B. Bank function—Securities Department. Relationship—Meetings with representatives of the Treasury Department and securities dealers and commercial banks for discussion of matters relating to the securities markets

	Date	Guests	Number in group	Expense
1	Feb. 13	Representative of Treasury Department	2	$5.75
2	Oct. 23	do	2	1.75
3	Nov. 26	Members of Government Securities Committee of the Investment Bankers Association	9	13.75
		Total	13	21.25

D. Bank function—Miscellaneous

	Date	Guests	Number in group	Expense
1	Feb. 8	Luncheon for Federal Reserve System Conference of Trust Examiners in connection with seminar on trust matters	35	$122.65
2	Feb. 16	Member of the Board of Governors	2	18.50
3	Apr. 25	Representative of the Treasury Department	2	5.00
4	Sept. 18	do	2	7.00
5	do	Luncheon for representatives of Federal Reserve System special committee studying retirement benefits and certain other fringe benefits provided by the Federal Reserve banks	10	115.00
6	Oct. 19	University professor	2	19.75
		Total	53	287.90

Procedures With Respect to Allocations of the System Open Market Account

1. Securities in the system open market account shall be reallocated on the last business day of each statement week and of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average combined reserve ratios of the 12 Federal Reserve banks based on the most recent available 5 business days' reserve ratio figures.

2. The Board's staff shall calculate, in the morning of each business day, the reserve ratios of each bank after allowing for the indicated effects of the settlement of the interdistrict settlement fund for the preceding day. If these calculations should disclose a deficiency in the reserve ratio of any bank, the Board's staff shall inform the manager of the system open market account, who shall make a special adjustment as of the previous day to restore the combined reserve ratio of that bank to the average of all the banks or to such higher level as may be necessary to eliminate the deficiency in note or deposit reserves. However, such adjustments shall not be made beyond the point where a deficiency would be created at any other bank. Such adjustments shall be offset against the participation of the bank or banks best able to absorb the additional amount or, at the discretion of the manager, against the participation of the Federal Reserve Bank of New York. The Board's staff and the bank or banks concerned shall then be notified of the amounts involved and the interdistrict settlement fund shall be closed after giving effect to the adjustments as of the preceding business day.

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3. Until the next reallocation the account shall be apportioned on the basis of the ratios determined in paragraph 1, after allowing for any adjustments as provided for in paragraph 2.

4. Profits and losses on the sale of securities from the account shall be allocated on the day of delivery of the securities sold on the basis of each bank's current holdings at the opening of business on that day.

The CHAIRMAN. Thank you very much, Mr. Hayes.

The Open Market Committee's portfolio of U.S. Government securities is in your bank in New York and amounts to about $33 billion, is that correct?

Mr. HAYES. That is correct; yes, sir.

The CHAIRMAN. Now, all those bonds stay right there at all times. You never let any of them out to other banks, do you?

Mr. HAYES. That is correct.

The CHAIRMAN. They are physically right there.

Mr. HAYES. Physically they are located in our bank.

The CHAIRMAN. Yes, sir. Physically there.

Now, then, is there anyone connected with the actual operations of the open market account who is not employed by the Federal Reserve Bank of New York?

Mr. HAYES. The operation of the account is specifically entrusted to the Federal Reserve Bank of New York by the Open Market Committee.

The CHAIRMAN. By law?

Mr. HAYES. No. The Open Market Committee could entrust it to any bank it wishes to.

The CHAIRMAN. But it is entrusted to the Federal Reserve Bank of New York?

Mr. HAYES. Right.

The CHAIRMAN. Are there any qualifications, restrictions, or limitations on that delegation of power?

Mr. HAYES. Well, the Open Market Committee sets all kinds of restrictions in their directives to the bank, as to the way in which we should conduct operations.

The CHAIRMAN. Now, when they have an Open Market Committee meeting here in Washington, about every 3 weeks, and you are a member of that committee—the only permanent one—as President of the bank——

Mr. HAYES. Yes, sir.

The CHAIRMAN (continuing). Are you privileged to divulge information that you receive in such a meeting to anyone else?

Mr. HAYES. Outside of the meeting itself?

The CHAIRMAN. Yes, sir.

Mr. HAYES. No, sir; I am not.

The CHAIRMAN. And you are careful not to give it to anybody in connection with the New York bank?

Mr. HAYES. That is correct. Of course the manager and a few other employees of the bank do attend the meetings. So they are aware of what happens. But otherwise, I do not give that information out.

The CHAIRMAN. Doesn't that place you in a rather embarrassing position—the fact that you are elected by the nine directors of that bank, six of them elected by the private banks, of course. And naturally they are interested in what goes on. And here you are selected by them for a 5-year term. You have been reselected, reappointed one time. You are about halfway in your second term, are you not, Mr. Hayes?

Mr. HAYES. Yes, I am.

The CHAIRMAN. I am looking at it solely as I look at my constituents now—when I want them to vote for me, of course I try to do things that will please them. And it occurs to me that you are very much in that position.

Now, in 2½ years you will want to be reappointed probably. And they are the ones that have those six votes—the ones you will depend on. And doesn't that make it a little bit embarrassing for you, not to be able to divulge anything to those people?

Mr. HAYES. Not in the least, Mr. Chairman. I think they understand fully the ground rules for participation in the Open Market Committee. They know that I participate in that as a sworn public servant. And they don't expect to find out what went on there.

Obviously, I try to keep them current on appraisals of the economic and business situation. But I specifically refrain from giving them any of the decisions made at that meeting.

The CHAIRMAN. In your statement you said that you didn't know of any bankers who didn't know that they are not the owners of the Federal Reserve banks. I hope you are correct about that. But I get letters every day indicating that a lot of bankers in the country still believe they own the Federal Reserve banks. But you don't think that there are many?

Mr. HAYES. I haven't run into them, Mr. Chairman. And—we have done everything in our power, in the way of public information and educational efforts, to dispel any such idea, if it should exist.

The CHAIRMAN. I know that you have been doing it in the past—I know about it personally. But I doubt that the message has gotten over. And there is still a lot of ignorance among even bankers about their relationship to the Government and so forth.

And I can give you just a recent one. You take the president of the U.S. Chamber of Commerce, Mr. Neilan. He made a statement the other day in which he said the bankers really subsidize the U.S. Treasury because the money that was used to buy the Government securities, the open market portfolio, were reserves of the member banks, and, therefore, that was really their money.

Now, is that true or false?

Mr. HAYES. Well, I didn't see the statement, Mr. Chairman. It is very hard to—it sounds as if it were false to me.

The CHAIRMAN. I will make this direct question: Are the member bank reserves used for any profitable purpose by the Federal Reserve banks, or the Open Market Committee?

Mr. HAYES. Well, the member bank reserves are a liability of the Federal Reserve banks.

The CHAIRMAN. Well, they cannot be used for a profitmaking purpose, then. The cannot be used to buy Government securities.

Mr. HAYES. The process works rather the other way. We buy Government securities and thereby create reserve balances.

The CHAIRMAN. Well, I think it is rather plain, Mr. Hayes—I don't think there is any doubt about it, or anything confusing about it. You don't use the member bank reserves for any purpose, except keep them there for the member banks, is that correct?

Mr. HAYES. The purpose of those reserves is to provide a method of control over the credit creating power of the member banks.

The CHAIRMAN. You don't invest them—that is the point I am making.

Mr. Neilan said they were invested in Government bonds, and you collected the interest, and, therefore, the Federal Reserve Bank of Philadelphia turned over to the Treasury $48 million of the bankers' money—they were subsidizing the Treasury.

Now, you know that wasn't correct.

Mr. HAYES. Mr. Patman, the investments we have are certainly not the bankers' money.

The CHAIRMAN. That is right.

Mr. HAYES. On the other hand, the investments we hold, the entire bond account and all the other assets, and it would be true of our bank as of other reserve banks for whom we act—all of these assets cannot be allocated exactly to specific liabilities.

The CHAIRMAN. Well, we haven't gotten to that yet.

Mr. HAYES. The Reserve bank balances are one liability against this aggregate of assets.

The CHAIRMAN. But the point is there is wide misunderstanding by big bankers.

Now, you take Ed Neilan. He is a pretty big banker. He is president of the U.S. Chamber of Commerce. And he is putting out this false information all over the United States—that the bankers are really subsidizing the U.S. Treasury, that they use their reserves to buy these bonds, and, therefore, they are entitled to that interest—which is wholly untrue, as everyone knows. And if the bankers are going around proclaiming this from the housetops, it just shows ignorance or a willful intent to deceive the people and the Congress.

Mr. HAYES. I can only say, Mr. Patman, that in my experience the bankers I have run into are fully aware that the Federal Reserve is a central banking system, and not owned by them.

The CHAIRMAN. Yes, sir.

Now, in the Federal Reserve Act, section 4, subparagraph 1, it is stated:

> the President shall be—

that is referring to the President of each Federal Reserve bank—

> the President shall be the chief executive officer of the bank and shall be appointed by the board of directors with the approval of the Board of Governors of the Federal Reserve System for a term of five years.

Here is what I want you to listen to:

> And all other executive officers and all employees of the bank shall be directly responsible to him.

In other words, everybody that is connected with the Federal Reserve Bank of New York, under the law, is directly responsible to you.

Mr. HAYES. That is correct.

The CHAIRMAN. And that being true, it occurs to me that there is an unusual relationship there—that your employees will have the total, the whole responsibility for the open market portfolio, they buy and sell, and that they are all under you. They are not under the Open Market Committee. They are not under the Board of Governors, Federal Reserve Board. They are directly responsible to you, the

President of the Federal Reserve Bank of New York, who is really responsible to the six directors who are elected by the private banks, who select you, because without their votes you could not be selected.

So it occurs to me that we have gotten the money business out of Washington, out of the Federal Reserve Board, into the hands of the New York Federal Reserve Bank only.

What is your comment on that, Mr. Hayes?

Mr. HAYES. Well, my comment on that would be that the Open Market Committee has taken steps to see that no such misapplication of the law should occur. They have taken——

The CHAIRMAN. This is the law, Mr. Hayes.

Mr. HAYES. I know. But they have appointed a manager of the Federal Open Market Account.

The CHAIRMAN. He is in your bank.

Mr. HAYES. But he is primarily—he is an official of the Federal Open Market Committee, as manager. He is at the same time a vice president of our bank.

The CHAIRMAN. And he is paid by your bank.

Mr. HAYES. That is correct.

The CHAIRMAN. Therefore the law says he is responsible to you.

Mr. HAYES. That's correct.

The CHAIRMAN. Directly responsible.

Mr. HAYES. He is responsible to both. But I have been meticulous in my efforts not to interfere in one iota with his carrying out the instructions of the Federal Open Market Committee. And the same would be true of the foreign manager who handles the foreign operations for the Federal Open Market Committee.

The CHAIRMAN. Mr. Hayes, I will not have time to take up these expenditures now. Other members probably will. If not, I will bring them up later. But I do want to ask you one or two questions before I yield to other members.

Now, other Federal Reserve bank presidents have testified that expenditures like donations to the American Bankers Association have not been cited or questioned by the auditors because the board of directors had held all these unusual expenditures legal. And the fact that the board of directors of each bank says they are legal means the auditors will not ever mention them at all—just leave them hidden from public view, even from the view of Congress or the Federal Reserve Board.

What is your comment on that?

Mr. HAYES. Well, my comment, Mr. Patman, is that we are not only limited by the board of directors on what we do in that regard, and by our own judgment, but more importantly by the instructions, directives sent out by the Board of Governors, dealing with all these various kinds of outlays. Incidentally, you spoke of a donation to the association. I do not think that is the right word.

The CHAIRMAN. I am just using the word the Board used in 1945 when they instructed the President not to make these donations.

Mr. HAYES. Well, "donation" has an overtone of charitable gifts, which we refrain from making.

The CHAIRMAN. Some of these would really——

Mr. HAYES. We do belong to some associations which we feel are useful and help us to carry out our function in the monetary area.

But in all of those, everything we spend in that line is approved under general instructions received from the Board of Governors.

The CHAIRMAN. From the Board of Governors?

Mr. HAYES. And our auditors are very careful to make sure they are.

The CHAIRMAN. Well, Mr. Hayes, in 1945 the Board of Governors instructed the Presidents of banks not to do this, and then, in 1958, after I right here in this committee room brought out all the outrageous expenditures, the Board of Governors took action again and instructed the Presidents of the Federal Reserve banks, and the boards of directors, not to make such donations. Don't you remember that?

Mr. HAYES. There was some discussion of what kind of expenditure was proper and what was not. And the decisions that were reached by the Board of Governors have been followed to the letter, as was evidenced by the fact that we have not been criticized by the Board's examiners. They naturally take that into account—as do our own auditors.

The CHAIRMAN. Well, this is hard for me to understand. You say you have not been criticized. How could they criticize you, how could Congress criticize you, when it is all hidden?

Under the rule as I understand it—and we ran up against it in a hard way—if the board of directors says "you go ahead and spend any amount of money you want to for any purpose"—you go ahead and do it—the auditors are instructed not to put these expenses in the audit. Therefore, the Federal Reserve Board never sees it, they do not know what it was, they have no reason to criticize you, because they do not know about the expenditure. The same thing with Congress. It is all hidden. And that has been since 1958.

Now, this year, Mr. Hayes, when we knew about some of these expenditures, we sent two of our investigators out—they ran into a dead end: they could not find a thing. The auditors did not have anything about it, knew nothing about it. We asked for their working sheets; the working sheets did not show it. Finally we had to send the investigators to the banks themselves in order to find this. And it was hidden. And it was with great difficulty that we finally found out how to get it.

Mr. HAYES. Mr. Patman, the Board's examiners come in every year and spend about 6 weeks in the bank, and they see every detail——

The CHAIRMAN. They are your examiners, Mr. Hayes.

Mr. HAYES. No, sir. If I may—I do not want to contradict, but they may take some of our people in the bank and ask them to help on specific jobs; but the entire responsibility and direction of that audit is conducted by employees of the Board of Governors.

The CHAIRMAN. I know. But they are in the system. In other words, it is a self-audit. That is what I am objecting to. I cannot understand why you and other great men of the Federal Reserve System would object to the General Accounting Office auditing your books, or examining them. For 50 years they have not been audited or examined. And that is unheard of in any civilized country—that the moneymaking authorities, who determine the volume of money, the interest costs, and everything else, 50 years can go by without this audit.

Mr. HAYES. Mr. Chairman, I think you are overlooking the fact that the banks were set up as a quasi-public institution, with certain features of private—certain aspects of a private organization, such as their capital structure. And they handle the operations of the system. But they are subject to the supervision and meticulous examination by a Government agency. That Government agency is the Board of Governors of the Federal Reserve System which, by law, and by the act of Congress, has been stipulated as the agents to supervise them. It seems to me that they are very able and careful examiners of everything we do.

The CHAIRMAN. Well, they cannot be reached. Somebody should be doing it like the President who is accountable to the people, the electorate. I know many of your people boast about the fact that you are insulated against the electorate. Well, of course, that is not democracy—that is a dictatorship. The people should be allowed to vote on somebody that has to do with monetary policy. As it is now, they cannot.

Mr. HAYES. I have always assumed, Mr. Patman, that Congress consciously established the Board of Governors as the top policymaking organization of the central bank for the very reason that they felt it was appropriate to establish a certain amount of day-to-day independence in the operation of the central banking system. I do not consider that undemocratic. I consider that as prudent.

The CHAIRMAN. Well, they were done at different times. Originally it was democratic—where there were 12 separate, distinct banks, no central bank at all. It was all right then. But after a few amendments in 1933 and 1935 when we were flat on our backs in a depression and we were trying to get out, and paying no attention to what the laws were—we just wanted to vote for something that would help—a lot of things were written into those laws that I think are pretty bad and should be corrected. That is one thing that I hope we can look into.

Mr. HAYES. Well, just before we leave that audit subject, it seems to me that if there were any evidence of corruption or bad management, inefficiency, I think there would be a prima facie case for making some change. But it seems to me that the reputation of the Federal Reserve System for integrity and honesty in the way they handle their affairs is unrivaled. Certainly no one is better that I know of.

The CHAIRMAN. Of course you can say that when there has been no audit by a Government auditor or an independent auditor acting on his own. Who could not say the same thing? They could just challenge anybody to show any corruption. I don't say there is any corruption; I don't accuse you or Mr. Martin or anybody else of being dishonest or not trustworthy—of course I don't. I trust you. But at the same time this is public business. It involves a billion dollars a year. And there is no audit, none of any kind—50 years with no audit.

I yield to Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Hayes, I want to thank you for a very constructive statement. I think on the first page of that statement you pointed out something that is very worthwhile—that we should be considering also at the same time with these bills some other suggestions that have been made in the past with regard to the Federal Reserve System, some suggestions that have come from those who are operating the system itself.

On page 12, the top of the page, you say—

I think it is of great importance that the persons charged with executing monetary policy, with making those decisions, retain freedom—freedom in a practical sense—to make unpopular decisions.

I believe that is one of the most important statements that you make in your entire presentation here today.

You have emphasized the responsibility to the public and not private interests. And in order to retain that freedom, and not be swayed by political considerations, I think it is important that the independence and the integrity of the Federal Reserve System be maintained.

It is my own opinion, and I think the opinion of many others, that we have been having too much government by prestige poll, and too much government by poll, and not what is right as far as the future is concerned, as far as our own leadership is concerned.

If we make our monetary system subject to the whims and fancies of the moment, of the people, who can be very easily led, I would think, as far as monetary policy is concerned—because heaven knows there are many economists who disagree, and I know members of this committee don't claim to know everything about it—but to me the estimates of the entire discussion and the end result of what is taking place now is whether or not we are going to maintain the independence and integrity of the Federal Reserve System.

I believe another point you have emphasized is something that the committee should do, and it seems to be getting worse rather than better, and that is the relationship between the System and the Comptroller of the Currency.

What has taken place now with regard to assertion of jurisdiction is not a healthy thing for the economy, and it should be resolved. I think our committee ought to make some recommendations along that line, take some action along that line. And I certainly think the President of the United States should do what he can to resolve the situation. It should not continue to get out of hand.

In connection with the organization of the Federal Open Market Committee, I have in front of me a copy of the rules of organization and procedure as amended effective April 17, 1962.

Do you have a copy of that?

Mr. HAYES. I do not think I have, sir.

Mr. WIDNALL. Section 3:

Personnel.—The official staff of the Federal Open Market Committee includes a secretary and assistant secretary, general counsel and assistent general counsel, economist, associate economist, who perform the duties indicated by their titles. These staff members are selected from among the officers and employees of the Board of Governors of the Federal Reserve System and the Federal Reserve banks. In addition, one of the Federal Reserve banks is selected by the Committee to execute transactions for the System open market account, and the Committee selects the manager of the System open market account and a special manager for foreign currency operations for such account, both of whom shall be satisfactory to such Federal Reserve bank.

Now, in essence, doesn't that say that the employees are employees of the Federal Open Market Committee primarily?

Mr. HAYES. Their duties certainly run primarily to the Open Market Committee, yes, sir.

Mr. WIDNALL. Now, who pays those employees?

Mr. HAYES. They are paid respectively by the Board of Governors or by the bank, depending on where they come from. The managers come from the banks, and most of the others come from the Board, and some of the economists come from other banks, from all of them.

Mr. WIDNALL. Does the Federal Open Market Committee have any funds to hire employees?

Mr. HAYES. No, sir. The Federal Open Market Committee is solely a policymaking body and the actual actions are taken by the banks, working together through the agency of the Federal Reserve Bank of New York.

Mr. WIDNALL. Would you like to make any further comments about the relationship between the Open Market Committee and its employees?

Mr. HAYES. Well, I would say——

Mr. WIDNALL. Talking now about freedom to operate.

Mr. HAYES. Well these people acting for the Open Market Committee are entirely instructed by the Open Market Committee, and whatever they do is under those instruction. Those instruction cannot be contradicted, either by the bank with whom they happen to be working or the Board of Governors.

Mr. WIDNALL. That's all at this time. Thank you.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Thank you, Mr. Chairman.

Mr. Hayes, in your prepared statement at page 8 you say at the bottom of the page:

We at the Federal Reserve banks adhere as rigorously to the standards governing the expenditures prescribed for us as does any postmaster to the standards prescribed for him.

Now, the staff has handed me vouchers for a number of luncheon and dinner checks incurred by the Federal Reserve Bank of New York, using Federal Reserve funds, during the years 1962 and 1963 for entertainment of nonbank personnel, as well as for bank personnel.

Typically the nonbank personnel are represented as representatives of foreign central banks, and for that reason I am not going to give their names. However, I notice that entertainment went on at places like the Golden Calf Restaurant, the Golden Gate, La Valois, La Maisonnette, the Blue Angel, Giovanni's, Cyrano's, the Gourmet, Cote Basque, Passy, Top of the 6's, La Polinierre, Pierre's, the Rainbow Room, Reidy's, Talisman, and the Three Crowns.

Looking at a few typical vouchers, here is one for April 2, 1962, at which a man and his wife, representing a foreign central bank, were entertained at Keen's English Chop House, and then given theater tickets to "The Sound of Music." That cost $40.50 for dinner and $43.40 for the show, $83.90.

Here is another one in which a representative of a foreign central bank was entertained with dinner at the Latin Quarter. That cost $96—April 2, 1962.

Here is another one on March 28, 1962, where there was a dinner for a foreign central bank official, accompanied by three members of the New York Fed. The dinner was at the Towers Suite Restaurant, and came to $74.

Here is another one from March 8, 1962, at which a foreign central banker and his wife were entertained with dinner at the Towers Suite, and then at "Camelot," the musical comedy. That came to $138.30.

One on March 2, 1962, of a similar nature, that came to $86.33.

One on February 15, 1962, Keen's Chop House, followed by "Carnival," of a similar nature, $80.93.

There are many more, but I just wanted to give these samples.

I am not aware that the Postmaster General can do anything like that, or does anything like that. If he wants to take somebody out to lunch someplace, other than his post office dining room, he picks up the check.

Therefore, I ask you, what are your standards governing expenditures, and what are the Postmaster's standards?

You seem to have made a comparison of the two.

Mr. HAYES. Well, Mr. Reuss, I don't pretend to be an expert on the Postmaster's standards. Therefore, I merely pointed out that we adhere meticulously to the standards that are set for us. And I think you overlook one very significant fact—that we are dealing here with a central bank, central banking organization.

Mr. REUSS. I didn't overlook it. I want to come to that.

But I wish you would indicate to me where these standards are set forth, so that we can see whether you conformed to them or not.

Mr. HAYES. I would merely say this: The conduct of the relationships between this central bank and the central banks of Europe are an extraordinarily important function. The Federal Reserve Bank of New York, as you know, handles the foreign operations, both——

Mr. REUSS. I think we all recognize that, Mr. Hayes. But my question was, Where are the standards governing expenditures by the Federal Reserve bank in this entertainment field—where are they set forth, what do they say?

Mr. HAYES. I think they are set forth only by the rule of reason, Mr. Reuss. I think—if you would let me——

Mr. REUSS. Then there are no standards at all?

Mr. HAYES. No, there are.

Mr. REUSS. Tell me what they are.

Mr. HAYES. In conducting these foreign operations, the bank performs, I think, an immense service to the country in the way of—just for illustration, the last year of swap arrangements, up to about $2 billions. we have helped the Treasury sell bonds——

Mr. REUSS. My time is limited. I will have to ask you to be responsive to the question which is, What are the standards?

Mr. HAYES. Well, I will summarize that in conducting these relations, it is common courtesy to treat the representatives of these foreign central banks courteously and cordially when they come over here, just as they treat us cordially when we go over there.

And it seems to me the maintenance of a friendly relationship between our people and these representatives of foreign central banks is of immense importance to the country, and has been proven to be very useful to the country in the achievements we have made all along the line. I don't say they are doing it just because we are taking them to dinner and the theater. But I think that is part of the whole relationship between central banking organizations that is widely accepted, generally throughout the world.

Mr. REUSS. But your answer to my request to you to designate the standard is that there is no standard.

Mr. HAYES. Mr. Reuss, nobody has said you cannot spend more than a certain amount for a dinner. We are paying the prices that are going price for reasonably good restaurants and good theaters in New York, which is exactly what they would do for our people in their cities.

Mr. REUSS. Elsewhere in your statement you oppose H.R. 9631, which would set up an audit by the General Accounting Office of the Federal Reserve along the lines of a Federal audit for other agencies of the Government. And one of your reasons for opposing that audit, I gather from what you say on page 13 of your statement, is that confidence in the dollar depends upon the goodwill of foreign central bankers and here I am quoting from you, this goodwill would be endangered by "a marked change in the organizational structure of the Federal Reserve System."

And you earlier indicated that a GAO audit would be such a marked change in organizational structure that it "might be viewed as a signal of a basic change in the role or status of the Federal Reserve System and could undermine public confidence in the system and the dollar."

Mr. HAYES. Yes, sir.

Mr. REUSS. Now, that comes down to saying that if these foreign central bankers no longer could look forward to the amenities of the Golden Calf, the Golden Gate, the Rainbow Room, and so on, that this would hurt the status of the dollar.

It seems——

Mr. HAYES. My reasoning doesn't run exactly that way. The reasoning runs this way. If a General Accounting Office audit were instituted, it might very well be taken as a signal of the opening wedge for further moves by the Government to diminish, to cut down on the degree of independence of the central bank within the Government, which it now enjoys. And that could, of course, be very damaging, because most of these countries abroad have a great deal of experience with what can happen to a central bank if the moneymaking, money-creating authority is abused by the Government in power. It has happened in every country in Europe, practically.

Mr. REUSS. Let me say that you won't find any stauncher defender than I am of the independence of the monetary authorities from direct political pressure, whether it be in the direction of too much money or too little money. But I am very frankly, Mr. Hayes, somewhat taken aback by your suggestion that we who believe in the independence of the Federal Reserve cannot take any steps whatever to insure that the public has some control over public expenditures, particularly for entertainment by the Federal Reserve, without causing an international crisis based on the belief elsewhere that the Federal Reserve is now at the mercy of the money people.

This, to me, is one of the greatest non sequiturs of the century. I have your testimony on it. But I do want to record my great difficulty following it.

Mr. HAYES. Well, it seems to me, Mr. Reuss, if the General Accounting Office is injected as a judge of what is or is not a prudent expenditure, it immediately subjects the policies and the judgments of the System to this control, or a certain degree of control, by a Government body which is not nearly as well versed in the problems we face as is the Board of Governors. And to me that is not a step ahead—that is a step backward.

Mr. REUSS. My time has expired, Mr. Chairman.

The CHAIRMAN. Yes, sir. Mr. Harvey?

Mr. HARVEY. Mr. Reuss, I have been listening to your questioning here. As I listen to it, I am struck by the fact that the Federal Reserve Board does have in my mind international responsibilities.

Mr. REUSS. No doubt about that.

Mr. HARVEY. And I don't think you question that either.

I think, therefore, that it is different than the Postmaster General. I don't think you can compare the Postmaster General and the Federal Reserve Board, because I think that the Federal Reserve does have the responsibility of entertaining foreign visitors.

Now, how you go about it is another thing.

But I think you would agree with me that they do have, because there are a constant stream of people——

Mr. REUSS. I do indeed agree that the Federal Reserve has international responsibilities. I am sure you would agree with me that the Postmaster General, who heads a unit in the international carrying of the mails, also has tremendous international responsibilities.

Mr. HARVEY. I am not as well acquainted with that.

Mr. REUSS. Would you approve of $80 lunches for the Postmaster when he entertains his opposite number from a foreign country?

Mr. HARVEY. Well, let me say this. I don't frequent these places where they have $80 lunches, so I don't know what you get for that, or what goes on there. But it seems to me where you have the responsibility of entertaining international visitors, that then you have to apply standards alike. And I do know this. I have attended State Department functions, and I have—with international visitors—and I have attended congressional functions, where the check has been picked up, in various restaurants and so forth, by either the State Department or by the Congress of the United States, in entertaining international visitors. And I think they would be comparable with some of these I have heard here.

And it seems to me if you are going to get into this business of comparing expense accounts for the entertaining of international visitors, then the same rules should apply, not only to the Federal Reserve Board, but they should apply to the State Department that entertains international visitors, they should apply to the Congress of the United States—in these U.S. parliamentary sessions and so forth, that we have any number of here throughout the year—we are constantly entertaining international visitors. And I don't think one is any different than the other.

Mr. REUSS. Will the gentleman from Michigan yield?

Mr. HARVEY. Yes, I would be glad to.

Mr. REUSS. I completely agree. All I ask of the Federal Reserve is that it submit itself to the same audit as the State Department, a General Accounting Office audit. And I recognize the right and the duty of the Federal Reserve to entertain visitors. But I think this has to be subject to general Government-wide procedures. And I go along with the gentleman in saying that Congress ought to subject itself to these procedures too. Though that is another question.

Mr. HARVEY. My good friend Oliver Bolton here, who I think is filing in Ohio today—that is the reason he is not here—has suggested recently that the Congress also ought to submit itself to these audits. And with that I agree thoroughly. I don't believe the Federal Reserve Board should be different here insofar as the audits are concerned. But certainly the same ground rules should apply.

And I think when it comes to entertaining foreign visitors of any kind, it is extremely difficult. I have sympathized with Dean Rusk in the brief years I have been here in Congress when he has had functions of this sort, and when he has people there who—and I sympathize with the chairman of our Foreign Affairs Committee here in the House—because there is a certain amount of it that has to be done. But the same rules should apply.

Mr. WIDNALL. Will the gentleman yield? I would like to make this point. As I understand the GAO audit of the State Department, that is only to the monetary affairs of the State Department. It has nothing to do with the policy of the State Department. And what many have thought might happen with the GAO audit of the Federal Reserve System, is to disturb the independence of that System by making it subject to a GAO audit on policy within the System.

Mr. REUSS. There is certainly no suggestion on my part that the GAO ought to dictate policy in the Federal Reserve. And I don't think anybody suggests that. The sole GAO intrusion would be to make sure that expenditures were made in accordance with authorizations and appropriations.

Mr. HARVEY. I would like to ask Mr. Hayes one question—how he would feel about a GAO audit.

Whether he would feel that would impede the action of the——

Mr. HAYES. Well, I feel, as I said in my statement—I feel that on balance it would be an undesirable thing.

I can readily see the apparent logic—and it is a kind of logic that appeals quite a bit at first blush, to the idea of having someone in some Government office that is particularly specializing in audits, do an audit of this. But I think that initial favorable reaction must give way to a deeper study of what the implications might well be.

And it seems to me that by the very nature of things, the kind of audit that would probably be made—and I think the approach to these expenditures that has been made by this committee suggests this—that that kind of audit would be really—would rapidly merge into the area of trying to make judgments as to what kind of things the Federal Reserve System should be doing or should not be doing in its efforts to carry out the mandate of the Congress.

And it seems to me—I think this is another point worth making—just to keep this thing in perspective. I am told by our foreign department that in 1963 total entertaiinng of foreign visitors came to $5,353. There were 648 foreign central bank and other foreign visitors. We handle accounts for them of $28½ billion.

As I said, we have set up swaps of $2 billion. We have helped the Treasury sell bonds to foreign countries of $760 million. We have helped the gold pool. We have undertaken a billion dollars of forward transactions for the Treasury. And we have had great cooperation among the central banks in stabilizing exchange markets and preventing speculation.

It seems to me you must look at that $5,000 in the light of all these achievements, and say it is an extension of a common courtesy along lines which are pretty much standard among central bankers. We are not abusing the privilege Congress gave us.

I would add just this. The Congress, in its wisdom, gave the Federal Reserve System immense authority over the general spending of the economy.

As you know we have a terrific responsibility of influencing through the cost and availability of credit the entire spending of billions of dollars in the economy.

In the light of that, it is to me a little surprising that it seems so disturbing to some that this organization that has this terrific responsibility makes the relatively small expenditures it feels are desirable in achieving its objectives, I am a little surprised there are such questions raised.

Mr. HARVEY. Thank you, Mr. Hayes.

The CHAIRMAN. Would you yield to me just a minute, Mr. Harvey?

Mr. HARVEY. Yes, sir.

The CHAIRMAN. Mr. Reuss, I am sure, was not saying that the Federal Resreve Bank of New York should be criticized simply because they entertain foreign guests. His point was, and I agree, that there is no reason to object to the audit—that is the only thing in this.

I am thoroughly in accord, and I am sure Mr. Reuss is, that you should entertain these foreign guests. And I am sure some of them—I happen to know personally that some of them were entertained at the request of the Treasury Department, under certain conditions—I think it was justified.

And I don't think you are vulnerable at all on that. But you are vulnerable when you refuse to let an independent auditor audit the books, or a Government auditor.

For 50 years they have not been audited.

Now, your sole source of income, almost, is the interest on that $33 billion portfolio of Government bonds, that you bought without paying a penny for them. And the Government pays you interest, about a billion dollars a year. And you spend all that you want to, for all these different purposes, make no accounting to anybody, and then put the remainder over into the Treasury.

So when you spend this money, you spend money that would otherwise go into the Treasury—and help the taxpayers. And that being true, I am disappointed in you in not agreeing, and also the whole Federal Reserve System, in not agreeing that public funds should be audited like they are in all other agencies of all kinds—this and one or two small ones are the exception. That is my disappointment.

I don't criticize you for entertaining foreign guests, that is all right. But I do criticize you for not wanting to make a report to the Federal Reserve Board and to the Congress about it. And I happen to know that the last few years, not only have you not made a report, but they have been hidden.

And we had an awful time finding them ourselves.

Mr. HAYES. Mr. Chairman, let me make this clear. I am talking now about the Federal Reserve Bank of New York, not about the Board of Governors. That is a problem that you dealt with with the Chairman, and I am not going to try to get into that.

But as the Federal Reserve Bank of New York, we are audited and we are extremely carefully audited by a Government agency. And that agency is the Board of Governors.

The CHAIRMAN. That is an inside audit.

Mr. HAYES. They are a body of pure government—we are not.

They have a very careful examination every year that takes, as I say, around 6 weeks. We report—our auditors report to them, as I said, every month, after the auditors have given their regular monthly report to our board of directors, that is also conveyed to the Board of Governors.

It seems to me that you do have a very competent Government agency which was specifically entrusted by Congress with the power to audit the affairs of the banks, and they are conducting that audit, and they are using in some cases the help of a nationally known public accounting firm to help them with the methods they use——

The CHAIRMAN. And also the personnel of the Federal Reserve Bank that is being audited.

Mr. HAYES. They only use that for manpower sometimes, Mr. Patman. Those people never have anything to do with the direction of the audit.

The CHAIRMAN. Mr. Pepper?

Mr. PEPPER. Mr. Hayes, I think you have correctly stated on the first page of your statement what is intended to be the objective of this committee in making this inquiry. You said:

> I should have imagined, Mr. Chairman, that hearings thus entitled would have, as their principal objective, a broad look at the System in the perspective of 50 years of performance.

And I am sure that if members of this committee or the distinguished chairman make inquiries about a particular matter, it is in order to paint the scene, as it were, to reflect the actual performance and operation of this System after 50 years of experience. It was set up by law. If after 50 years of experience it should be deemed in the wisdom of Congress desirable to change the law, of course that would be a proper function for the Congress, would it not?

Mr. HAYES. Certainly.

Mr. PEPPER. So I want you to see that this hearing is not something to pillory the Federal Reserve System. We are just trying to find out the facts. Then if Congress wishes to act it will act or not act on the acts as they may be disclosed.

Now, as I understand it, in section 11 of the Federal Reserve Act, there is authority on the part of the Board of Governors of the Federal Reserve System—

> to examine at its discretion the accounts, books, and affairs of each Federal Reserve bank and of each member bank, and to require such statement and reports as it may deem necessary. The said Board shall publish each week a statement of the condition of the bank.

Now, do you assume by that language that the Federal Reserve Board not only has the right to require an accounting and the furnishing of such statements as the Board might deem proper, but to lay down the criteria which would govern expenditures that may be made?

Mr. HAYES. Certainly I do; yes, sir.

Mr. PEPPER. And if it should forbid all types of expenditures it would under that authority have the power to do so?

Mr. HAYES. I think so, practically. We recognize that. We receive instructions along many lines as to the general guidelines for expenditures.

Mr. PEPPER. Now, the function of the Open Market Committee—the functions are defined in the Federal Reserve Act, in subparagraph 3, section 12:

The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

Now, is the function of the Open Market Committee one of the important functions of the Federal Reserve System?

Mr. HAYES. Yes, sir. I would say it is perhaps the most important.

Mr. PEPPER. You mean in the sense that it has a very great impact upon the economy of the country?

Mr. HAYES. Yes; it has.

Mr. PEPPER. Well, now, it is the function of the Open Market Committee, as I understand it, composed of the 7 members of the Federal Reserve Board, and 5 presidents or vice presidents chosen as provided by law, of the Federal Reserve banks—that makes up a body of 12.

Mr. HAYES. That is right.

Mr. PEPPER. And you meet periodically here in the offices of the Federal Reserve Board?

Mr. HAYES. Yes, sir.

Mr. PEPPER. And perform your functions as an Open Market Committee. And you have a manager and a staff of that Committee.

Mr. HAYES. That is right.

Mr. PEPPER. Now, you are an independent committee, vested by law with an independent discretion in the performance of your functions, are you not?

Mr. HAYES. Yes, sir.

Mr. PEPPER. Well, what I am interested to know is this: We have about 5 million unemployed in this country. The President has told the Congress and the country that his administration—and he has recommended that Congress support him in that declaration—is going to make a war upon poverty in this country, to try to lift the level of living of the people in the low-income groups, individuals making less than a thousand dollars a year and families making less than $3,000 a year.

Now, then, in view of that declaration by the President, has the Federal Reserve—has the Open Market Committee altered its policies or principles in any way in a way cooperative, in a manner designed to achieve that result?

Mr. HAYES. Mr. Pepper, my answer would be that we have been deeply concerned with unemployment, continuously, ever since I have been in the System, and particularly in the last few years, when it has run somewhat higher than it did a few years earlier.

We recognize we operate under both these governing principles you have stated, and also under the Employment Act of 1946, which directs that all branches of Government try to maximize employment, production, and purchasing power.

We regard those as major and primary objectives that we have to try to uphold, and the maximum purchasing power, of course, involves stability of prices, because if we don't have reasonable stability of prices, purchasing power becomes a sham.

We also recognize our responsibilities in the international sphere, for maintaining confidence and strength of the dollar, and confidence of other countries in it, as the leading key currency of the world.

Mr. PEPPER. Under the law, is there any right of review of the decisions made by the Open Market Committee?

Mr. HAYES. I am not sure I understand, Mr. Pepper.

Mr. PEPPER. I mean you make decisions relative to the functions of the Open Market Committee. Is there any other body which has the right of review of your decisions?

Mr. HAYES. I think not.

Mr. PEPPER. So, then, you are an independent body, consisting of 12 citizens of the country, chosen as provided by law, and you exercise your discretion, not subject to review by any other authority or authorities, in making the decisions that you say are perhaps the most vital decisions made affecting the economy of the country. Is that true?

Mr. HAYES. Well, I spoke a little hastily. Obviously, the Congress which set us up has the authority and should review our actions at any time they want to, and in any way they want to. And we welcome for that reason any hearing like this, or any other investigation that the Congress may wish to make of us.

But we are a creature of Congress. So I certainly would not want to——

Mr. PEPPER. But while Congress, you might say, appropriates the money to provide for the U.S. Supreme Court, we don't have any right to review their decisions——

Mr. HAYES. I think there is a constitutional difference. I am not a lawyer. But obviously there are three departments of Government. We are specifically under Congress.

Mr. PEPPER. I am not in any sense of the word, Mr. Hayes, expressing an opinion about the independence of the Open Market Committee—I don't know. As you say, our system has done a marvelous job. We are the greatest country in the world and the Federal Reserve System has immeasurably contributed to this greatness. The purpose of this hearing is to learn all we can.

I don't know whether a power so colossal as that, to affect the lives of the people of this country, the standard of living, whether they have a home or not, a job or not, how safe their investments are—I just don't know whether that power should be totally without the right of review on the part of any body or bodies in this country or not.

Maybe it should not be. Maybe it should be completely independent. Maybe there should be some general right of influence or review. I don't know.

Would you care to comment on that?

Mr. HAYES. Yes, sir; I would—two points.

I think for one thing you perhaps exaggerate the role that monetary policy can play in affecting all these developments in the country. We realize that it is very important, very important.

But by no means is it the only important influence. Things like fiscal policy, and wage and price policy, and a host of other developments can have a major effect on whether people are better employed or whether there is less poverty and so on. We are just one of several elements affecting that, and only one of several areas of Government policy affecting that.

Now, the other thing is that, as I said, we are entirely subject to the control of Congress. If they feel that a more detailed control would be practicable and workable, obviously we would accept it. But——

Mr. PEPPER. We want your valuable opinion, Mr. Hayes.

Mr. HAYES. Well, I don't, myself, think it is workable. I think the idea—that there was merit in Congress' action in setting up the system, in setting aside some people with long appointments, people in careers, to devote themselves exclusively to this responsibility, undisturbed by other problems and undisturbed by temporary political pressures.

The CHAIRMAN. Will the gentleman yield briefly?

Mr. PEPPER. I will be glad to yield.

Mr. HAYES. Might I add one thing. I don't want to give the impression the System is wholly unresponsive to feelings of the administration. Obviously whatever the President or any of his high officers may say or feel are given great weight by us. Naturally, we have to work in the environment in which we find ourselves.

And the pronouncements that you cited are, of course, important. And they naturally would enter into our councils.

The CHAIRMAN. I feel that the witness, without any intent to deceive us at all, or anybody else, left the wrong impression. He left the impression that Congress at any time could go in there and overrule them.

Well, Congress doesn't know what they have been doing. We have been trying to get their minutes. I asked for them the other day—for 4 years, 1960, 1961, 1962, and 1963. We haven't got assurance yet we can see those minutes. Nobody has ever seen them—except one time the Joint Economic Committee got the minutes, and we were prohibited from making any part of them public, even a summary of them, by certain members of the committee making points of no quorum and stopping them.

So, so far as I know, those minutes have never been made public information to the Congress or anybody else.

So how can we stop them from doing anything, when it is all in secret? The open market operations are in secret, they are sworn not to tell anybody about anything, and they don't, there has never been a leak. I think it is remarkable that 30 to 60 people can go in a room every 3 weeks, and determine the volume of money and how much the interest costs will be over a period of many, many years, and not one leak has ever come from that Open Market Committee.

So how can the Congress overrule them on a decision, when we don't know what it is?

Mr. PEPPER. I will say for the benefit of the gentleman here—you have a much better record than many committees of Congress in keeping your decisions secret.

Mr. WILSON. Mr. Chairman, a question in connection with this. What is the status of the request we have made, Mr. Chairman? What do you feel is a reasonable time that we should wait before any other——

The CHAIRMAN. We have the only permanent member of the five right here. We might ask him.

How long do you think we will have to wait before we know about the decision on seeing the minutes of the last 4 years, Mr. Hayes?

Mr. HAYES. Mr. Chairman, I am not sure. I know that the Chairman has told you that we would take it up. I understand it is up for early consideration. I would hope there would be some reasonably prompt answer.

Mr. WILSON. What would be your earliest consideration?

Mr. HAYES. Well, I don't know whether we will take it up at the next meeting. But I would assume——

Mr. WILSON. Don't you think that would be the courteous thing to do, to take it up at the next meeting?

Mr. HAYES. I would think it probably would be, and I suspect it will be taken up. I would say this, though. I don't think that, Mr. Chairman, you gave the correct impression in saying that everything is as secret as it is. As you know, under the law the Board of Governors is instructed to keep a complete record of the action taken by the Board and by the Federal Open Market Committee "upon all questions of policy relating to open market operations and to record therein the votes taken in connection with the determination of open market policies and the reasons underlying the action of the Board and the Committee in each instance."

I am reading from section 10.

The Board shall keep a similar record—

Well, it is the part on the Open Market Committee—

and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open market policies and operations.

The CHAIRMAN. It should say "in understandable language," then it would be all right. Even then it would be 18 months late.

Mr. HAYES. Almost. Some of it would only be about 3 months late, because the report comes out around March or April.

The CHAIRMAN. It used to come out in August, until I got on you. Then you kept getting them out a little bit earlier.

Mr. HAYES. May I also remind the subcommittee, Mr. Chairman, that the Federal Reserve does put out a lot of statistics on what they are doing. We put out a weekly report of what is happening——

The CHAIRMAN. They don't put out what they are doing in the Open Market Committee meetings. Of course the insiders know. And that is what we would like to know.

Mr. HAYES. Mr. Patman—it doesn't have to be an insider. You can read the weekly reports in the paper as to free reserves, the amount of securities purchased and sold in the open market account.

Mr. PEPPER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Brock?

Mr. HARVEY. I wonder, Mr. Chairman, if I might direct a question to the chairman. As long as we are on the subject here of these minutes, and as to when they are going to be made available, I wonder if the chairman could indicate to the committee whether there is any further progress in getting the Secretary of the Treasury here to testify.

He is the President's adviser in these matters here. It seems to me me that this committee should have his testimony just as soon as possible.

The Chairman. We went over that last week.

Mr. Harvey. I never did get any answer.

The Chairman. We will get him as soon as possible.

Mr. Harvey. That is sort of like the Federal Reserve saying just as soon as possible.

The Chairman. They don't even say that.

Mr. Harvey. I would like to ask the President's adviser, Mr. Dillon, what he thinks about making public these minutes of the Open Market Committee.

The Chairman. We will have him.

Mr. Harvey. I think we should have a chance to question him.

The Chairman. He was down as No. 2 witness, after Mr. Martin. I thought he ranked that spot. But he personally requested that it be postponed until sometime near the middle of February, because he had the Joint Economic Committee, and under the law he is required to present testimony there on the President's Economic Report. And then he had some other matters on the tax bill, which you gentlemen are interested in, too.

And we could not get him to agree to come before the middle of February sometime.

But as soon as——

Mr. Harvey. Do we have a definite date from him?

The Chairman. No, we don't. We don't expect to just subpena the Secretary of the Treasury. We have to get along with him, if we can—just like every one of the Federal Reserve people—they are testifying at a time that is mutually satisfactory.

Every one of them were conferred with. And every witness will be conferred with, just like we conferred with the Secretary of the Treasury.

We arrive at a time when it is satisfactory.

Mr. Kilburn. Mr. Chairman—I agree with Mr. Harvey. But the point, it seems to me, is this. If the Federal Reserve, for instance, gives us their minutes, the Open Market Committee, and we publish them, and then the Secretary of the Treasury comes up here and tells us that is very bad for the country, it is too late to do anything. So I think before we go——

The Chairman. Leave it to the committee to do the right thing.

Mr. Kilburn. I think we ought to get the Secretary of the Treasury here and find out.

The Chairman. Leave it to the committee to do the right thing about it. I assure you that the committee will.

All right, Mr. Brock.

Mr. Brock. May I say, Mr. Hayes, I hope that the Federal Reserve does not furnish the current minutes of the meetings. I think it might do great damage to the United States, to our financial structure, if they are made public.

Mr. Hayes. I agree.

Mr. Brock. Comment has been made, Mr. Hayes, on several occasions that the General Accounting Office is the only way we can subject the Federal Reserve to public audit, make it responsive to the overall policy of the country, at least in its expenditures of public funds.

You mentioned that the Board of Governors conducts an audit once a year.

Mr. HAYES. Yes, sir.

Mr. BROCK. And it is a detailed and thorough audit. Is it not true that the Board of Governors of the Federal Reserve System is a public body, appointed by the President, who is an elected official?

Mr. HAYES. Yes, sir.

Mr. BROCK. I don't see how we can construe it, then, in any other sense than that, that is a public audit in the truest sense of the word.

Mr. HAYES. I agree entirely with you.

Mr. BROCK. One other point I would like to clear up. There has been some comment about your conduct of the Open Market Committee through the New York bank. It is true that you operate the specific details of the Open Market Committee at their direction in a fiduciary relationship with the other banks, is that true?

Mr. HAYES. Yes, sir. We handle the funds of all 12 banks, putting those funds to work in the open market, buy government securities or sell government securities for the account of all the banks.

Mr. BROCK. The New York bank in no sense of the word and at no time makes a policy decision on Open Market Committee work.

Mr. HAYES. That's correct. The policy decisions are made by the committee. The New York bank carries them out on behalf of all 12 banks.

Mr. BROCK. You act principally and solely, as a matter of fact, as an agent for the Open Market Committee and the member banks.

Mr. HAYES. I think that is the right word. Not being a lawyer—I think "agent" is correct, yes, sir.

Mr. BROCK. All right, sir. Thank you very much. That is all I have.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Chairman, it falls to my lot to be in the position of one very poorly informed in these matters, and I have taken great delight in the amount of learning there is in the exchanges that have taken place. I am sure that sometimes those in the witness chair might feel that the seat of their pants looks like a lace curtain when the chairman gets through. I anticipate that as the Secretary of the Treasury comes here, when my friends on the other side of the aisle get through, he will have an equally penetrated lace curtain.

I will admit I think we all will learn much in the exchanges.

Now, I would like to sharpen up a little of the information that I have received at this time.

As I understand it, you are responsible to an audit by the Board of Governors. You would be responsible to the policy set by the Board of Governors relative to your expenditures. Is that correct?

Mr. HAYES. Yes, sir.

Mr. HANNA. Am I correct in hearing in your testimony this morning that so far as the knowledge of that policy is concerned, it is contained in certain letters which you say contain guidelines, general guidelines, as to how you should expend your money? Did you not refer to letters you received along this line?

Mr. HAYES. Yes, that's correct.

Mr. HANNA. Those—are those letters available to this committee?

Mr. HAYES. I think they have been filed with the committee already. I think Mr. Hickman filed them.

Mr. HANNA. Then insofar as I have the information correct, these are all the evidence that we would have available to us of the written policies under which you make your expenditures in the exchange between the Board and your Federal Reserve bank.

Mr. HAYES. I think we may conceivably have some internal memorandums.

Mr. HANNA. Could those memorandums be made available?

Mr. HAYES. I would like to find out if we have them. If we have some, we would be glad to make them available; yes, sir.

Mr. HANNA. I rather think this is important, because I am reminded of the testimony of the gentleman of last week who said, I think very accurately, that we tend to pay attention to that for which we have a responsibility. One of the inquiries we are trying to make here, separating the wheat from the chaff here, is who is responsible for what; and therefore who is paying attention to what.

There is quite a variety of expenditures that are being made that makes an outward manifestation that not too much attention is being paid, and therefore that there is not too much fixed responsibility. I think this is one of the legitimate lines of inquiry.

Now, assuming that we find that there has not been an adequate statement of policy from the Board to the Federal Reserves that are doing the spending, would you not expect that the Board would make more clear their policy?

Mr. HAYES. I would presume so, yes. It seems to me quite logical.

Mr. HANNA. Now, am I correct—if you cannot answer this, if the chairman would answer it, I would be grateful—does the General Accounting Office not make an audit after the expenditures are made?

The CHAIRMAN. No. They do not make an audit after the expenditures are made. I mean in this case. Of course, other cases they do.

Mr. HANNA. I mean in all of their cases——

The CHAIRMAN. They are all ex post facto.

Mr. HANNA. Now, let me ask the next question.

In making the judgments that they make, are not they bound to refer to the policies that were set by the body having the responsibilities for the policy to determine whether or not the expenditures are justified under the policies set by the body who has the responsibility of setting that policy?

The CHAIRMAN. That is correct.

Mr. HANNA. Then I would ask this question.

How could the General Accounting Office audit possibly influence the positions and the policies that are made by the Board?

Mr. HAYES. Well, I presume—I am not familiar, of course, in detail with GAO audits. But I presume they could question whether a whole type of expenditure or a range of expenditures was a proper one, because then it might not seem usual in Government practice. And we have cited some of this foreign entertaining as perhaps an example. My feeling would be that they would be—this is all very hypothetical, and I do not want to put words in the mouth of the GAO—but if they were to object to this kind of expenditure they could. Naturally, we have to be mindful of that, in stopping that kind of expenditure—they could seriously hamper the system in carrying out the much bigger function which the Congress has given us.

Mr. HANNA. Well, let's assume, if we have to make assumptions to come to this, let us assume that the GAO is bound by the policies set by the Board; and an expenditure is made, and it is made within the policy set by the Board, that they are bound by that policy.

Mr. HAYES. Well, I have the feeling, Mr. Hanna, that the lines that this inquiry has been taking suggest the thought, in proposing a GAO audit—is not to limiting the GAO to simply seeing that the directives that the Board has laid down are being carried out, but perhaps to apply other standards that are not now being applied by the Board.

Mr. HANNA. Well——

Mr. HAYES. There I see a real danger.

Mr. HANNA. Well, I would see some danger in that myself.

But if we are simply looking at this situation as a needed implement, you might say, or tool of Government, to make the person who has the broad responsibility carry it out by setting forth policy that is spelled out in language anybody can understand, then it seems to me that this is a good use of that kind of tool. If there is an absence—and it seems to me up to now the testimony demonstrates there is an absence—of an exposition of clear policy, then I think it ought to be brought in.

Mr. HAYES. Well, Mr. Hanna, if I can go over this again, some of this ground that I have already tried to cover. In seeing that what we do conforms with the general instructions and directives set by the Board of Governors, there is not one audit, but there are two. There are our own auditors, engaged in a continuous audit all the time. We have a large auditing department. Now, those auditors, through the general auditor, who is the chief of that department, reports to our directors every month on the audit they have made, and there are a large number of continuous audits. Among the things they check regularly are whether what we are doing conforms both with directives received from the Board and any internal rules which we have set up, any policies we have set up within the bank. If there are any exceptions, they point those out to the directors monthly, and the report of those exceptions goes to the Board of Governors.

I should say this, too. The directors include leaders in the business community who are extremely alive to the importance of financial audits, and the need for keeping a close check.

Then every year, as I said before, the Board of Governors sends its examiners in and they spend about 6 weeks going over all this again and making sure again that everything we have done conforms with all of the rules set for us by the Board of Governors, or by law or regulation.

Mr. HANNA. Well, I appreciate that. But I still think it leaves you somewhat in the image of Al Capp's famous character, the inside man at the skonk works. And it does seem to me that if there isn't going to be any conflict in who makes the policy, that we might very well be able to cooperate and understand each other a little better if we had a report from the GAO, which according to my understanding reports only to Congress.

Is that not true, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. HANNA. And presents the facts—and then we would have those recommendations. It would give you the good, clean, clear air of somebody from the outside.

Unless you can demonstrate that there is going to be a real conflict in who makes the policy——

Mr. HAYES. Well , as I say, my impression is that the proposal that has been made is not confined to simply verifying that all the assets are there, and that what we have done is in conformance with the instructions of the Board; it goes beyond that, and suggests changing those established.

The CHAIRMAN. Would the gentleman yield briefly?

Mr. HANNA. Yes, Mr. Chairman.

The CHAIRMAN. You did not get that impression from me. Who did you get it from, Mr. Hayes?

Mr. HAYES. I simply—it is just a process of logic, of my own process of thought on reviewing the proposal and the language of the bill in the light of my knowledge of what the GAO does elsewhere.

Mr. HANNA. I have no further questions.

The CHAIRMAN. Mr. Wilson?

Mr. WILSON. Mr. Hayes, apparently you worry more than you should about some of these things. In your statement you seem to be concerned that the scope of these hearings is being limited to a few bills. And yet by your own words here you were invited to participate in a series of hearings on the subject of the "Federal Reserve System after 50 years." Now, that's a pretty broad subject. It does not seem you are being limited. You were not instructed that you cannot speak about different phases of the system, or you could not make recommendations to us, or that you were being held back in any way on what you could bring to our attention in any way, were you?

Mr. HAYES. No. I think to put my comments in other words, I would say this. I think that the System, on the whole, has been working pretty well. I think on the whole, structurally, it is a pretty ingenious system that has worked for the benefit of the country. So that most of these things which are structural are of very questionable wisdom. I think there are some glaring problems that face us, and I cited some in my statement, of differences in the interpretation of laws and regulations between us and other Government bodies. There is a proposal for a whole new look at the eligibility question, of what kind of bills would be discountable at the discount window; there are problems of reserve requirements, the problems between member banks and nonmember banks trying to equalize their reserve status. There are a host of problems which I think are very real problems that should at some time be dealt with.

I am merely saying in my personal judgment, and it is no more than that, the changes that are proposed in some of these bills would be harmful changes; whereas I could see certain changes that would be quite beneficial.

Mr. WILSON. Well, I think it is proper for you to bring out those things about the bills that you think might be harmful. That is one of the principal reasons we have asked you to come here and help us.

Just because a bill is introduced doesn't mean it necessarily is being taken seriously by everyone. It opens up a subject for us to consider, and it may be a few years away from what we would like to see.

But I think the thing that most of us on this side keep bringing up over and over again is the reluctance you have to the General Accounting Office audit. And it is so difficult for us to understand, because there is nothing in the legislation that has been proposed—and I am sure that we, if such legislation were to be adopted—we would put in safeguards, if necessary, to see that there was not undue pressure being brought on the Board—if there is any way you can suggest that to us. Because no one on the committee, I am sure, has such a thing in mind—that the General Accounting Office would alter monetary policy or put pressures on it.

Mr. BROCK. Would the gentleman yield for a question?

Am I understanding you correctly? You seem to be implying to me—correct me if I am wrong—that the purpose of the General Accounting Office audit, as you see it, would be to insure that the individual banks are adhering to the policies as delineated by the Federal Reserve Board of Governors, is that correct?

Mr. WILSON. It would serve the same purpose as the audit they perform in any other department of Government. There has been no audit at all, real audit. There has been a check by independent auidtors of their own audit systems. But there has been no real audit performed apparently in the last 50 years of the bank. And whether this is proper or not——

Mr. BROCK. But you are not suggesting that we require the Fed to adhere to exactly the same standards as the Postmaster General, for instance, are you?

Mr. WILSON. No. I think the analogy between the Postmaster General and the Fed was brought up by Mr. Hayes himself, when he made the statement that he conducted himself in the same way that the Postmaster General did. I don't think any member of the committee brought that up.

Mr. BROCK. We want to establish the fact that they are adhering to the policy of the Federal Reserve Board of Governors.

Mr. WILSON. Yes. I would imagine that the standards of the audit would establish—would be one that would apply to the banking system. There is no reason why it would be the same as what the Postmaster General receives.

Mr. BROCK. The reason I raised the point is because the way the bill is drawn we have no guidelines along that line, and I can see the reason for the concern of Mr. Hayes.

Mr. WILSON. Well, that should be inserted then. And with the proper guidelines probably some of the opposition would be eliminated. Is that right?

Mr. HAYES. Well, Mr. Wilson, I think that your comments are certainly quite—reflect an intelligent analysis of the problem. I would be the last to deny there are differences in degree in the kind of audit that might be applied. But I still believe that there are more risks and dangers involved in any introduction of the General Accounting Office into the system than are worth taking.

Mr. WILSON. Or one of the things—we have been furnished by the staff with some of these expenses that have been created on foreign trips and so forth. I do not know whether or not it would establish standards for what could be paid and what would amount to good reason or not. That might be one of the things to be accomplished.

What is the policy when a wife travels overseas or on a trip with an officer of a bank? Are her expenses paid, too?

Mr. HAYES. No, they are not. Those are personal expenses.

Mr. WILSON. I notice in the breakdown here of one of the officers and a wife traveling through the Asiatic countries—her breakdown of hotel expenses—it is pretty odd in some ways. I have not taken any of these foreign trips, and I do not know how to do this. But I see in Japan the hotel expense for the officer was $159.78 and the allocation for his wife was $29.27.

Mr. HAYES. I suspect——

Mr. WILSON. Would she have stayed with some friends for part of that trip, possibly?

Mr. HAYES. I was not—I am not familiar with the details. I suspect that a possible explanation—I do not know this particular case—is that in some hotels there is one charge for single occupancy of a room, and if there is one more person it adds very little to the expense of the room.

Mr. WILSON. In Hong Kong it was $38.17 for the officer and $1.17 for the wife. That is a pretty good arrangement. Maybe they do have it set up that way.

Mr. HAYES. There are many hotels in Europe, I know, who don't care at all whether there is one person or two in the room—they will charge the same.

Mr. WILSON. I see.

Well, I think there have been a lot of these dues and expenses. Where the foreign people come to our country, we do all the entertaining. And then we have examples of our people going over there and they continue to entertain the foreigners in their country.

Mr. HAYES. Mr. Wilson——

Mr. WILSON. It doesn't seem to be a two-way street.

Mr. HAYES. If anybody attempted to put a monetary value on some of the things they have done for our people abroad, it would come to a pretty large figure, I am sure. They entertain us very cordially.

Mr. WILSON. Thank you very much.

The CHAIRMAN. Mr. Hayes, you stated that this is an ingenious System. I will have to agree with you that it is ingenious in many respects.

When the System started 50 years ago, each of the 12 Federal Reserve banks made money. They paid their way. Some of them didn't—they took it out of their capital. But they paid their way substantially for several years. But after that they got away from it. They began to buy bonds without cost to them, getting interest on those bonds, and they quit worrying about the discount window and earning money from other different sources as they used to. They began to look to Uncle Sam wholly for the expenses.

Last year, in 1962 the Federal Reserve bank in New York earned $261 million, we are told—that word "earned" I do not think is exactly justified. But that was your income—$261 million.

Now, a million dollars of that was for what you used to do in making money for the bank and the people and the taxpayers—discounts and advances were just $1 million during that year. Acceptances, $1.2 million. So the U.S. Government paid, just like the farmer gets a pea check in this case, $258,586,000 to your bank.

Now, they pay that to you in the form of interest on the Open Market Committee portfolio of U.S. Government securities. And that portfolio is in your bank, the Federal Reserve Bank of New York. You clip the coupons, and you collect the interest from the Treasury, and then divide it up among your bank and the other 11 Federal Reserve banks, and your share is $258,586,000.

The other banks never see these bonds at all. Physically they are always right there. But the other banks are carrying them as though they owned them, and they were in their vaults, a definite amount, which of course, as I pointed out the other day, is absolutely untrue. They don't own them at all. They do have a participating interest in a certain amount of bonds. It is a kind of a mutual fund. But they do not own a certain amount of bonds. Therefore their statements aren't correct.

Now, this is just one of the ingenious things about this System.

The main thing is that out of this billion dollars that you have been collecting on this portfolio of $33 billion in bonds, that did not cost you a penny—you collect that through the Treasury from the taxpayers, then you spend every dime you want to for any purpose seemingly that you want to spend it for, and give the remainder over to the Treasury.

The other day we had three presidents sitting where you gentlemen are, from Boston, Richmond, and Atlanta. They told us about sending young men and young women to school, paying their tuition, sending them to Harvard and different universities. They admitted that if they did not use that money for that purpose, it would go into the Treasury 100 percent.

Now, do you believe that the bank should spend money like that, Mr. Hayes, for tuition, to send people through college with Government funds?

Mr. HAYES. Mr. Patman, let me answer that in a number of segments.

In the first place, Government funds I think is a misnomer in a way, because these are funds obtained as interest——

The CHAIRMAN. From the Government, from the taxpayers.

Mr. HAYES (continuing). And any holder of U.S. Government securities who receives interest from the Government on his securities is not considered at that point as holding Government funds.

The CHAIRMAN. Not where they pay their money for them. You did not pay your money for these bonds. You do not insist that you do, do you? You created that money.

Mr. HAYES. We issue a credit on our books in the form of a reserve balance.

The CHAIRMAN. Against the Government.

Mr. HAYES. No, a credit in the form of a member bank balance.

The CHAIRMAN. But you did not pay anything for the bonds—nothing. You created the money to do it.

Mr. HAYES. I would say that making an offsetting credit entry represents payment for the bonds.

Now, I would also say this. I do believe in spending a certain amount of money on education, and I think it is an essential part of the personnel policy of any enlightened organization, whether it be in Government or in private business. We follow a practice, under rather careful scrutiny, of doing a certain amount of paying for better training and educating of our people. We believe that has paid off. The people to whom we have given better educational opportunities——

The CHAIRMAN. All right. I don't want to take too much time. So your answer is "Yes."

Mr. HAYES. I would like to make one other comment. You spoke of our holding the securities and the fact that the other 11 banks have no ownership in them. I do not think that is correct, Mr. Chairman. We hold these as agent for the 12 banks. That portion that we hold for the other 11 banks are owned by them, just as much as a security that some commercial bank held in a custody account for you would be owned by you.

The CHAIRMAN. Well, they never see them.

Mr. HAYES. They can see them any time.

The CHAIRMAN. They have nothing to do with their purchase. They will have nothing to do with their sales. They have nothing to do with clipping their coupons. They had nothing to do with collecting the interest from the Treasury.

Mr. HAYES. The only thing they do not have anything to do with is the physical handling of securities, which is a minor part of ownership. It is their funds that pay for them, and they are the people that extend member bank reserve balances on their books—the Chicago bank or the San Francisco bank—in payment for a large part of these bonds.

The CHAIRMAN. Of course, it is the Government's funds. The Government credit is used.

Now, this ingenious system—we have the most glaring cases of abuses of back-door spending here of any that could be found anywhere in the United States. We are allowing you to purchase these bonds for nothing, collect a billion dollars interest on them, and spend it, without going through Congress. Congress has nothing to do with it. Congress never knows the money was spent, or what it was spent for—in the past, present, or future. That is certainly an abuse of the back-door spending method.

Now, if you wanted to carry that to its logical end and have a more ingenious device, say even for Congress or for the courts, you could have the Treasury deliver to each member of Congress or each U.S. court $5 billion in bonds, just like they deliver to you $33 billion. And then they would spend $200,000 a year interest, at 4 percent—every quarter they could spend up to, say $50,000, semiannually $100,000, and then put the balance over into the Treasury. That would be exactly the same system that you have.

I would admit that the example is not a hundred percent comparable, because you are engaged in monetary action. But so far as back-door spending is concerned, it is comparable. You are giving people an opportunity to take Government money, spend what they want, put the balance back over into the Treasury. And that is what the Federal Reserve banks are doing today, and have been doing for some time. I think they have practically gone out of the business that they were organized for. They have practically gone out of it. They are doing practically no business; 99 percent of the funds coming from the taxpayers.

Now, Mr. Hayes, in the selection of the class C directors, do you ever recommend to the Federal Reserve Board, the Chairman of the Board, who should be selected as a class C director?

Mr. HAYES. No, sir, they consult with us sometimes as to what we think of people, of candidates.

The CHAIRMAN. Now, I have introduced a resolution to require the Fed to put a ceiling of 4.25 percent on the real yield of Government securities. What would you consider the best protection against inflation if the bill is adopted? Of course, I do not want anything done that is not guarding against inflation or deflation either, as far as that is concerned, or deteriorating the dollar.

Now to prevent any inflationary expansion of bank credit, would it be better to immobilize reserves or raise reserve requirements of banks, if that were done, Mr. Hayes?

Mr. HAYES. Is the question under the hypotheses that a ceiling were set on the——

The CHAIRMAN. That's right.

Mr. HAYES. We were pegging the Government bond market?

The CHAIRMAN. That's correct—at 4.25 percent. That is what the face value interest rate has been since 1918. Some efforts have been made to take that ceiling off, and real yields on Government bonds have gone well above that level.

Mr. HAYES. That ceiling applies to the interest rate that the Treasury is allowed to pay on its debt. It has nothing to do with the basis on which we buy Government bonds.

The CHAIRMAN. That's exactly right.

Mr. HAYES. I am not sure I understand the question.

The CHAIRMAN. The proposal is to have the Fed support the price of Government bonds so that actual yields do not exceed 4.25 percent. Of course that could be inflationary. That could release too much reserves into the banking system. Should we then, in order to stop inflationary expansion of bank credit—should we use the route of immobilizing reserves on the one hand, or should we use what we can do now, raise the reserve requirements of banks to offset those extra reserves?

Mr. HAYES. Well, I would say that the consequences of taking an action such as you propose would be so dangerous that I would rather not express a preference for either of those alternatives. It seems to me that pegging the market, or having the Federal Reserve System peg the level, would be an open invitation to inflation.

The CHAIRMAN. The Federal Reserve is not unacquainted with pegging the market.

Mr. HAYES. We were happy to get away from it, Mr. Patman.

The CHAIRMAN. Sure—you are getting away from the people's interest. Twelve years, from 1939 to 1951, the U.S. Government bonds never drew more than 2.5 percent.

Mr. HAYES. That's right.

The CHAIRMAN. And they did not go below par. They stayed at par and above and that was during the worst time in the history of our country, when we were suffering a depression and 10 million unemployed, and at other times having wild inflationary expenses, like spending a quarter of a billion dollars a day on the battlefields. And during that 12 years, we had the hardest times that we ever had and great tendencies toward inflation. And yet the Federal Reserve, which then operated in the public interest, and the taxpayers' interest, kept Government bonds not above 2.5 percent, and even protected them from going below par one time. But after that, the Fed did not like it. They wanted these ceilings taken off. And you got them taken off. It didn't stop inflation. We have had some inflation since then. But we haven't had ruinous inflation, except in interest payments. We are paying from $10 to $11 billion a year interest this year on the national debt, when we would not be paying over two-thirds that amount, if we still had the same rates that were in Mr. Roosevelt's and Mr. Truman's administrations, prior to 1952.

Mr. WIDNALL. Will the gentleman yield?

The CHAIRMAN. I yield.

Mr. WIDNALL. Mr. Chairman, I think it should be pointed out the value of the dollar went down 50 percent during that time, when everything was pegged.

Mr. HAYES. That is the point I was going to make.

The CHAIRMAN. I am glad both of you made it. I will answer both of you at the same time.

Mr. WIDNALL. Mr. Chairman, I——

The CHAIRMAN. I want to answer you. You brought the point up, and it's a good one. From your standpoint I think it is perfect. But let's find out who caused that deterioration of the dollar.

In 1945, when the war was over everybody was clamoring to take controls off. You could not hardly enforce controls during the war—it is difficult. And of course we took off a lot of controls which we should not have taken off. The next year the Republicans commenced in 1945 and 1946, they were actually elected on that ticket of getting rid of all controls. Getting rid of all controls and the excess profits tax and not doing anything about raising bank reserve requirements caused uncontrolled prices, ruinous inflation. That's the reason that the prices and everything went up. That's the reason we had it. The 80th Congress was elected on that platform in 1946.

So it was inflation caused by taking off all controls and excess profits taxes and not raising reserve requirements to the maximum that caused that ruinous condition.

Mr. HAYES. Mr. Patman, may I respectfully suggest that was only part of the story. During the war—let me say first that we excused many things during the war, and we should, because when we are fighting for our life, we should take measures that are unusual, and one of those is maybe pegging bonds. I am not saying it was the wrong thing to do. But it did build in a potential inflation in the form of very high liquidity in the country which reacted rapidly on prices when the controls were taken off. If we hadn't had this large purchase of Government bonds during the war, I do not think we would have had anything like the inflation we had when the controls did go off.

The CHAIRMAN. Well, notwithstanding that, all during that inflationary period, caused by taking the controls off and not immobilizing reserves, I think it was, the Federal Reserve held the bond market at 2.5 percent and less, and no bonds went below par. That shows you can do it in the peoples' interest if you want to do it.

Mr. HAYES. You can do it——

The CHAIRMAN. You have the power to do it.

Mr. HAYES. You can do it with great risks of inviting depreciation of the value of the dollar.

The CHAIRMAN. Well, it wasn't that that caused the depreciation. It was taking off all controls that did it. And naturally looking back we know that was true.

Mr. HAYES. Our judgments differ.

Mr. BROCK. Mr. Chairman—may I clarify this point, Mr. Hayes, by asking you what would have happened if we had not been required to peg the bond rate at 2.5 percent—if you had been given the authority to meet the market. Could you have controlled the inflation—the inflation of 70 percent of the price of all goods and services in this country—to a greater degree after 1945 if you had been given the flexibility of not being limited to 2.5 percent?

Mr. HAYES. Well, this is part of the whole complex of war finance—It is not a matter of simply what we did, but what the banks did.

The fact is that in the necessity of financing the war, it was not possible to finance it with taxes or even to finance it out of the savings of individuals by selling bonds to them. So that a great amount of it was financed by the banks, by the commercial banks and by the Federal Reserve banks, which provided the reserve for those commercial banks to finance——

The CHAIRMAN. Wait a minute, Mr. Hayes. They didn't have any reserves then on this war financing, the commercial banks.

Mr. HAYES. The commercial banks expanded their assets and liabilities tremendously by taking——

The CHAIRMAN. I know. But you said you furnished them the reserves. Didn't we pass a law in the early part of that war that during the war and for 6 months after a declaration of peace the commercial banks would not have to have a reserve to buy Government bonds? They bought them for nothing—not even a reserve put up for them. Isn't that correct?

Mr. HAYES. That may be correct. I am not sure.

The CHAIRMAN. I am quite sure it is correct, Mr. Hayes. I cannot correct you, because you know all about it.

Do you agree—is that correct?

Mr. HAYES. My counsel says that is correct. I was not in the System then.

The CHAIRMAN. I am glad to get the information confirmed.

Let me ask you another question. Do you agree with Chairman Martin of the Federal Reserve Board that the 4 years of the Chairman's term should be coterminus with the President's term?

Mr. HAYES. I respect Mr. Martin's judgment on that. I do not recollect what be said. But I certainly would defer to his judgment on it.

The CHAIRMAN. Well, that is my understanding. Of course, he overlooks one thing. With this 14-year term, it wouldn't help much to have the terms coterminous, because the President would still have to make a selection from one on the Board, one of the seven. You know here a while back, when the President was permitted to make an appointment of his Chairman to do the most important job in the civilized world, more important than the President of the United States, more important than any office in any legislative branch, he was put in a "straitjacket." He did not have freedom of choice. He could not go to New York and appoint Alfred Hayes or appoint anybody else. He had to appoint one of the seven that were on that Board.

So there is this law of the Federal Reserve denying the President of the United States freedom of choice in the selection of the best man in the United States for his Chairman to carry out the monetary policies of the Nation.

Of course Mr. Martin's suggestion is not as good as it sounds; if you leave the terms 14 years, a President has to be in office 6 years before he would be able to appoint a majority of the Board. And the Constitution says he cannot serve more than 8. So at the last 2 years, when he is going out, when he doesn't have as much power and influence as before, at that time only would he be able to select the fourth man to make the majority of that Board.

So that is holding it pretty close.

Now, how many recognized Government bond dealers do you have now, Mr. Hayes?

Mr. HAYES. I think the number is 19. I could be off by one or two. I think it is 19.

The CHAIRMAN. Nineteen—yes, sir.

Now, Federal Reserve banks—I will ask you to comment on this when you have your transcript and look it over, if you will. One, Federal Reserve banks spend a great deal of money on public relations. They join numerous organizations; they print pamphlets and studies on matters rather remote from banking as such. There is considerable entertaining of banking and industry people. What I don't understand is what it is you are trying to sell.

Your principal operations are check clearing and currency handling; both, I might add, furnished free of charge to the banks at a cost of about $140 million to the taxpayers. And yet you seem to be in a perpetual public relations campaign.

Two, several witnesses have criticized the bills here before us as undesirable because they would nationalize the Federal Reserve System. This puzzles me, Mr. Hayes. The management of the money supply is one of the fundamental Government functions. To speak of nationalizing this function is to me like criticizing the President and the Congress for nationalizing our defense program or our tax program, or any other public activity.

What is your opinion? Do you think that the power to declare war ought to be vested in a board selected by a limited private group, so as to take it out of politics?

Three, the Federal Reserve Act requires that records be kept of any meetings between the Federal Reserve officials and representatives of foreign central banks. Do you keep such records? If so, where are they?

Four, in your initial testimony, Mr. Hayes, you stated that—

> We at the Federal Reserve banks adhere as vigorously to the standards governing expenditures prescribed for us as does the Postmaster to the standards prescribed for him.

You overlook in your statement the basic issue being aired—the issue lies in the nature of the standards being prescribed, not so much in adherence to existing standards. Would you comment, please? I will ask you to comment when you look over your record.

Mr. HAYES. Yes, sir.

The CHAIRMAN. At this time I want to yield to others, because we do not have too much time.

Without objection, I will insert additional statements that I have in the record, rather than read them.

Mr. WIDNALL. Mr. Hayes, I would just like to get your comment on two things.

At the time of the war, the bills—three-eighths of 1 percent was the amount paid on bills, is that right?

Mr. HAYES. That's my recollection. As I say, I was not in the System then.

Mr. WIDNALL. What percentage of those bills did the Fed own? Wasn't it an extremely high percentage?

Mr. HAYES. I could not answer that. I can get that for you, Mr. Widnall. I am not sure.

Mr. WIDNALL. As I recall, it was somewhere in the neighborhood of 80 to 85 percent of the bills were held by the Federal Reserve itself.

Mr. HAYES. It sounds high to me, Mr. Widnall.

The CHAIRMAN. You mean during the war?

Mr. WIDNALL. Yes; because people would not buy them at that price.

Mr. HAYES. It may—I would not doubt—I have not looked it up, and so it may well be right.

Mr. WIDNALL. Then coming back to something that Mr. Patman was developing, as to the banks themselves acquiring reserves, with no investment of their own, didn't that arise through the use of the Treasury tax and loan account?

Mr. HAYES. I rather think so; yes.

Mr. WIDNALL. Would you make a statement for the record on that?

Mr. HAYES. I am not sure—could you restate that question, Mr. Widnall?

Mr. WIDNALL. Didn't the purchase of those bonds, setting up of reserves for a lot of the banks, arise from the use of the Treasury tax and loan account during World War II?

Mr. HAYES. Yes; it did. A large number of bonds were purchased by the banks, and initially that resulted in a large tax and loan account. Of course, as those were expended, they went into the stream of the economy. Those bonds went into the stream of the economy. So that the purchase of these securities by the banking system did add greatly to the liquidity of the economy. And that falls in line with what I was saying earlier about the potential inflation that was built into the economy, and I am not criticizing it because we had to win the war.

Mr. WIDNALL. That is all. Thank you.

The CHAIRMAN. Yes, sir, Mr. Reuss.

Mr. REUSS. Mr. Hayes, I was interested in what you said in response to a question by, I believe, Mr. Wilson, that your presentation this morning apparently did not include some long-range suggestions and ideas you have for improving the Federal Reserve System.

I would like to ask you at this time to file with this committee a supplementary paper in which you comment as freely and as widely as you wish on possible changes and improvements in the Federal

Reserve System, because I think perhaps you were not clearly apprised of the nature of this inquiry which is as surely as broad as the System itself. The specific bills which were referred to you are included within the purview of this committee, but they do not exhaust it, by any means.

Mr. HAYES. I will be happy to.

Mr. REUSS. In connection with that, there is one thing specifically that I would like your views on, and that is the nature of membership in the Federal Reserve System and whether you see any need or desirability in broadening it.

I refer specifically to the problem which faces you, that if you pursue too rigorous policies, banks may think it is to their advantage to leave the System.

I am sure you have given this problem some thought and it may be that you can suggest ways and means of insuring that the monetary power of the Federal Reserve System does, indeed, run through the entire banking system rather than through just that portion of the State banking system that chooses to join or retain membership in the System.

I do not want you to answer that now, because it is a very broad subject.

Mr. HAYES. I will be very happy to answer that, if you want me to.

Mr. REUSS. You can put it in your supplementary remarks.

Mr. HAYES. I will put it in my supplementary remarks.

Mr. REUSS. Just one other question. Are you familiar, Mr. Hayes, with the document or memorandum filed with this committee by the Federal Reserve Board, dated December 3, 1963, and entitled "Procedures With Respect to the Allocation of the Members of the Open Market Committee"?

Mr. HAYES. I am generally familiar with it. I do not know all of the details on it.

Mr. REUSS. I think it was filed——

Mr. HAYES. Yes, sir.

Mr. REUSS (continuing). To show how you divvied up the U.S. securities, that are bought by the Open Market Committee, between the 12 banks.

This statement will, of course, become a part of the record but I would like to have you tell me, in as simple terms as the subject matter permits, exactly how this is done.

For example, on a given date the Open Market Committee buys $1 million worth of Treasury bills. What happens to those as between the 12 member banks?

Mr. HAYES. Well, the method of allocation, Mr. Reuss. is a pretty complex formula.

As I understand, it is based essentially on the size of the capital funds of the respective banks but it is not as simple as that, and I could not possibly undertake to clarify it in detail because these are rather technical matters.

The amount of allocation changes—the percentages of allocations constantly are changed because of the formula, and I would be glad to supplement this in any way that you would like, but I do not really think I am competent to supplement it right here and now.

Mr. REUSS. This, of course, is a mighty important formula, because upon it hangs how much a given bank gets of this reserve power.

Mr. HAYES. Well, from the point of view of the effect of our operations on the economy it does not have much significance.

It may have some slight effect as to which district this happens initially to—where it is carried out initially, but from the standpoint of overall effect on the economy it is really the aggregates that are of primary importance by far.

Mr. REUSS. Are you suggesting——

Mr. HAYES. Because of the fluidity of our money markets.

Mr. REUSS. Are you suggesting that the arrangements by which the appreciations to the reserve are allowed as between the 12 Reserve banks is not of much significance?

For example, that it would be a matter of no concern to the 11 other banks if, let's say, the Open Market Committee assigned all the new reserve power to the Federal Reserve Bank of New York, for example?

Mr. HAYES. No. If carried to the extreme this could be chaotic.

Obviously, they have to buy these in some relation to their available resources and with due respect to their maintenance of gold reserves, required by law, and a whole variety of governing principles.

So that I do not for a minute say it is unimportant. All I am saying is that it is not as important, in its economic effects, as the overall aggregate figures.

Mr. REUSS. I appreciate that this formula is a complicated matter, but I am in a position of trying to understand it, and, with all due respect to whoever prepared the December 3, 1963, memorandum, it does not tell me the story.

All it says is that securities in the system open market account should be reallocated by means of a proper adjustment proportionate to the means that would have been required to equalize approximately the average combined ratios of the 12 Federal Reserve banks.

That really does not help me very much, and I am wondering if you could give us a model.

Mr. HAYES. Well, I——

Mr. REUSS. Could you give us that in a supplementary paper, sir?

Mr. HAYES. We will be glad to do that.

Mr. REUSS. We will appreciate that.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. Mr. Chairman, I do not have any questions, but I think the record should show today, and I am sure Mr. Hayes would want to know, that Mr. Olver Bolton on this side of the aisle and Mr. Robert Taft and, I am sure, Mr. Charles Vanik on that side of the aisle as well—maybe this was taken care of before I came in—are all in Ohio today because they are required to be there under the Ohio law, and I am sure that the record should make that clear.

I have no further questions, but I think that should be clear.

The CHAIRMAN. Mr. Pepper?

Mr. PEPPER. Mr. Hayes, I notice from section 5 of the Federal Reserve Act that each member bank of the Federal Reserve banks of the country is required to buy an amount of the capital stock of the affected Federal Reserve bank equal to 6 percent of the capital stock and the surplus, I believe—capital stock and surplus of the several banks.

Mr. HAYES. Correct, sir.

Mr. PEPPER. Now, half of that is to be paid in or subscribed for in a manner hereinabove prescribed.

I do not know what that is. How much of that one-half is to be paid for by your member banks? Paid for in cash or——

Mr. HAYES. It is paid for by charging their reserve accounts normally and all pay $50 a share, I believe.

Mr. PEPPER. They do not actually—is their reserve account made up of money that they have actually transmitted to the Federal Reserve bank or is it just a credit of some sort without——

Mr. HAYES. Well, initially the reserve accounts were created by contributions from the member banks.

Mr. PEPPER. If I have money in a bank I have to give it something equivalent to the $100 that I ask it to give me credit for.

Does a member bank purchasing stock actually give your bank an asset that you can report as an asset?

Mr. HAYES. Yes, sir. It gives us a diminution of our liabilities which is just as good as an increase in an asset.

Mr. PEPPER. That is a paper transaction then? You do not have any more assets afterwards than you had before?

Mr. HAYES. No, it would affect our liabilities, I think, rather than our assets but, to my mind, that is an equally important transaction.

Mr. PEPPER. Well, in section 7 of the Federal Reserve Act it says that after all necessary expenses of a Federal Reserve bank have been paid or provided for the stockholder shall be entitled to receive an annual dividend of 6 percent on the paid-in capital stock, which dividends are to be cumulative.

Now, how much do you have to pay out every year to your member banks under that provision, roughly?

Mr. HAYES. In the New York bank?

Mr. PEPPER. Yes, sir.

Mr. HAYES. I have that, I think, right here.

Last year it was $7,743,000.

Mr. PEPPER. Now under the law what provision is made for earnings by a Federal Reserve bank?

How do you make money under the law? I mean——

Mr. HAYES. How do we distribute——

Mr. PEPPER. What is the law that defines the earnings that you may acquire and the method by which you may acquire them?

Mr. HAYES. Well I do not know whether the earnings are specifically stipulated. I do not think there is any specific reference——

Mr. PEPPER. Well the statute says that after all necessary expenses of a Federal Reserve bank have been paid or provided for the stockholders shall be entitled to receive an annual dividend of 6 percent on the paid-in capital stock which dividends shall be cumulative after the aforesaid dividend provisions have been fully met and the net earnings shall be paid into the surplus fund of the Federal Reserve banks. So they can evidently contemplate earnings. How are those earnings acquired now?

Mr. HAYES. Well, the act is full of references to the purchase of securities by the bank——

Mr. PEPPER. I beg your pardon?

Mr. HAYES. The act is full of references to the purchase of securities by the Federal Reserve banks and the making of loans and discounts by the Federal Reserve banks, the purchase of acceptances, all of which are earning assets and——

Mr. PEPPER. Well, the law does not fix then the earnings that you are to divide. Is that correct?

Mr. HAYES. That is correct. The earnings are simply a derivative of our assets.

Mr. PEPPER. The law provides what you may do and it assumes that you shall receive compensation for the services that you perform, and then it provides for the disposition of your earnings in the manner that I have just referred to?

Mr. HAYES. Yes——

Mr. PEPPER. Now, what I am getting at further is that the chairman has said that some 98 percent of your earnings come from your share of the interest on the Open Market Committee portfolio. Is that correct?

Mr. HAYES. That is correct.

The CHAIRMAN. Ninety-nine percent.

Mr. PEPPER. Sir?

The CHAIRMAN. Ninety-nine percent.

Mr. PEPPER. Ninety-nine percent. I correct myself.

Now, then was that the way that 99 percent of the earnings of the Federal Reserve banks of the country were acquired or derived at the time the Federal Reserve bank was established?

Mr. HAYES. No, sir. I think the whole Open Market Committee concept grew—it was an evolutionary process, arising in the first instance when the several Reserve banks on their own made purchases of securities with excess funds that they had available, and it seemed wise to coordinate those purchases and then gradually it became recognized that the purchase of these securities in themselves had an important economic effect and, therefore, it was felt wise to formalize the rules for purchasing them and to coordinate their purchase. And that gave rise to the Open Market Committee through a variety of legislation and regulations.

Mr. PEPPER. Well, now, so the growth of the Open Market Committee has been sort of an evolution the way the common law, as your lawyer would say, has evolved?

Mr. HAYES. Yes, sir, I think that is a good parallel.

Mr. PEPPER. Now, is the primary purpose of the functioning of the Open Market Committee to provide earnings for the Federal Reserve banks, or is that just an incidental effect?

Mr. HAYES. Incidental. We certainly do not enter into any operations with the primary purpose of earning money.

Mr. PEPPER. Well, now, is the acquisition of a portfolio the primary function of the Open Market Committee?

Mr. HAYES. Yes, I would say the acquisition and sale from time to time, the purchase and sale, of securities into and from the portfolio is the primary function—the policy with respect to those purchases is the primary function of the Committee.

The actual sales and purchases are done by the 12 banks.

Mr. PEPPER. Perhaps I am in error, and I am glad someone so distinguished and such an authority as you can correct me, but I had an idea that the purpose of the function of the Open Market Committee was to determine how much currency was in circulation in this country, how much credit was available.

Mr. HAYES. Well, let me make clear, Mr. Pepper, that the operation of the Open Market Committee account is to purchase and sell securities.

When I said that is an objective, it is the technique whereby we arrive at these broader objectives, trying to maximize employment, production, and purchasing power through influencing the cost and availability of bank credit.

Mr. PEPPER. So just the acquisition of bonds is not an end in itself. This is merely the means; isn't it?

Mr. HAYES. Certainly.

Mr. PEPPER. This is the means of achieving these directives that the Congress has imposed upon the system?

Mr. HAYES. That is right.

Mr. PEPPER. So to get back to the inquiry I made a few minutes ago, this Open Market Committee, consisting of 7 members appointed by the President and confirmed by the Senate, and 5 members elected by the Federal Reerve System of the country, a body of 12, that Board which, as you said a while ago, is not subject to any review by any authority or authorities in this country——

Mr. HAYES. Other than Congress, Mr. Pepper.

Mr. PEPPER. Well, excuse me. You can be abolished or new laws can be made by the Congress but this is the Banking and Currency Committee of the Congress, and we do not have any right to review your committee unless we change the law.

We, for example, can abolish inferior Federal courts under the Constitution but we have no right to review their decisions.

Now, are we not in the same relationship with the Open Market Committee? Congress can abolish it but we have no right to review the individual decisions which that Committee makes.

Mr. HAYES. Well, by legislation you can do anything you want.

Mr. PEPPER. I mean under the present law.

Mr. HAYES. Under the present law that is correct.

Mr. PEPPER. Now, then, what I was intending to say, therefore, was that this body of 12 has the power to determine the amount of credit available to the people of this country, does it not?

Mr. HAYES. It has a large influence on it.

Mr. PEPPER. Well, I think it has a major influence in that determination, does it not?

Hr. HAYES. That is correct.

Mr. PEPPER. The amount of credit available in this country has——

Mr. HAYES. I would like to insert "bank credit."

Mr. PEPPER. All right. What influence upon the economy of this country does the amount of bank credit available in this country have?

Mr. HAYES. Well, it has a very powerful influence.

Mr. PEPPER. Well, how does it affect the economy?

Mr. HAYES. The theory of it is that——

Mr. PEPPER. I am not talking about the theory. How does it affect the economy, please, sir?

Mr. HAYES. It affects the economy by placing purchasing power in the hands of individuals, corporations, and institutions who presumably will use that purchasing power to spend and to activate or to add to the activation of the economic machine. That is the essential——

Mr. PEPPER. Does it affect the value of the dollar?

Mr. HAYES. Certainly.

Mr. PEPPER. Does it affect the interest rates?

Mr. HAYES. Yes, sir, certainly.

Mr. PEPPER. Does it affect the amount of funds that are available for investment in the country, in capital——

Mr. HAYES. Yes.

Mr. PEPPER (continuing). Investments?

Mr. HAYES. It does, yes, although in that respect, the amount of credit—the amount of funds available for extension of credit in general far exceeds the amount that is directly under our influence.

It far exceeds the amount of bank credit. I regard the amount of bank credit as an addition to the mainstream of total credit, and in many years the amount of bank credit created is a very small part of the total creation of credit, as it was last year.

Mr. PEPPER. Just this last question, Mr. Chairman, and I thank you for your indulgence.

As a boy, growing up in Alabama, I recall the outcry of the farmers of Alabama against the Federal Reserve System and Mr. W. P. G. Harding, Chairman of the Federal Reserve Board—it was just a name to me, but I remember very well the bitterness of their protests against a restrictive, deflationary policy by the Federal Reserve bank which they thought had a profound depressing effect upon the agriculture of that State.

Now, there was an action by the Government that vitally affected the economy of that part of the country and perhaps other similarly situated parts of the country, and yet those people had nothing whatever to say about it. The President had nothing to say about it. The Congress had nothing to say about it. The courts had nothing to say about it unless Congress, by law, changed the character of the authority which declared that policy for the country.

So that is the reason I asked you a while ago for your comments. Now, we have had 50 years and all of us are proud of the accomplishments of our country and of the Federal Reserve Board but, as my colleagues have said here, is that power too vast and too important to be left by law without any right of review whatsoever, in any authority or authorities, responsible to the people and the public of the very important decisions that it makes?

I repeat I have no opinion about the matter, but, in examining this matter after 50 years of experience with the Federal Reserve Board, wouldn't you think that it would be one of the subjects to which we might give attention?

Mr. HAYES. Certainly I think it is a legitimate subject for attention and I would say this also, Mr. Pepper. I think we have to stand on our record as a whole, and I won't claim it is perfect. I am sure we have made some mistakes.

I still maintain that the record on the whole has been pretty good and has generally carried out the mandate that Congress set for us.

Mr. PEPPER. I agree with you.

Mr. HAYES. And I question whether it is wise to change the structure essentially because I think you may invite more dangers than benefits by so doing.

Mr. PEPPER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hayes, may I invite your attention to this one thing? The President of the United States, under our Constitution is the Chief Executive and he is responsible for the enforcement and execution of all laws that are carried out by any part of the Government.

Now, it is true that you are an agency of Congress just like all boards and commissions are agencies of Congress, because we created these boards and commissions.

But to say that you are out from under the President, which has been implied by many and I think you implied it a while ago, that the President had no authority over you, I think is going a little bit too far.

Now, it is true, as Senator Pepper brought out, that nobody has any power over the Open Market Committee to the extent that they can review their decisions, and this is all the more true because it is way after the thing occurs before the decisions are known.

Just like under W. P. G. Harding's days and like under the present Board, you do not make a report so soon. Congress does not know anything about it and then you report in such gobbledygook language as in the allocation of the open market account.

I do not believe anybody could say that that was not gobbledygook, and when you read that and you read the reports you do not know any more than you did before.

But the truth is that the President of the United States is elected by the people. He should have a right and a fair chance to carry out his policies and views.

I do not think any major policy can be carried out without having the help, to some extent, of the people who are our money managers, who determine the volume of money and the cost in the way of interest charges.

And you gentlemen are advocating, whether you admit it or not, a money dictatorship set off to yourself, that nobody can have any control over except you, and not even the President of the United States can even suggest to you anything that you have to take into consideration.

You pay no attention to it and he is, of course, elected by the people every 4 years and Members of the House every 2 years, and Members of the Senate every 6 years, and I think you are going too far, Mr. Hayes.

I say this in all kindness. As a person I like you very much. I believe that you are honest and sincere and want to do a good job, but you have gotten in this advocacy of this separate and what you call an independent Federal Reserve System which means insulated away from the electorate.

You even use that language sometimes and where the people cannot reach you by their votes, and that is just going too far, too far.

You have more power than the President has. Your Open Market Committee has more power, and it is topheavy with private bankers and they like high interest rates. Sometimes they want tight money when they should not have it, and that is just going too far, Mr. Hayes. You should not do that. The whole house is going to fall down on you.

I do not know whether it will fall down on you in these hearings or not—I doubt it—because it takes time for it to get to the people, to know the facts, but what is going on in this country is absolutely wrong.

And I repeat what I said the first day of these hearings. If the Federal Reserve had been true to the people and the taxpayers, like they were during that 12-year period from 1939 to 1951, we would not have the national debt today.

And we would not be paying the second largest item in our budget, $11 billion every year for interest on the national debt, and, of course, that is tremendous.

I just suggest that you gentlemen, take another look at this thing. You are going too far in your advocacy. You want to do something that can absolutely veto everything that the President does. You have the power to veto what the Congress does, and the fact is that you have done it in the past on both the President and the Congress.

So I think something should be done to get you just a little bit under control in the people's interest.

Mr. HAYES. Mr. Chairman, could I ask your permission for our general counsel to say a word here?

The CHAIRMAN. Yes, sir; we would be glad to hear from him. We have to go pretty soon.

Mr. CLARKE. Yes, sir. I certainly will not detain you, sir.

I should like to say only, Mr. Chairman, that the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economics Report in 1951 and 1952 made what I regard as a very balanced survey of this whole situation and——

The CHAIRMAN. I know what you are going to read, something that I approved of in 1952. It has been read several times.

Mr. CLARKE. Yes, sir.

The CHAIRMAN. And remember this, that when you are dealing with a large number of men, your chairman and members of a committee, sometimes you have to give and take and sometimes you give more than you take.

I do not approve of all that is in that.

Mr. CLARKE. Well, sir, without going into the detail, since you recognized the reference so readily, I would merely say that it seems to me that the position of Mr. Hayes, as expressed here, does not appear to be entirely arbitrary.

The CHAIRMAN. It has been 12 years. There has been lots of experience during that time.

Mr. HAYES. Let me say this, too, Mr. Chairman, if I may. I tried to emphasize before that I think the System does pay a great deal of attention to what the administration and what the Government, the executive department, is doing and thinking and we have an admirably close working relationship with the Treasury, particularly, and with other parts of the Government.

So the idea that we are sitting off in an ivory tower, making our decisions without reference to what other people feel, I think is erroneous.

I would also point out this, that it was the writers of the Constitution who themselves gave the power over money, the coining of money and the regulation of the value thereof, to Congress, and I believe it was done because of the experience of many centuries that if it were given to the Executive there was always a temptation for abuse of that power.

I believe that that temptation still exists, and I believe its existence accounts for the appreciation throughout the world of the independence of a central bank within Government.

The CHAIRMAN. Well, Mr. Hayes, you overlook one thing. You know, the Constitution gives us the power over interstate commerce, too, but that does not mean that we will have exclusive power to handle interstate commerce.

We delegate it to the Interstate Commerce Commission, and you do not think we ought to have presidents of railroads on the Interstate Commerce Commission to fix the rates, do you, or to have broadcasters on the FCC to determine the rights and privileges of the radio and television industry?

That is what you are asking for and getting here.

You see, the people who are affected the most and who can profit from it the most are running the show. They are running the show. It is wrong. It is absolutely wrong.

Mr. HAYES. Well, Mr. Chairman, I would deny vigorously the idea that bankers, private bankers, are running the show.

Now they are doing anything but running the show. Their directors frankly recognize that they do not run the show.

The CHAIRMAN. When you have that Open Market Committee meeting down there that is really just an invisible government. The Congress does not know what is going on.

The President does not know what is going on. Seven public members of the Board of Governors are in there and 12 Presidents of Federal Reserve banks, who were selected by the private banks themselves, are in there, 12 to 7, making policy.

Now, I know that only 5 of those Presidents actually vote but 12 of them participate and you have up to 50 and 60 people in that room at a time. They go out and scatter all over the United States.

Do you think they do not indicate in some manner to their friends as to what is going to happen and how they can make a killing overnight?

I do not say that it has been done. I just say it is possible. And it is wrong just that it is possible.

Mr. VANIK. Will the Chairman yield?

Mr. WIDNALL. Will the gentleman yield?

The CHAIRMAN. I will yield to Mr. Vanik.

Mr. VANIK. We would not be so critical of these actions if we understood some rule or regulation that would guide the conduct of the Open Market Committee, the Board members and the Presidents when you are acting on these important decisions.

For example, if we knew that there was some established rule, and the Presidents of the banks, that if certain conditions would occur, the discount rate would rise or fall, we could understand that and then we could argue with the reasoning that supports the rule.

As it stands now, it is a completely arbitrary decision. Arbitrary because we do not have any guidepoints on which we can fix this course of action. In other words, if you were to have some rule-making body which said that if certain conditions happen in precisely such and such a way then "our decision will be to do thus and so," then we could study the wisdom and analyze the thinking behind the rulemaking on which you have established your actions. Then we would have an opportunity to know whether or not your guide-posts or decisions were in the public interest.

I think this is the area that we complain about. The arbitrary decisions that can be made without any review, without any conformity to rule or regulation.

Mr. HAYES. Mr. Vanik, let me answer this way. If there were some formula that enabled us to automatically meet circumstances and do the right thing it would greatly simplify our lives, and I would welcome it.

Unfortunately, the circumstances are always different. We never can tell what new lines of development are going to occur either in our own economy or our relations with the rest of the world that necessarily must affect our reaction, so that all we can do is keep as closely abreast of these developments as we possibly can and we spend a great deal of time on it.

We spend most of our lives trying to follow these developments and arriving at judgments. I assure you, it is a full-time job.

I do not say that we do a perfect job, but our decisions are anything but arbitrary. We only make these decisions after we have had long meetings reviewing all of the pertinent developments that we can think of in business and credit and everything else.

Mr. VANIK. Yes, but these are, in effect, legal administrative decisions that are made without reliance upon any precedent, which are made without any reliance upon any established action of Government.

You simply say, "Well, we will just change the discount rate."

Now, I do not know, but in all of the other agencies of Government there is a whole body of precedence that is built up. There is an internal regulation power which says that if certain facts are determined this is the course of action we will take.

In other words, the whole thing is set out so that if the criteria are met the action just follows as logically as the day follows the night, and I do not see any reason why that cannot be done here.

Mr. HAYES. Well, Mr. Vanik, I guess it was before you arrived, but I said that there were some basic objectives we recognized that we must follow.

We must do everything in our power to maximize employment production and purchasing power, which involves the price level and we must also do our part in defending the position of the dollar in the world which is a key element in the whole world financial structure, and these are very broad——

Mr. VANIK. Yes, but I take it to be your position that it is impossible to fix these things down to understandable guideposts?

Mr. HAYES. I have never seen a rulebook that fits the case. I would welcome it if there were such a thing.

Mr. VANIK. Well, maybe Congress ought to write a rulebook.

Mr. HAYES. We would be happy to think that Congress would.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Mr. Chairman, if I understood you a few moments ago, you spoke about the admirable way in which the Federal Reserve had operated during World War II and subsequently for about a period of 11 years, and operated very much in the public interest, and if they had continued to operate that way there would not be any national debt today.

The CHAIRMAN. That is right.

Mr. WIDNALL. Now, as I recall what took place during World War II and immediately thereafter, there was a great increase in the public debt. Now, how can the Federal Reserve operate admirably and increase the public debt and be commended by you during one period and then later on be criticized for operating in the same way?

The CHAIRMAN. Well, when the war was on the interest rates were very low. In fact, short-term rates have now been forced up by the Treasury—and, incidentally, Mr. Hayes, you said that the Treasury is trying to keep interest rates low.

You know that they have gone in with the Federal Reserve and boosted short-term rates to 3.5 percent. Instead of keeping them down they have been putting them up, and during the war the Federal Reserve handled all the short-term paper for one-eighth of 1 percent, never over three-eighths of 1 percent, and so the interest rates were extremely low and what got us out of a normal situation during the war was the fact that we did not pay enough in taxes, and some of the bank reserves we created.

If we had paid more in taxes it would have helped us on the inflation. It would have helped us on the national debt.

And I think that the national debt could have been handled if the Federal Reserve had worked in our interest instead of in the banker's interest, and I say that deliberately but respectfully, Mr. Hayes.

We would not have a national debt today. We could have amortized it over a short period of time at low interest rates.

Now, anything else?

Mr. VANIK. Mr. Chairman, just one other question.

Today I understand the bulletins of the Federal Reserve state that there is an abundance of capital.

Mr. HAYES. An abundance of savings?

Mr. VANIK. An abundance of savings and capital.

Mr. HAYES. Generally speaking, I think so; yes.

Mr. VANIK. I think that I saw in the bulletin for January that one of the problems that was arising was that this accumulation of capital was somehow creating a need for some possible interest rate increase.

Now, if this capital and credit is a commodity, and I consider it a commodity, what justification would there be to increase the cost when it is in an abundance?

Mr. HAYES. Well, I think——

Mr. VANIK. That violates the natural laws of economy, does it not, the law of supply and demand?

Mr. HAYES. I think we have to distinguish between savings and bank credit.

The flow of savings is very large and the mainstream of credit is fed by that flow of savings. It is a flow to Government and corporations and individuals and so on. That flow is larger, and it has been exercising a tendency to keep interest rates, particularly long-term interest rates, fairly stable. It is a downward influence to the extent that those savings are large.

Our influence is specifically directed to the creation of bank credit and the counterpart of bank credit, which is deposits which represent liquidity to nonbank parts of the economy.

That nonbank liquidity has been going up quite sharply in spite of all moderate moves we have made in the direction of less ease. Even last year the nonbank liquidity went up more than 8 percent on top of the same again in the prior year, which is much faster——

Mr. VANIK. And the facts——

Mr. HAYES (continuing). Than the gross national product.

Mr. VANIK. And the tax bill will give it another increase?

Mr. HAYES. It may, because the demands for credit may be stimulated quite considerably by the tax bill.

So that the question arises at some point whether too much liquidity is being put into the economy. I do not think it has so far.

I think we have hit about the right balance. These things are never an exact science. These are an art, and you can never be sure——

Mr. VANIK. I cannot understand the argument against developing as much liquidity as possible——

Mr. HAYES. It is a simple one. Too much liquidity is a sure invitation to inflation and price rises.

Fortunately, our prices have been extremely stable over the past 5 years and it has been of great benefit to the domestic economy. In fact, many of my foreign banking briends feel that stability in costs is the key to the problem, and I think it is of immense importance.

So that there is a fine line here between getting so much liquidity in that you stoke the fires of too much demand and too many price increases and keeping it in reasonable proportions.

Of course, you have to take into consideration the status of employment and production and everything else, unused resources and all the rest.

Mr. VANIK. I do not always agree that you have exhausted all of the remedies to control this before you resort to a rise in discount rates, which results in interest rises.

There are a lot of other things that you could do, are there not?

Mr. HAYES. Oh, I agree. Monetary policy is just one——

Mr. VANIK. What is the regulation which restricts——

Mr. HAYES. T. & U.

Mr. VANIK. That does not say anything about the over-the-counter market?

Mr. HAYES. No, sir.

Mr. VANIK. It seems to me that the regulations are very poorly drafted. It seemed to regulate credit for the better securities that we have in the security markets.

And it fails to reach the great area of speculation and investments over the counter and commodity investments.

Mr. HAYES. I think it is an area worth studying, I agree with you.

Mr. CLARKE. The regulations go as far as the legislation that authoriized them, I believe.

Mr. VANIK. I would like to have you elaborate on that, perhaps, and give us that in the record because if the regulation prohibits you from going any further I think we ought to give you legislative authority——

The CHAIRMAN. Mr. Hayes, again I want to thank you on behalf of the committee for your appearance and for the information that you have given us. We consider it valuable information. We will certainly give it careful consideration, and I personally want to thank you, too, for the fine cooperation you have given our committee, and I feel like you and the other banks and the Federal Reserve Board have cooperated fully, which we all appreciate. Thank you for your attendance. If we need you again we will call you, and if we do not need you we will not call you.

The committee stands in recess until tomorrow morning at 9:30.

(Whereupon, at 12:15 p.m., the committee recessed to reconvene at 9:30 a.m., Tuesday, February 4, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

TUESDAY, FEBRUARY 4, 1964

House of Representatives,
Subcommittee on Domestic Finance of the
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:35 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Pepper, Minish, Hanna, Kilburn, Widnall, Harvey, and Brock.

The Chairman. The committee will please come to order.

We have as our witnesses this morning the President of the Federal Reserve Bank of San Francisco, Mr. Eliot J. Swan, and the President of the Federal Reserve Bank of Minneapolis, Mr. Frederick L. Deming.

We welcome you gentlemen and we are glad to have you as witnesses.

We have heard so far from seven Presidents of Federal Reserve banks and in every case it has been obvious, from our own examination of the expenditures, that the Federal Reserve banks are making expenditures that would not be permitted to the Postmaster or other Government officials.

I am advised that in the case of your two banks we have numerous illustrative items reflecting expenditures on luncheons and dinners, education plans, travel expenses, public relations, and all of them exceed everything permitted the rest of us in Government.

Without reading it in detail I will merely insert the list in the record.

We are not trying to do your auditing for you but to learn the extent to which you have built up standard expenditures that vary considerably from the rest of the Government.

Without objection, we will insert the statements of you gentlemen in the record and also the material that we have gotten from the banks, including some of the expenditures of the banks and other information that we think is pertinent.

Mr. Swan is the first witness. Now, if you gentlemen will just summarize your statements, because we have furnished them to the members of the committee and the members of the committee have read the statements, and in that way we will get the benefit of the time and try to get through by 12 o'clock. Otherwise, we will have to meet after the session this afternoon.

So you may summarize your statement, Mr. Swan.

STATEMENT OF ELIOT J. SWAN, PRESIDENT, FEDERAL RESERVE BANK OF SAN FRANCISCO

Mr. SWAN. Mr. Chairman, my statement is very short.

The CHAIRMAN. Exercise your own judgment about it.

Mr. SWAN. I believe I could read it about as quickly as I could summarize it.

The CHAIRMAN. All right, sir.

Mr. SWAN. Mr. Chairman, and members of the committee, several bills have been introduced to modify the present structure and method of operation of the Federal Reserve System. It would be very misleading to examine these one by one in an isolated context, and I cannot express too strongly my hope that this committee will adopt the broad approach. It is the only one that can be fruitful.

What is the proper framework for examining the proposals? I submit that it is, What kind of central banking system does the United States really want, and do these proposed changes further this objective or hamper it?

I am sure that we all want a central banking system which will assure our Nation a smoothly functioning payments mechanism, provide a flexible supply of money and bank credit capable of accommodating the needs of economic growth while at the same time preventing inflation, and, finally, support the prestige and acceptability of the dollar throughout the world. The question, then, is, How can these objectives be best achieved?

Being aware, on the one hand, of the fatal attraction to government of temporary gains from the debasement of the currency, and, on the other, of the human distress in times of financial panic to which an inflexible monetary system had contributed prior to 1913, the Congress recognized that these objectives could best be achieved, in accordance with the basic philosophy of our form of government, by an ingenious system of checks and balances not unlike those found in our Constitution. Accordingly, the Federal Reserve System was designed so that it would work, in the public interest, closely with the banking and business community but not dominated by it, and closely with the Federal Government, but one step removed from the daily pressures of political forces.

No central bank, however, has the right to be obdurately opposed to its government. It can advise against bad fiscal policies and support sound ones. Moreover, it can try to educate the public on the importance of sound policies and on the consequences of unsound ones. But no central bank, in the final analysis, can or should block the government from a course of action which the government is firmly resolved to undertake notwithstanding advice to the contrary.

If a central bank is to be effective in carrying out the many delicate domestic and international responsibilities entrusted to it, what does it need in order to do the job? Obviously, the first thing it needs is public confidence in its integrity, its competence, and its objectivity. It must be the voice neither of an incumbent administration nor of private interests, but it must have trusted access to the views of both, and there must be respect for its views on the part of both. It must be recognized by both as being more concerned with the basic soundness of the Nation's economy than with short-range political or private objectives.

The two things I wish to emphasize are that the Federal Reserve not only must have a well-informed and objective point of view; perhaps even more important, it must be widely recognized as having such. Anything that raises persistent doubts in the mind of the public about this capability will impair the Federal Reserve's effectiveness.

It is in this light that the proposals to appoint the Secretary of the Treasury Chairman of the Board, to eliminate the Reserve bank presidents from the Open Market Committee, to retire the capital stock held by the member banks, to have the GAO audit the Federal Reserve, and to subject the Federal Reserve to congressional appropriations procedures, must be examined. Would they correct any real shortcoming of the Federal Reserve System and would they increase confidence in the System at home and abroad, or would they be regarded as an attempt to make the System highly responsive to short-run political pressures?

You have heard opinions from Board members and other Presidents of Reserve banks on these proposals, and I shall not offer my comments on all of them since the ground has largely been covered. However, I should like to comment specifically on the proposal to have the Federal Reserve banks audited by the GAO. In my opinion, there are three issues involved. First, are the Federal Reserve banks presently subjected to a close scrutiny of their expenses, and are they compelled to cease any expenditures or practices deemed inappropriate to the proper conduct of their responsibilities? Second, are the policy criteria established for judging the expenditures determined by men whose judgment is competent and whose integrity and prudence are unquestioned? Third, are the men who determine the policies accountable to any higher policymaking body which has authority to review their performance?

I hope that no one disputes that the Federal Reserve banks are closely supervised and audited, and are required to observe the criteria established by their boards of directors and by the Board of Governors. This, then, takes us to the second issue; namely, whether the judgment both of the boards of directors and of the Board of Governors as to what constitutes a proper expenditure is sound. But "sound" in relation to what? Obviously, "sound" in relation to the particular needs and responsibilities of a central bank, including the need for having close and direct relationships with many groups at the grassroots level. I am not aware of significant evidence that either the Board of Governors or the directors of the Reserve banks have permitted the banks to be extravagant. Finally, the Board and the Reserve banks certainly are accountable to a higher policymaking body, Congress, which in hearings such as these has full opportunity to review the activities of the System.

Audit by another agency would add another layer of supervision and cost. Moreover, it would inevitably lead to conflicts as to what types of activities ad outlays are necessary to achieve the objectives of monetary policy and to perform the operating duties of the central bank. The determination of expenditure policy, as these hearings have indicated, should not be a function of the GAO. In this connection, it is relevant to note that, in the case of Government agencies not having the degree of autonomy of the Federal Reserve System, GAO audits have reference points established by congressional action through the authorization and appropriations process to guide them. This is not the case with the Federal Reserve, nor should it be. A central bank, to be effective, must have a certain amount of independence and autonomy within the Government, and, by its very nature, this will involve occasional differences in the criteria by which certain expenditures will be judged.

Some of the expenditures and some of the differences in practices of the individual Federal Reserve banks mentioned in these hearings are a reflection of the fact that the System does in fact have a certain degree of independence in exercising its judgment. In our operations, there is a real advantage in permitting regional variations which reflect both differences in underlying circumstances and the fact that 12 Reserve banks are each trying continuously and competitively to develop more efficient and less costly operating procedures. But, even more important, they reflect the fact that the System is trying to keep in close touch with people at the grassroots level, so that it may be will informed on regional as well as national problems and, at the same time, effectively inform the public of the significance of a healthy dollar for a healthy economy.

As a consequence, it is most difficult to visualize the System being placed under GAO audit without the System's policy responsibilities being seriously threatened. In reaching this conclusion, I have no question whatever about the integrity and technical competence of the GAO. Thus, the proposal that the GAO audit the Federal Reserve System is very closely linked with the one to bring the Board and the banks under congressional appropriations procedures, because then Congress would establish the expenditures criteria the GAO would need. This, I believe, would undermine the independence of the Federal Reserve and its ability to formulate and execute monetary policy one step removed from the political arena. The prestige of the dollar and confidence in our monetary policy would suffer a dangerous blow.

Over the past 50 years, we have developed a central banking structure and a delicate but workable balance between independence and responsibility to the Government that are highly respected at home and abroad. This, in turn, has been a source of great strength for the dollar and for our economy as a whole. In the absence of demonstrable and significant deficiencies, we should not risk tampering with it. Thank you.

Statement of condition of the Federal Reserve Bank of San Francisco at the close of business Dec. 31, 1963

[Dollars in thousands]

Assets:	
Gold certificate account	$1,671,083
Redemption fund for Federal Reserve notes	153,644
Total gold certificate reserves	1,824,727
Federal Reserve notes of other banks	51,365
Other cash	29,760
Discounts and advances:	
Secured by U.S. Government securities	300
Other	4,256
Acceptances:	
Bought outright	
Held under repurchase agreement	
U.S. Government securities:	
Bought outright	4,382,229
Held under repurchase agreement	
Total loans and securities	4,386,785
Cash items in process of collection	779,502
Bank premises	10,176
Other assets:	
Denominated in foreign currencies	20,299
All other	32,065
Total assets	7,134,679
Liabilities:	
Federal Reserve notes	3,590,043
Deposits:	
Member bank reserves	2,649,411
U.S. Treasurer—General account	79,996
Foreign	21,280
Other	45,150
Total deposits	2,795,837
Deferred availability cash items	539,953
Other liabilities	10,367
Total liabilities	6,936,200
Capital accounts:	
Capital paid in	66,160
Surplus	132,319
Other capital accounts	
Total liabilities and capital accounts	7,134,679
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	28.6
Contingent liability on acceptances purchased for foreign correspondents	$12,223

Federal Reserve note statement of Federal Reserve Bank of San Francisco at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	$3,757,580
Less held by issuing bank, and forwarded for redemption	167,537
Federal Reserves notes, net [1]	3,590,043
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	750,000
Eligible paper	
U.S. Government securities	3,200,000
Total collateral	3,950,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of San Francisco—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	64	13	18	18			2	116
1916	21	133	68	50	1	8	36	317
1917	293	309	147	12	18	31	76	886
1918	2, 676	1, 098	135		96	20	163	4, 188
1919	3, 668	2, 870	238		66		179	7, 021
1920	8, 260	3, 891	323		130		104	12, 707
1921	7, 966	826	237		130		26	9, 184
1922	2, 127	712	1, 811		49		122	4, 821
1923	2, 786	1, 021	837		26		−54	4, 615
1924	1, 302	582	1, 477		25		102	3, 488
1925	1, 408	896	1, 447		23		75	3, 849
1926	1, 867	896	1, 586		29		176	4, 555
1927	1, 677	631	1, 396		29		121	3, 853
1928	2, 697	1, 175	808		17		61	4, 757
1929	3, 487	1, 376	486		18		99	5, 466
1930	558	754	1, 017		8		72	2, 409
1931	1, 092	472	973		74		108	2, 718
1932	3, 104	286	1, 642		159		97	5, 289

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of San Francisco—Current earnings

[In thousands of dollars]

Year	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		1, 152	133				2, 496	121	3, 902
1934		28	16	3	2		3, 087	87	3, 222
1935		7	3	45	40		3, 074	83	3, 252
1936		2	2	76	72		3, 028	40	3, 219
1937		9	2	76	54		3, 397	56	3, 594
1938		8		68	56		2, 841	42	3, 015
1939		6		52	55		3, 050	54	3, 217
1940		2		33	55		3, 495	52	3, 638
1941		1		13	46		3, 324	42	3, 425
1942		1		40	46		4, 747	14	4, 848
1943		1		112	28		6, 642	5	6, 788
1944		3		113	13		10, 078	5	10, 211
1945		78		15	6		14, 820	25	14, 943
1946		108			1		15, 473	44	15, 626
1947		141			2		15, 125	49	15, 316
1948	275				1		27, 239	59	27, 575
1949	194				1		27, 733	20	27, 947
1950	76				4		24, 838	10	24, 927
1951	1, 049			25	3		38, 167	12	39, 256

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of San Francisco—Current earnings

[In thousands of dollars]

Year	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	2, 244		2		40, 563		10	42, 818
1953	1, 481				50, 390		12	51, 883
1954	237				47, 450		5	47, 692
1955	795				43, 563		9	44, 367
1956	766				63, 480		17	64, 262
1957	1, 136				83, 062		16	84, 214
1958	218				83, 027		26	83, 270
1959	1, 292				97, 480		28	98, 800
1960	962				126, 162		58	127, 182
1961	90				111, 915		36	112, 041
1962	308				130, 809	473	33	131, 622

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of San Francisco—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$52, 358	$124, 161	$575, 435	$3, 154, 484	$5, 710, 106	$10, 406, 833
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						45, 964
Depreciation on U.S. bonds						
All other					28	417
Total additions					28	46, 381
Deductions from current net earnings:						
Bank premises—Depreciation			6, 000	238, 600	168, 625	121, 070
Furniture and equipment		12, 589	28, 142	45, 169	119, 671	205, 251
Reserve for probable losses						
Reserve for Federal Reserve Board expenses					33, 306	12, 658
Reserve for depreciation, U.S. bonds			85, 000			
All other		61	249	1, 551	1, 172	5, 412
Total deductions		12, 650	119, 391	285, 320	322, 774	344, 391
Net deductions from current net earnings		12, 650	119, 391	285, 320	322, 746	298, 010
Net earnings	−52, 358	111, 511	456, 044	2, 869, 164	5, 387, 360	10, 108, 823
Distribution of net earnings:						
Dividends paid		43, 736	394, 776	497, 675	296, 161	384, 713
Transferred to surplus account				2, 448, 174	5, 091, 199	6, 654, 855
Franchise tax paid U.S. Government						3, 069, 255
Balance to profit and loss	52, 358	67, 775	61, 268	76, 685		

	1921	1922	1923	1924	1925
Current net earnings	$5, 522, 480	$1, 814, 815	$1, 804, 400	$634, 547	$1, 167, 782
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds	78, 876	4, 395	1, 729		
All other	1, 497	1, 814	6, 775	536	821
Total additions	80, 373	6, 209	8, 504	536	821
Deductions from current net earnings:					
Bank premises—Depreciation	16, 462	36, 038	615, 921	127, 755	138, 390
Furniture and equipment	155, 081	36, 371	324, 282	197, 776	61, 572
Reserve for probable losses	500, 000	77, 958	325, 000		452, 801
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	10, 810	10, 301	42, 275	59, 036	25, 393
Total deductions	682, 353	160, 668	1, 307, 478	384, 567	678, 156
Net deductions from current net earnings	601, 980	154, 459	1, 298, 974	384, 031	677, 335
Net earnings	4, 920, 500	1, 660, 356	505, 426	250, 516	490, 447
Distribution of net earnings:					
Dividends paid	435, 361	448, 306	467, 720	480, 561	490, 447
Transferred to surplus account	1, 254, 824	[1] −185, 721	37, 706	[2] −230, 045	
Franchise tax paid U.S. Government	3, 230, 315	[1] 1, 397, 771			
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $306,926 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $121,205 and $1,090,845, respectively.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of San Francisco—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$1, 924, 432	$1, 108, 838	$2, 189, 555	$2, 746, 073	−$465. 288
Additions to current net earnings:					
Profit on U.S. Government securities sold					106, 378
Other additions	1, 950	1, 408	3, 362	2, 544	10, 695
Total additions	1, 950	1, 408	3, 362	2, 544	117, 073
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses	354, 291	52, 070	104, 090		
Reserve for self-insurance				500, 000	
Building for Board of Governors					
All other deductions	16, 092	2, 752	114, 569	42, 695	7, 474
Total deductions	370, 383	54, 822	218, 659	542, 695	7, 474
Net deductions from current net earnings	368, 433	53, 414	215, 297	540, 151	+109, 599
Net earnings	1, 555, 999	1, 055, 424	1, 974, 258	2, 205, 922	−355, 689
Dividends paid	506, 068	547, 062	625, 751	670, 085	682, 946
Franchise tax paid U.S. Government					
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	1, 049, 931	508, 362	1, 348, 507	1, 535, 837	[1] −1, 038, 635

	1931	1932	1933	1934	1935
Current net earnings	$156, 685	$2, 697, 691	$1, 018, 427	$580, 101	$349, 399
Additions to current net earnings:					
Profit on U.S. Government securities sold	114, 673	212, 767	72, 132	552, 730	432, 185
Other additions	25		28, 447	44, 697	71, 444
Total additions	114, 698	212, 767	100, 579	597, 427	503, 629
Deductions from current net earnings:					
Special depreciation allowances on bank premises			54, 592	100, 000	177, 568
Reserve for losses		101, 700	613, 726	433, 323	
Reserve for self-insurance		500, 000			
Building for Board of Governors					70, 121
All other deductions	18, 172	2, 648	21, 584	3, 632	1, 708
Total deductions	18, 172	604, 348	689, 902	536, 955	249, 397
Net deductions from current net earnings	+95, 526	391, 581	589, 323	+60, 472	+254, 232
Net earnings	253, 211	2, 306, 110	429, 104	640, 573	603, 631
Dividends paid	685, 070	648, 589	634, 633	643, 242	636, 866
Franchise tax paid U.S. Government			[2]		
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)				−2, 669	
Transferred to surplus (sec. 7)	[1] −431, 859	1, 657, 521	[1] −205, 529		[1] −33, 235

[1] Deficit in earnings after payment of dividends, charged to surplus account.

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of San Francisco—Profit and loss account, 1936–45—Continued

	1936	1937	1938	1939	1940
Current net earnings	$513, 288	$1, 022, 696	$477, 696	$750, 121	$1, 145, 315
Additions to current net earnings:					
Profits on sales of U.S. Government securities	503, 419	212, 015	718, 715	372, 768	985, 473
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	23, 514	45, 949	17, 865	31, 561	136, 898
Total additions	526, 933	257, 964	736, 580	404, 329	1, 122, 371
Deductions from current net earnings:					
Reserves for contingencies	73, 748				
Losses and reserves for losses on industrial advances (net)		54, 978	45, 418	34, 559	34, 880
Special reserves and chargeoffs on bank premises	18, 775			223, 866	
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system	197, 748	197, 748	395, 496		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	139, 134	100, 728			
All other	788	1, 573	577	2, 664	554
Total deductions	430, 193	355, 027	441, 491	261, 089	35, 434
Net additions or deductions (−)	96, 740	−97, 063	295, 089	143, 240	1, 086, 937
Net earnings	610, 028	925, 633	772, 785	893, 361	2, 232, 252
Paid U.S. Treasury (sec. 13b)					
Dividends paid	610, 028	607, 808	613, 068	634, 123	671, 782
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)		317, 825	159, 717	259, 238	1, 560, 470
Surplus (sec. 7) Jan. 1	9, 644, 799	9, 644, 799	9, 805, 134	9, 964, 851	10, 224, 089
Additions, as above		317, 825	159, 717	259, 238	1, 560, 470
Transferred to reserves for contingencies		−157, 490			−1, 000, 000
Surplus (sec. 7) Dec. 31	9, 644, 799	9, 805, 134	9, 964, 851	10, 224, 089	10, 784, 559

	1941	1942	1943	1944	1945
Current net earnings	$611, 948	$1, 126, 498	$2, 213, 219	$5, 019, 850	$10, 223, 448
Additions to current net earnings:					
Profits on sales of U.S. Government securities	111, 515	281, 767	3, 094, 713	300, 153	329, 973
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)	----------	----------	59, 606	23, 151	25
All other	4, 790	15	478	888	41, 233
Total additions	116, 305	281, 782	3, 154, 797	324, 192	371, 231
Deductions from current net earnings:					
Reserves for contingencies	----------	----------	----------	----------	461, 426
Losses and reserves for losses on industrial advances (net)	16, 024	52, 800	----------	----------	----------
Special reserves and chargeoffs on bank premises	----------	----------	----------	----------	----------
Chargeoffs and special depreciation on bank premises	----------	----------	593, 965	----------	----------
Prior service contributions to retirement system	----------	----------	----------	----------	----------
Retirement system (interest base adjustment)	----------	385, 241	----------	----------	----------
Retirement system (interest base and increased benefits adjustments)	----------	----------	876, 282	----------	----------
Assessment for building for Board of Governors	----------	----------	----------	----------	----------
All other	726	1, 280	1, 697	1, 050	70, 208
Total deductions	16, 750	439, 321	1, 471, 944	1, 050	531, 634
Net additions or deductions (−)	99, 555	−157, 539	1, 682, 853	323, 142	−160, 403
Net earnings	711, 503	968, 959	3, 896, 072	5, 342, 992	10, 063, 045
Paid U.S. Treasury (sec. 13b)	----------	----------	43, 135	43, 136	14, 915
Dividends paid	703, 764	716, 931	730, 663	795, 891	930, 955
Transferred to surplus (sec. 13b)	----------	----------	8, 125	13, 157	----------
Transferred to surplus (sec. 7)	7, 739	252, 028	3, 114, 149	4, 490, 808	9, 117, 175
Surplus (sec. 7) Jan. 1	10, 784, 559	10, 792, 298	11, 044, 326	14, 158, 474	15, 899, 282
Additions, as above	7, 739	252, 028	3, 114, 149	4, 490, 808	9, 117, 175
Transferred to reserves for contingencies	----------	----------	----------	−2, 750, 000	3, 907, 490
Surplus (sec. 7) Dec. 31	10, 792, 298	11, 044, 326	14, 158, 475	15, 899, 282	28, 923, 947

Federal Reserve Bank of San Francisco—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$10, 244, 270	$9, 321, 833	$21, 246, 518	$21, 036, 569	$17, 602, 341
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	181, 522	265, 440	605, 707	2, 993, 389	3, 441, 011
All other	101	288		328	
Total additions	181, 623	265, 728	604, 707	2, 993, 717	3, 441, 011
Deductions from current net earnings:					
Reserves for contingencies	45, 478	48, 868			43, 122
Retirement system (salary computation adjustment)	188, 832			255, 794	
Retirement system (adjustment for revised benefits)					
Losses on U.S. Government securities sold (net)					
All other	1, 350	2, 175	1, 769	3, 603	2, 604
Total deductions	235, 660	51, 043	1, 769	259, 397	45, 726
Net additions or deductions (−)	−54, 037	214, 685	602, 938	2, 734, 320	3, 395, 285
Net earnings before payments to U.S. Treasury	10, 190, 233	9, 536, 518	21, 849, 456	23, 770, 889	20, 997, 626
Transferred to reserves for contingencies			3, 725, 628	3, 602, 100	
Paid to U.S. Treasury (sec. 13b)		236			
Paid U.S. Treasury (interest on Federal Reserve notes)		7, 617, 468	15, 306, 512	17, 091, 926	17, 706, 280
Net earnings after reserves and payments to U.S. Treasury	10, 190, 233	1, 918, 814	2, 817, 316	3, 076, 863	3, 291, 346
Dividends paid	1, 010, 956	1, 072, 316	1, 116, 584	1, 177, 731	1, 323, 959
Transferred to surplus (sec. 13b)	−2, 468				
Transferred to surplus (sec. 7)	9, 181, 745	846, 498	1, 700, 732	1, 899, 132	1, 967, 387
Surplus (sec. 7) Jan. 1	28, 923, 947	38, 105, 692	38, 952, 190	40, 652, 922	42, 552, 054
Surplus (sec. 7) Dec. 31	38, 105, 692	38, 952, 190	40, 652, 922	42, 552, 054	44, 519, 441

	1951	1952	1953	1954	1955
Current net earnings	$29, 886, 771	$32, 634, 699	$40, 562, 115	$36, 856, 518	$33, 171, 292
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	-----	186, 346	184, 658	46, 035	-----
All other	4, 947	321	625	339	150
Total additions	4, 947	186, 667	185, 283	46, 374	150
Deductions from current net earnings:					
Reserves for contingencies	51, 259	58, 064	58, 377	43, 097	44, 457
Retirement system (salary computation adjustment)	-----	-----	-----	-----	-----
Retirement system (adjustment for revised benefits)	-----	-----	273, 223	-----	-----
Losses on U.S. Government securities sold (net)	144, 959	-----	-----	-----	[1] 14
All other	3, 543	2, 237	3, 103	7, 145	8, 186
Total deductions	199, 761	60, 301	334, 703	50, 242	52, 629
Net additions or deductions (−)	−194, 814	126, 366	−149, 420	−3, 868	−52, 479
Net earnings before payments to U.S. Treasury	29, 691, 957	32, 761, 065	40, 412, 695	36, 852, 650	33, 118, 813
Transferred to reserves for contingencies	-----	-----	-----	-----	-----
Paid to U.S. Treasury (sec. 13b)	-----	-----	-----	-----	-----
Paid to U.S. Treasury (interest on Federal Reserve notes)	25, 397, 880	21, 191, 857	33, 849, 577	30, 487, 823	26, 577, 270
Net earnings after reserves and payments to U.S. Treasury	4, 294, 077	11, 569, 208	6, 563, 118	6, 364, 827	6, 541, 543
Dividends paid	1, 471, 970	1, 585, 356	1, 706, 034	1, 823, 626	1, 990, 325
Transferred to surplus (sec. 13b)	-----	-----	-----	-----	-----
Transferred to surplus (sec. 7)	2, 822, 107	9, 983, 852	4, 857, 084	4, 541, 201	4, 551, 218
Surplus (sec. 7) Jan. 1	44, 519, 441	47, 341, 548	57, 325, 400	62, 182, 484	66, 723, 685
Surplus (sec. 7) Dec. 31	47, 341, 548	57, 325, 400	62, 182, 484	66, 723, 685	71, 274, 903

[1] Net recoveries.

Federal Reserve Bank of San Francisco—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$51, 192, 697	$70, 098, 262	$68, 957, 232	$83, 253, 486
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	27, 700	17, 747	16, 890	21, 216
Reimbursement for fiscal agency expenses incurred in prior years		132, 834		
Transferred from reserves for contingencies (net)				8, 706, 533
All other	10, 076	335	5, 297	802, 638
Total additions	37, 776	150, 917	22, 186	9, 530, 388
Deductions from current net earnings:				
Reserves for contingencies	38, 572	36, 112	30, 497	
Retirement system (adjustment for revised benefits)		662, 048		
All other	6, 711	17, 418	1, 311	592
Total deductions	45, 282	715, 578	31, 808	592
Net additions or deductions (—)	—7, 507	—564, 661	—9, 621	9, 529, 796
Net earnings before payments to U.S. Treasury	51, 185, 190	69, 533, 600	68, 947, 610	92, 783, 282
Paid U.S. Treasury (interest on Federal Reserve notes)	37, 788, 912	60, 447, 071	59, 832, 314	90, 406, 584
Dividends paid	2, 257, 825	2, 370, 195	2, 467, 275	2, 747, 120
Transferred to surplus (sec. 7)	11, 138, 453	6, 716, 334	6, 648, 022	—370, 423
Surplus (sec. 7) Jan. 1	71, 274, 903	82, 413, 356	89, 129, 690	95, 760, 623
Transferred from surplus (sec. 13b)			—17, 089	
Surplus (sec. 7) Dec. 31	82, 413, 356	89, 129, 690	95, 760, 623	95, 390, 200

	1960	1961	1962	1963
Current net earnings	$110,097,653	$94,200,748	$111,072,524	$127,476,138
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	282,740	413,354	254,516	39,629
Reimbursement for fiscal agency expenses incurred in prior years	---	---	---	---
Transferred from reserves for contingencies (net)	1,369,072	---	---	---
All other	5,763	440	52,269	69,229
Total additions	1,657,575	413,794	306,785	108,857
Deductions from current net earnings:				
Reserves for contingencies	---	---	---	---
Retirement system (adjustment for revised benefits)	---	---	---	---
All other	921	13,620	197,579	16,213
Total deductions	921	13,620	197,579	16,213
Net additions or deductions (−)	1,656,653	400,173	109,206	92,644
Net earnings before payments to U.S. Treasury	111,754,306	94,600,921	111,181,730	127,568,782
Paid U.S. Treasury (interest on Federal Reserve notes)	104,585,376	71,219,383	103,412,074	115,212,119
Dividends paid	2,926,231	3,301,738	3,673,856	3,846,063
Transferred to surplus (sec. 7)	4,242,700	20,079,800	4,095,800	8,510,600
Surplus (sec. 7) Jan. 1	95,390,200	99,632,900	119,712,700	123,808,500
Transferred from surplus (sec. 13b)	---	---	---	---
Surplus (sec. 7) Dec. 31	99,632,900	119,712,700	123,808,500	132,319,100

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FEDERAL RESERVE BANK OF SAN FRANCISCO, ANNUAL STATEMENT, 1963—JANUARY 6, 1964

To the Member Banks of the 12th Federal Reserve District.

DEAR SIRS: There is presented herewith a condensed comparative statement of condition of the Federal Reserve Bank of San Francisco, including branches, at the close of business December 31, 1963, and December 31, 1962, together with a comparison of earnings and expenses for 1963 and 1962.

Yours very truly,

ELIOT J. SWAN, *President.*

Comparative statement of condition

	Dec. 31, 1963	Dec. 31, 1962
ASSETS		
Gold certificates	$1, 671, 083, 511. 70	$1, 821, 936, 734. 75
Redemption fund for Federal Reserve notes	153, 643, 754. 57	138, 300, 079. 57
Total gold certificate reserves	1, 824, 727, 266. 27	1, 960, 236, 814. 32
Federal Reserve notes of other Federal Reserve banks	51, 364, 785. 00	56, 529, 870. 00
Other cash	29, 760, 058. 94	41, 684, 200. 93
Discounts and advances:		
Secured by U.S. Government obligations	300, 000. 00	0
Other discounts and advances	4, 256, 000. 00	135, 000. 00
Total discounts and advances	4, 556, 000. 00	135, 000. 00
U.S. Government securities:		
Bills	540, 426, 000. 00	320, 097, 000. 00
Certificates	922, 094, 000. 00	1, 727, 875, 000. 00
Notes	2, 313, 516, 000. 00	1, 404, 810, 000. 00
Bonds	606, 193, 000. 00	542, 242, 000. 00
Total U.S. Government securities	4, 382, 229, 000. 00	3, 995, 024, 000. 00
Total loans and securities	4, 386, 785, 000. 00	3, 995, 159, 000. 00
Cash items in process of collection	779, 501, 980. 79	920, 663, 858. 07
Bank premises	10, 176, 322. 41	10, 661, 018. 85
Other assets	52, 363, 491. 55	47, 116, 524. 30
Total assets	7, 134, 678, 904. 96	7, 032, 051, 286. 47
LIABILITIES		
Federal Reserve notes	3, 590, 043, 130. 00	3, 219, 145, 280. 00
Deposits:		
Member bank—Reserve accounts	2, 649, 410, 635. 40	2, 747, 615, 879. 66
U.S. Treasurer—General account	79, 995, 872. 81	87, 545, 721. 12
Foreign	21, 280, 000. 00	35, 100, 000. 00
Other deposits	45, 150, 628. 43	60, 323, 565. 38
Total deposits	2, 795, 837, 136. 64	2, 930, 585, 166. 16
Deferred availability cash items	539, 953, 183. 98	688, 092, 558. 95
Other liabilities	10, 366, 804. 34	8, 515, 531. 36
Total liabilities	6, 936, 200, 254. 96	6, 846, 338, 536. 47

Comparative statement of condition—Continued

	Dec. 31, 1963	Dec. 31, 1962
CAPITAL ACCOUNTS		
Capital paid in	$66, 159, 550. 00	$61, 904, 250. 00
Surplus	132, 319, 100. 00	123, 808, 500. 00
Total liabilities and capital accounts	7, 134, 678, 904. 96	7, 032, 051, 286. 47
Contingent liability on acceptances purchased for foreign correspondents	12, 222, 700. 00	11, 353, 500. 00

Earnings and expenses

	1963	1962
CURRENT EARNINGS		
Discounts and advances	$602, 553. 93	$307, 681. 56
U.S. Government securities	147, 949, 251. 54	130, 809, 139. 44
Foreign currencies	271, 769. 65	472, 821. 05
All other	33, 294. 15	32, 535. 73
Total current earnings	148, 856, 869. 27	131, 622, 177. 78
CURRENT EXPENSES		
Total current expenses	23, 427, 399. 82	22, 569, 056. 61
Less reimbursement for certain fiscal agency and other expenses	2, 046, 668. 41	2, 019, 402. 81
Net expenses	21, 380, 731. 41	20, 549, 653. 80
PROFIT AND LOSS		
Current net earnings	127, 476, 137. 86	111, 072, 523. 98
Additions to current net earnings:		
Profits on sales of U.S. Government securities (net)	39, 628. 50	254, 515. 73
All other	69, 228. 81	56, 446. 85
Total additions	108, 857. 31	310, 962. 58
Deductions from current net earnings	16, 213. 11	201, 756. 25
Net additions	92, 644. 20	109, 206. 33
Net earnings before payments to U.S. Treasury	127, 568, 782. 06	111, 181, 730. 31
Dividends paid	3, 846, 063. 12	3, 673, 855. 94
Paid U.S. Treasury (interest on Federal Reserve notes)	115, 212, 118. 94	103, 412, 074. 37
Transferred to surplus	8, 510, 600. 00	4, 095, 800. 00
Surplus, Jan. 1	123, 808, 500. 00	119, 712, 700. 00
Surplus, Dec. 31	132, 319, 100. 00	123, 808, 500. 00

DIRECTORS AND OFFICERS, DECEMBER 31, 1963

DIRECTORS

F. B. Whitman, San Francisco, Calif., Chairman and Federal Reserve agent.
John D. Fredericks, Los Angeles, Calif, deputy chairman.
Carroll F. Byrd, Willows, Calif.
Charles F. Frankland, Seattle, Wash.
Frederic S. Hirschler, San Francisco, Calif.
M. Vilas Hubbard, Pasadena, Calif.
Walter S. Johnson, San Francisco, Calif.
Fred H. Merrill, San Francisco, Calif.
Joseph Rosenblatt, Salt Lake City, Utah.

MEMBER OF FEDERAL ADVISORY COUNCIL

Elliott McAllister, San Francisco, Calif.

OFFICERS

Eliot J. Swan, President.
H. E. Hemmings, First Vice President.
J. L. Barbonchielli, Vice President.
E. R. Barglebaugh, Vice President, and manager of Seattle branch.
P. W. Cavan, Vice President.
D. M. Davenport, Vice President.
E. H. Galvin, Vice President.
David L. Grove, Vice President.
A. B. Merritt, Vice President.
A. L. Price, Vice President, and manager of Salt Lake City branch.
C. H. Watkins, Vice President, and manager of Los Angeles branch.
E. J. Martens, cashier.
Rix Maurer, Jr., Assistant Vice President.
T. W. Barrett, assistant cashier.
E. E. Bernstein, assistant cashier.
W. G. DeVries, assistant cashier.
E. E. Livingston, assistant cashier.
R. G. Retallick, assistant cashier.
E. A. Wells, assistant cashier.
J. B. Williams, assistant cashier.
G. D. Hartlin, general auditor.
R. E. McKendry, assistant general auditor.
Walter F. Scott, general counsel.
William L. Cooper, assistant general counsel.
Gault W. Lynn, director of research.
William M. Burke, senior economist.
James F. Ahlf, chief examiner.
C. H. Whitworth, administrative assistant.

LOS ANGELES BRANCH

Directors:

- Robert J. Cannon, chairman.
- Ralph V. Arnold.
- Roy A. Britt.
- S. Alfred Halgren.
- Douglas Shively.

Officers:

- C. H. Watkins, vice president, and manager.
- D. M. Davenport, vice president.
- W. E. Carter, assistant manager.
- M. A. Jones, assistant manager.
- G. R. Kelly, assistant manager.
- G. D. Parker, assistant manager.
- J. R. Robinson, assistant manager.

PORTLAND BRANCH

Directors:

Raymond R. Reter, chairman.
D. S. Baker.
Graham J. Barbey.
E. M. Flohr.
C. B. Stephenson.

Officers:

W. M. Brown, assistant vice president.
F. K. Grimm, assistant manager.
F. R. Skinner, assistant manager.

SALT LAKE CITY BRANCH

Directors:

Thomas B. Rowland, chairman.
Alan B. Blood.
Oscar Hiller.
Reed E. Holt.
Howard W. Price.

Officers:

A. L. Price, vice president, and manager.
T. M. Simmons, assistant vice president.
R. C. Dunn, assistant manager.
A. G. Holman, assistant manager.

SEATTLE BRANCH

Directors:

Henry N. Anderson, chairman.
Joshua Green, Jr.
M. F. Hastings.
Robert D. O'Brien.
Chas. H. Parks.

Officers:

E. R. Barglebaugh, vice president, and manager.
W. R. Sandstrom, assistant vice president.
R. P. Glascock, assistant manager.
A. C. Laiti, assistant manager.

Federal Reserve Bank of San Francisco—Breakdown of office space by functions

[Square feet]

Function	San Francisco		Los Angeles branch		Portland branch bank	Salt Lake City branch		Seattle branch bank
	Head office	Service building	Bank	944 South Grand Ave.		Bank	Boise Records Storage Center (leased space)	
100 General overhead	6,634		2,278		2,328	3,797		2,645
200 Provision of space	1,914		1,867		990	112		250
300 Personnel	17,008	170	11,883		3,132	6,551		5,512
400 Furniture and equipment	755		2,426		120			195
500 General service	20,763	43,166	14,062	8,748	13,136	10,825		14,889
700 Discount and credit	1,196		475		120	385		280
800 Securities	350		511		255	238		88
900 Currency and coin	13,944		29,560		7,095	9,597		16,831
1000 Check collection	16,964		25,254		8,876	10,218		12,558
1100 Noncash collection	902		1,082		140	608		560
1200 Accounting	2,234		5,218		2,926	1,266		1,937
1210 Planning	401		43		50			
1300 Emergency planning	150		67		35		398	130
1400 Legal	3,125							
1500 Auditing	2,365	140	1,616		1,078	1,489		1,050
1600 Bank examination	5,500					689		
1700 Federal reserve note issues	185		158		680	2,694		55
1800 Research, public information, and bank relations	10,447		631		61			432

1900 Securities exchange	----------	----------	----------	----------	----------	----------	----------	----------
2000 Foreign	----------	----------	----------	----------	----------	----------	----------	----------
3000 Fiscal agency	12, 345	----------	10, 640	----------	2, 508	3, 247	----------	4, 485
Subtotal	117, 182	43, 476	107, 771	8, 748	43, 530	51, 716	[1] 398	61, 897
Area occupied by tenants	1, 450	5, 080	0	0	15, 650	338	0	17, 183
Vacant area	8, 308	650	0	0	900	5, 835	0	0
Usable or rentable space in building (line 19, Form FR 611)	126, 940	49, 206	107, 771	8, 748	60, 080	57, 889	[1] 398	79, 080

[1] Not included in FR 611, bank premises report.

The CHAIRMAN. Thank you, sir. Mr. Deming, you may proceed with your comments.

STATEMENT OF FREDERICK L. DEMING, PRESIDENT, FEDERAL RESERVE BANK OF MINNEAPOLIS

Mr. Chairman and members of the committee, it is a pleasure to appear before you this morning. I want to thank you for your invitation and for the opportunity to join with you in your examination of the Federal Reserve System. I hope that what I have to say about the proposals contained in H.R. 9631, H.R. 9685, and H.R. 3783 will be of some small help to you in your deliberations.

I have been associated with the Federal Reserve System for almost 23 years, first as an economist with the Federal Reserve Bank of St. Louis, then, successively, as director of research and First Vice President there, and, since April 1957, as President of the Federal Reserve Bank of Minneapolis. Twenty-three years is a long time, long enough, it seems to me, so that I can claim a familiarity with the Federal Reserve as a working institution. I believe that the Federal Reserve System, as presently organized, is an effective instrument of national economic policy.

I do not contend that the Federal Reserve System, although fashioned by intelligent, dedicated men, is perfect. But then neither am I sure that "perfect" is a word which can be meaningfully applied to institutions. The question is not whether a particular institution is perfect, organized in the best possible way. This is something no one can answer. But whether a particular institution works well enough, whether it discharges its responsibilities adequately, this is something that can be determined. And for the Federal Reserve System, the answer must, I think, be that it has and does.

Nor would I claim that all decisions made by the Federal Reserve System have been perfect. Certainly reasonable men can differ about whether monetary policy of the last few years, the postwar years, or the 50 years since 1913 has always been the most desirable and effective. But, again, this is not the question at issue here. What is being considered here is whether a differently organized or structured Federal Reserve System would have turned out, or will turn out, a better monetary policy. It is this that I very much doubt. If monetary policy has at times been inappropriate, it is not, I submit, because of faulty organization or structure.

I want to address myself first to certain major aspects of the institutional character of the Federal Reserve System. When the System was created 50 years ago it was a new kind of central banking institution, particularly adapted to the American political and economic scene and reflecting the American genius to meet a need in a pragmatic way without being overly concerned about what I might call "organization chart logic." The Federal Reserve System was designed to be a Federal system—a unique blend of centralized and regional functions and responsibilities. It was designed to carry out a clearly public purpose but was organized so as to draw strength from the private sector—a unique blend of public and private. And it was designed so as to be shielded from day-to-day political pressures but made responsible to the legislative branch of Government through what Chairman Martin has aptly called a "trust indenture."

It seems to me that two striking facts stand out when one studies the history of the Federal Reserve Sysem. First, it is not a static, unchanging institution and it never has been. It has been changed by amendments to the Federal Reserve Act and by other statutes, some of these changes being of major proportion and some of minor scope. Within the framework of the laws it also has evolved over the years, changing as its environment has changed, and it will undoubtedly change further as the years go by. These evolutionary changes have been both with respect to structure and to central banking techniques.

Second, despite all of the changes, both statutory and evolutionary, the basic original concepts of federalism or regionality, of the blend of public and private, and of the desirability of insulation from politics have been preserved. And I might comment that this reflects the American genius for making institutions work. Changes are sought for practical reasons—usually when history has demonstrated a need for them but sometimes it may be clearly seen that future developments will call for them. Changes are not made just to tidy up the organization chart.

In my judgment the reasons underlying the concepts of federalism, of drawing strength from the private sector for a public institution, of shielding the central bank from politics, are as valid today as they were in 1913. Therefore, I shall speak in opposition to most of the proposed legislation contained in the bills I referred to earlier.

A REGIONAL FEDERAL RESERVE SYSTEM

It is fashionable to say nowadays that regionalism is less strong in the United States than it was in 1913, that this is particularly true of money and credit, and that monetary policy must be national in concept and formulation. I agree in part with these points but not with the often asserted conclusion that the regional nature of the System is outmoded.

As every Member of the Congress knows full well, the United States is composed of regions which have at least as many differences as similarities in conditions and problems. The Ninth Federal Reserve District with its wide areas, its relatively small but very vigorous population, its heavy dependence on farming, lumbering and mining, its hundreds of small banks, and its many other distinctive characteristics, simply is not the same, nor has it the same problems in degree or kind as the other areas of the United States. Rapid transportation and communication, greater mobility of people and the rise of nonresource based activity may have made it less isolated but have not greatly lessened its individuality.

I do not state these points from a narrow sectional attitude. I note them to underline the fact that national developments reflect the sum (or sometimes the remainder) of regional developments and that national averages can conceal wide regional variations. Therefore, in my judgment, it is important to recognize that regional variations exist and to take them into consideration in formulating national policies so that such national policies can serve most fully the purposes for which they are designed and thus the true national interest. This, I believe, is federalism in its best form.

I should like to comment now on those proposals contained in H.R. 9631, which, if enacted, would, in my judgment, effectively destroy the regional character of the System. It is proposed in H.R. 9631 that the Federal Open Market Committee be abolished and responsibility for the conduct of monetary policy, and in particular open market operations, be transferred to a newly constituted Federal Reserve Board. It is proposed, in other words, that Reserve bank Presidents be relegated to advisory roles. Now, being a Reserve bank President, I cannot address myself to these proposals—and more specifically, oppose them—without running the risk of appearing to be serving my own narrow interests and of being immodest as well. Naturally, I should like to avoid appearing so, but the regional character of the Federal Reserve System is, in my view, so important, so worthy of being preserved, that I must risk appearing selfish and immodest. I personally do not believe that my opposition to the proposals of H.R. 9631 is narrowly motivated. I hope you will believe me in this.

May I begin by pointing out—although I am sure you are aware—that Reserve bank Presidents, as members of the Federal Open Market Committee, take the standard oath of office for public servants, swearing without reservation to support and defend the Constitution of the United States. Thus, bank Presidents are by virtue of the oath they take public servants. So it matters little, at least insofar as the conduct of monetary policy is concerned, how they are elected.

The proposals of H.R. 9631 to which I address myself here would, as I have said, effectively destroy the regional character of the Federal Reserve System. They would, in effect, take from bank Presidents their voice in monetary policy deliberations, and in so doing would make the continuing regionalism of the System without meaning. To be sure, Reserve bank Presidents would still be available as advisers to the newly constituted Federal Reserve Board. But an adviser is not the same as a participating member of the Federal Open Market Committee—either in the Committee room or back in the district.

My point is simply this: Reserve bank Presidents, by virtue of the positions they occupy and the talents they bring to their tasks, can and do make significant contributions to the economic welfare of the conutry; but they will be able to continue effectively doing so only if they remain as they are, voting participants in monetary policy deliberations.

Reserve bank Presidents, spending most of their time in their districts, are able, collectively, to bring to monetary policy deliberations a thorough knowledge of what is going on around the country. They are able to bring a detailed knowledge of regional economic developments. This is extremely important, for as I noted earlier and as you well know, aggregate economic statistics do not always tell the whole story, and information about regional developments is not so abundant that we can afford to dispense with firsthand impressions. Reserve bank Presidents also are able to bring to monetary policy deliberations a knowledge of what I call grassroots thinking, what all manner of individuals are thinking about current economic problems. In the course of their working days, bank Presidents talk, not just as is sometimes supposed with commercial bankers, but with business and labor leaders generally—and, I might add, with a good many less auspiciously placed individuals. And in so doing they get a feel for what is worrying people around the country, and for how they view current economic problems and policies; they get a feel, in short, that is extremely valuable in deliberations about monetary policy.

Reserve bank Presidents also serve as educators. Participating as they do in all manner of discussions, formal and informal, in their districts, they are able to explain System policies and in so doing gain increased acceptance for what has got to be done. Bank Presidents are, then, in a very real sense two-way communication links between their districts and Washington.

As indicated before, it can be argued that as consultants or advisers Reserve bank Presidents could still perform as they do currently. Perhaps. But less well, I think. You simply cannot lessen their role in monetary policy decisions—and this is what the proposals of H.R. 9631 would do—without making them less effective in their jobs.

One final point should be noted here. The Presidents have brought, via their staff briefings, a variety of well-informed, indeed expert, opinions about monetary policy to System deliberations. In part they have been able to do this because they have been able—as individuals and as participants in the monetary policy process—to attract capable staffs of economic experts, staffs which nicely complement the Board's very able staff. Again however, you cannot lessen the role of Reserve bank Presidents and still expect to attract the same caliber of men as you are currently getting, nor expect that bank Presidents will be able to gather around them men of the quality as those who currently serve.

To sum up, I can only say that I believe a regional Federal Reserve System—guided not only by Governors but by bank Presidents as well—is a stronger System than a centralized System would be. And I say this fully aware of the dedication and knowledge which members of the Board of Governors bring to their assignments. It is just that every organization needs all the talent it can get. There is strength in diversity of opinion, or the potential for such. And there is strength in a thorough knowledge of what is going on and being thought "back home."

PUBLIC AND PRIVATE BLEND

I turn now to the second aspect of the System's institutional character—the unique blending of public and private strengths. Specifically, I shall comment on H.R. 3783 in which it is proposed to retire Federal Reserve bank stock, but I want to range a bit more widely in my general remarks.

Part of the strength of the Federal Reserve banks is derived from the fact that they are structured in an understandable, a conventional, manner with capital, with balance sheets, with boards of directors, and so on. More of their strength comes from the clearly discernible interest and cooperation of the member banks, which reflects their holdings of Federal Reserve bank stock and their participation in the selection of directors of the banks. Still more of their strength comes from the intelligent, informed and interested, and I might say almost dedicated, attention given their assignments by these same directors.

From my point of view it would be a mistake to change the institutional characteristics of the System in an attempt to create a different "image" when the present "image" is both comprehensible and acceptable and when the institution seems to be working well.

Much has been made of the fact that the member banks elect six directors and that the Board of Governors appoints only three for each Reserve bank. From my personal observation of the directors at two Reserve banks, Minneapolis and St. Louis, I would say that all directors regard their positions as public trusts and take their oaths of office with that point of view. None conceives of himself as representing a special group, but as bringing to the bank experienced management counsel and particular knowledge of economic developments in his special geographic area or his special fields of competence. They take their positions seriously, they bring their management experience to bear on Reserve bank operations, which is one reason we operate efficiently and economically, and they provide a considerable body of economic intelligence. In point of fact, we at Minneapolis use the alumni from our bank and branch boards as one regular source of economic information. The alumni do not, of course, participate in the regular work of the board of directors nor are they consulted on credit policy matters that properly are the province of current directors. But as a source of information on current and prospective developments they are used extensively. As Chairman Martin has observed many times, the directors of the banks and branches constitute a network of experience and intelligence that cannot be duplicated anywhere else in the world.

Against this background let me comment specifically on the proposal to retire the Federal Reserve bank stock. Perhaps I should say at once that I recognize that ownership of Federal Reserve stock does not carrry with it the ordinary rights of stockholders. I think the member banks thoroughly understand this point; I, at least, have never heard a member banker assert that he had such rights by virtue of the stockownership. I might say further that I recognize that the Federal Reserve banks do not need capital stock to operate. And, finally, I realize that retirement of the stock probably would produce some additional income for the Government since there would be no dividend payments to make on the stock.

After considering all of these points I conclude that there is no pressing reason to retire Federal Reserve stock and that such a move might result in real disadvantage. There is no real question as to the fact of public control of the System. The presence of the stock, and of the surplus, does not operate to inhibit the necessary actions of the central bank. And finally the out-of-pocket cost of member bank stockholdings in the Reserve banks is not great and probably is worth its cost.

Various assumptions and methods of estimate may be employed to come to a figure on net Treasury gain in receipts if all present Federal Reserve bank stock were retired. My own estimate is that the figure is in the vicinity of $8 million. While this sum is far from insignificant—it is somewhat larger than the total annual expenses of the Federal Reserve Bank of Minneapolis—it seems to me to be well spent. It certainly is no deterrent to membership in the System; indeed in a way it helps to reduce the inequities between reserve requirements of member and nonmember banks.

I think that the elimination of the stock might well be regarded as a change far more radical in its implications than simple arithmetic might make it seem. We presently do have good cooperation between member banks and the Federal Reserve banks. And since in this country both monetary policy and bank supervision depend for their effectiveness, at least in part, on cooperation, this works to benefit society as a whole. The System, I believe, enjoys a reputation for good work; its "image" is a good one. Why should we jeopardize these things for what would seem to be relatively little gain in revenue to the Treasury.

INSULATION FROM POLITICS

I come now to the third aspect of the System's structure that I regard as important, one which also has been preserved through the years—its separation from day-to-day political pressures. My comments here are partly general, but also run specifically to part of H.R. 9631 and to H.R. 9685.

As I see it, the framers of the Federal Reserve Act and subsequent Congresses deliberately built into the System an insulation from the day-to-day hurly-burly of politics. I believe they did this partly because they read the record of history which indicates the wisdom of shielding the money power from the sovereign's untrammeled use. But they did this also in order that monetary and credit policy could be formulated and implemented flexibly in response to changing conditions. One of the great virtues of monetary policy is that it can move quickly; the Congress recognized that legislative action on monetary policy normally could not be taken with necessary speed. Therefore, it used, as noted earlier, a form of "trust indenture" in delegating to the System certain of the money powers the Congress constitutionally holds.

The Congress certainly did not expect the System to be so independent as to destroy the unity of Government, and the System has never regarded itself as independent in that sense. I think it obvious that in a democracy monetary policy cannot be made in disregard of the opinion of a government elected by the people. The System has reported regularly to the Congress, has welcomed investigative studies such as this one, and has tried to pull its weight as a part of Government, as a public institution with considerable responsibilities.

In providing this insulation, the Congress has written into the statutes various safeguards. Among them it established long terms for members of the Board of Governors. Among them it gave the Board power to control its own budgets and those of the Reserve banks and to examine and supervise the banks. It did not make the System subject to appropriations and after 1933 excluded the Board of Governors from audit by the General Accounting Office. The Reserve banks have never been audited by the Comptroller General; the Board has always carried this responsibility.

The proposal in H.R. 9631 would provide for audit by the General Accounting Office; the proposal in H.R. 9685 would provide for covering most System income into the Treasury and for appropriations to meet Federal Reserve bank expenses not covered elsewhere.

I oppose the appropriations proposal on two primary grounds: one, it would weaken the insulating features to which I referred earlier;

and two, it would more likely than not reduce Federal Reserve bank efficiency in operations.

My reasoning on the second point is as follows: Presently the Reserve banks are efficiently operating institutions with considerable consciousness of costs and with sufficient flexibility in revenues so as to provide no incentives to overbudget in order to have funds to meet unforeseen increases in necessary expenditures. Appropriations financing, in contrast, by the very nature of the process tends to have built-in rigidities which on the one hand almost require budgeting for contingencies and on the other may lead to at least temporary curtailment of necessary activity in case the contingency funds are inadequate to meet developing but unforeseen needs.

The Reserve banks operate in their local communities under conditions which make them competitive, but no more than necessarily so, with other enterprises for employees. Their budgeting processes are tightly controlled. There is no incentive to spend up to budgeted amounts; the incentive, on the contrary, is to watch costs and produce savings. The Reserve banks compete among each other to produce lower costs and improve efficiency. The record indicates that they have done so in general. For example, the Minneapolis bank today has 6 percent fewer employees than it had 3 years ago despite a continuing rise in the volume of work done. As another, more concrete, example, the cost of the withheld tax operation at Minneapolis is today less than 1 cent per receipt greater than in 1957. Postage costs alone have risen more than the total per receipt cost increase; clerical salaries in the Twin Cities have increased almost 20 percent in that period.

I also oppose the audit proposal on two grounds: one, it too would weaken the insulating features noted above; and two, it is unnecessary and duplicative and therefore would be unduly expensive.

I do not believe it necessary to state in detail the reasoning underlying the above points. Chairman Martin has already outlined to you present Reserve bank and System audit procedure. The Board has the responsibility for such audit and examination of the Reserve banks as it needs to carry out its supervisory responsibility, and it exercises that responsibility thoroughly and completely. The Congress deliberately removed the Board itself from General Accounting Office audit some 30 years ago.

CONCLUDING COMMENT

I am just a little older than the Federal Reserve System and I have spent almost half of my life in it. I have worked in research, in operations, in credit policy, and in management. I have seen the System change to meet changing conditions, through evolution and through change in law. I believe it is better fitted for its job today than it was when it was created. But its creators were wise men who saw that this institution could derive basic and enduring strength from its Federal structure, from its ability to draw upon the private sector to aid its public purpose, and from its insulation from political pressures. I hope sincerely that the System will not suffer loss of that strength.

Statement of condition of the Federal Reserve Bank of Minneapolis at the close of business Dec. 31, 1963

[Dollar amounts in thousands]

Assets:	
Gold certificate account	$282,320
Redemption fund for Federal Reserve notes	29,060
Total gold certificate reserves	311,380
Federal Reserve notes of other banks	40,875
Other cash	6,742
Discounts and advances:	
Secured by U.S. Government securities	300
Other	736
Acceptances:	
Bought outright	----------
Held under repurchase agreement	----------
U.S. Government securities:	
Bought outright	649,489
Held under repurchase agreement	----------
Total loans and securities	650,525
Cash items in process of collection	211,296
Bank premises	3,942
Other assets:	
Denominated in foreign currencies	3,510
All other	4,769
Total assets	1,233,039
Liabilities:	
Federal Reserve notes	592,151
Deposits:	
Member bank reserves	403,596
U.S. Treasurer—General account	45,899
Foreign	3,680
Other	1,572
Total deposits	454,747
Deferred availability cash items	149,474
Other liabilities	2,116
Total liabilities	1,198,488
Capital accounts:	
Capital paid in	11,517
Surplus	23,034
Other capital accounts	----------
Total liabilities and capital accounts	1,233,039
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	29.7
Contingent liability on acceptances purchased for foreign correspondents	$2,114

Federal Reserve note statement of Federal Reserve Bank of Minneapolis at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	618, 022
Less held by issuing bank, and forwarded for redemption	25, 871
Federal Reserve notes, net [1]	592, 151
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	120, 000
Eligible paper	-------
U.S. Government securities	500, 000
Total collateral	620, 000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

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Federal Reserve Bank of Minneapolis—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earning
1914 to 1915	52	5	19	21			3	100
1916	61	50	69	34		17	24	255
1917	311	149	98	4	4	51	55	673
1918	1, 548	212	116		29	28	117	2, 050
1919	1, 829	883	214		26		55	3, 007
1920	4, 734	192	182		93		107	5, 307
1921	4, 650		142		157		17	4, 966
1922	1, 452		384	1	128		5	1, 969
1923	1, 089	31	521		92		16	1, 749
1924	578	84	848		40		58	1, 609
1925	231	441	677		17		72	1, 438
1926	310	406	723		16		167	1, 622
1927	192	360	708		13		117	1, 390
1928	491	610	512		8		90	1, 710
1929	1, 048	310	389		12		167	1, 926
1930	172	229	747		8		79	1, 235
1931	169	133	598		8		30	937
1932	419	65	921		17		13	1, 435

Federal Reserve Bank of Minneapolis—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		222	38				1, 180	58	1, 498
1934		16	3	16			1, 347	33	1, 415
1935		1	1	116	1		1, 292	45	1, 456
1936		1	1	79	1		1, 266	15	1, 362
1937		5		43	1		1, 292	9	1, 350
1938		3		53	2		1, 019	25	1, 100
1939		2		50	1		1, 070	12	1, 135
1940		3		15	1		1, 237	10	1, 266
1941		3		21			1, 191	8	1, 223
1942		1		21			1, 448	8	1, 478
1943		1		6			1, 978	12	1, 995
1944		19		4			2, 666	5	2, 693
1945		55					3, 597	5	3, 657
1946		88					4, 084	7	4, 179
1947		96					4, 507	10	4, 613
1948	89						9, 149	9	9, 246
1949	68						10, 105	5	10, 179
1950	81			9			8, 441	6	8, 537
1951	190			8			12, 258	8	12, 465

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	287	6			14,003		5	14,301
1953	547	6			14,309		8	14,869
1954	145	5			10,680		5	10,835
1955	841	4			9,669		12	10,526
1956	1,010	3			13,087		14	14,113
1957	1,228	2			15,972		14	17,217
1958	159	1			15,530		10	15,700
1959	1,106				19,182		28	20,316
1960	1,134				24,972		21	26,127
1961	52				21,648		11	21,711
1962	53				21,999	81	12	22,145

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Minneapolis—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$32, 341	$139, 956	$462, 616	$1, 616, 023	$2, 474, 476	$4, 393, 000
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						16, 607
Depreciation on U.S. bonds						
All other						
Total additions						16, 607
Deductions from current net earnings:						
Bank premises—depreciation					100, 000	177, 737
Furniture and equipment		5, 353	44, 464	59, 977	23, 926	100, 817
Reserve for probable losses						
Reserve for Federal Reserve Board expenses					16, 607	
Reserve for depreciation, U.S. bonds			15, 000			
All other			8, 799	10, 199		
Total deductions		5, 353	68, 263	70, 176	140, 533	278, 554
Net deductions from current net earnings		5, 353	68, 263	70, 176	140, 533	261, 947
Net earnings	−32, 341	134, 603	394, 353	1, 545, 847	2, 333, 943	4, 131, 053
Distribution of net earnings:						
Dividends paid		57, 720	363, 895	168, 103	180, 186	195, 871
Transferred to surplus account			37, 500	1, 377, 744	2, 153, 757	3, 410, 948
Franchise tax paid U.S. Government			37, 500			524, 234
Balance to profit and loss	−32, 341	76, 883	−44, 542			

	1921	1922	1923	1924	1925
Current net earnings	$3,693,812	$884,306	$667,116	$543,903	$340,512
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Depreciation on U.S. bonds				143,469	
All other	17,264	41,231	8,327	27,101	39,367
Total additions	17,264	41,231	8,327	170,570	39,367
Deductions from current net earnings:					
Bank premises—depreciation	5,275	14,913	40,405	310,862	126,411
Furniture and equipment	53,368	24,640	23,328	48,938	10,347
Reserve for probable losses	500,000		200,000		
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds		78,058	53,856		
All other	1,279	25,231	32,399	25,571	8,167
Total deductions	559,922	142,842	349,988	385,371	144,925
Net deductions from current net earnings	542,658	101,611	341,661	214,801	105,558
Net earnings	3,151,154	782,695	325,455	329,102	234,954
Distribution of net earnings:					
Dividends paid	211,657	213,774	212,733	202,828	193,560
Transferred to surplus account	488,530	[1] 4,469	11,272	12,628	4,139
Franchise tax paid U.S. Government	2,450,967	[1] 564,452	101,450	113,646	37,255
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $52,423 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $56,892 and $512,029, respectively.

Federal Reserve Bank of Minneapolis—Profit and loss account, 1926–35—Continued

	1926	1927	1928	1929	1930
Current net earnings	$438, 873	$258, 519	$585, 822	$787, 307	$151, 685
Additions to current net earnings:					
Profit on U.S. Government securities sold					68, 139
Other additions	79, 773	48, 509	331, 879	22, 137	225, 067
Total additions	79, 773	48, 509	331, 879	22, 137	293, 206
Deductions from current net earnings:					
Special depreciation allowances on bank premises	67, 439	(1)			
Reserve for losses					
Reserve for self-insurance			250, 000		250, 000
Building for Board of Governors					
All other deductions	3, 174	10, 951	52, 997	14, 682	1, 302
Total deductions	70, 613	10, 951	302, 997	14, 682	251, 302
Net deductions from current net earnings	+9, 160	+37, 558	+28, 882	+7, 455	+41, 904
Net earnings	448, 033	296, 077	614, 704	794, 762	193, 589
Dividends paid	187, 609	180, 726	181, 203	184, 030	184, 445
Franchise tax paid U.S. Government	234, 381	103, 816	390, 151	549, 659	8, 230
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	26, 043	11, 535	43, 350	61, 073	914

	1931	1932	1933	1934	1935
Current net earnings	−$85, 336	$406, 069	$273, 657	$109, 069	$118, 815
Additions to current net earnings:					
Profit on U.S. Government securities sold	138, 045	83, 439	26, 308	192, 914	148, 210
Other additions	4, 666	814	19, 953	91, 670	43, 190
Total additions	142, 711	84, 253	46, 261	284, 584	191, 400
Deductions from current net earnings:					
Special depreciation allowances on bank premises					20, 000
Reserve for losses		200, 000		207, 025	
Reserve for self-insurance		15, 380	234, 590		
Building for Board of Governors					24, 403
All other deductions	11, 570	2, 604	3, 243	10, 343	334, 991
Total deductions	11, 570	217, 984	237, 833	217, 368	379, 394
Net deductions from current net earnings	+131, 141	133, 731	191, 572	+67, 216	187, 994
Net earnings	45, 805	272, 338	82, 085	176, 285	−69, 179
Dividends paid	180, 455	175, 495	171, 569	181, 117	185, 448
Franchise tax paid U.S. Government		87, 159	(2)		
Paid U.S. Treasurer (sec. 13b)					16, 854
Transferred to surplus (sec. 13b)				−4, 832	
Transferred to surplus (sec. 7)	[3]−134, 650	9, 684	[3]−89, 484		[4]−271, 481

[1] $500,000 charged directly to surplus to reduce book value of banking house at Minneapolis to approximate market value.

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

[3] Deficit in earnings after payment of dividends, charged to surplus account.

[4] Deficit in earnings after payment of dividends and payment to U.S. Treasurer (sec. 13b), charged to surplus account.

Federal Reserve Bank of Minneapolis—Profit and loss account, 1936–45—Continued

	1936	1937	1938	1939	1940
Current net earnings	$218, 829	$297, 499	$88, 549	$159, 861	$280, 569
Additions to current net earnings:					
Profits on sales of U.S. Government securities	689, 110	82, 119	281, 351	139, 648	363, 421
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	106, 871	85, 478	203, 930	7, 579	53, 782
Total additions	795, 981	167, 597	485, 281	147, 227	417, 203
Deductions from current net earnings:					
Reserves for contingencies	689, 110				
Losses and reserves for losses on industrial advances (net)		15, 000	25, 000	33, 000	499
Special reserves and chargeoffs on bank premises	17, 481		9, 163	100, 000	
Chargeoffs and special depreciation on bank premises		41, 837			3, 021
Prior service contributions to retirement system	83, 040	83, 040	166, 088		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	47, 516	33, 088			
All other	14, 224	723	281	655	
Total deductions	851, 371	173, 688	200, 532	133, 655	3, 520
Net additions or deductions (−)	−55, 390	−6, 091	284, 749	13, 572	413, 683
Net earnings	163, 439	291, 408	373, 298	173, 433	694, 252
Paid U.S. Treasury (sec. 13b)	16, 460		1, 005		
Dividends paid	179, 052	174, 057	174, 231	174, 905	177, 401
Transferred to surplus (sec. 13b)		−1, 751		−479	−385
Transferred to surplus (sec. 7)	−32, 073	119, 102	198, 062	−993	517, 236
Surplus (sec. 7) Jan. 1	3, 148, 503	3, 116, 430	3, 153, 414	3, 153, 414	3, 152, 420
Additions, as above	−32, 073	119, 102	198, 062	−993	517, 236
Transferred to reserves for contingencies		−82, 118	−198, 062		−517, 236
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	3, 116, 430	3, 153, 414	3, 153, 414	3, 152, 421	3, 152, 420

	1941	1942	1943	1944	1945
Current net earnings	$147, 808	$311, 974	$733, 449	$1, 387, 516	$2, 311, 764
Additions to current net earnings:					
Profits on sales of U.S. Government securities	40, 889	102, 716	1, 083, 198	99, 777	95, 519
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)			−4, 773	88, 800	
All other	17, 230	2, 285	4, 337	3, 642	6, 798
Total additions	58, 119	105, 001	1, 082, 762	192, 219	102, 317
Deductions from current net earnings:					
Reserves for contingencies					
Losses and reserves for losses on industrial advances (net)	4, 854	11, 824			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		151, 741			
Retirement system (interest base and increased benefits adjustments)			331, 041		
Assessment for building for Board of Governors					
All other	2, 809	1, 668	879	405	413
Total deductions	7, 663	165, 233	331, 920	405	413
Net additions or deductions (−)	50, 456	−60, 232	750, 842	191, 814	101, 904
Net earnings	198, 264	251, 742	1, 484, 291	1, 579, 330	2, 413, 668
Paid U.S. Treasury (sec. 13b)	490	3	148	20, 155	
Dividends paid	179, 790	183, 336	190, 924	206, 159	221, 686
Transferred to surplus (sec. 13b)			2	72, 320	
Transferred to surplus (sec. 7)	17, 984	68, 403	1, 293, 217	1, 280, 696	2, 191, 982
Surplus (sec. 7) Jan. 1	3, 152, 420	3, 152, 420	3, 220, 823	3, 669, 041	4, 949, 737
Additions, as above	17, 984	68, 403	1, 293, 217	1, 280, 696	2, 191, 982
Transferred to reserves for contingencies	−17, 984		−845, 000		
Transferred from reserves for contingencies					1, 727, 781
Surplus (sec. 7) Dec. 31	3, 152, 420	3, 220, 823	3, 669, 040	4, 949, 737	8, 869, 500

Federal Reserve Bank of Minneapolis—Profit and loss account, 1946–55—Continued

	1946	1947	1948	1949	1950
Current net earnings	$2, 424, 822	$2, 550, 010	$6, 940, 328	$7, 697, 921	$5, 934, 457
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	51, 048	74, 733	179, 381	912, 889	1, 113, 176
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	500				
All other	841	783	828	32	116
Total additions	52, 389	75, 516	180, 209	912, 921	1, 113, 292
Deductions from current net earnings:					
Reserves for contingencies	10, 171	11, 289			11, 596
Chargeoffs on bank premises	27, 314				
Retirement system (salary computation adjustment)	72, 807				
Retirement system (adjustment for revised benefits)				84, 292	
Losses on U.S. Government securities sold (net)					
All other	1, 089	594	344	358	518
Total deductions	111, 381	11, 883	344	84, 650	12, 114
Net additions or deductions (−)	−58, 992	63, 633	179, 865	828, 271	1, 101, 178
Net earnings before payments to U.S. Treasury	2, 365, 830	2, 613, 643	7, 120, 193	8, 526, 192	7, 035, 635
Transferred to reserves for contingencies			1, 210, 753	1, 288, 565	
Paid to U.S. Treasury (sec. 13b)		500			
Paid U.S. Treasury (interest on Federal Reserve notes)		2, 124, 282	5, 081, 916	6, 268, 253	6, 067, 408
Net earnings after reserves and payments to U.S. Treasury	2, 365, 830	488, 861	827, 524	969, 374	968, 227
Dividends paid	238, 372	253, 251	262, 776	272, 831	294, 034
Transferred to surplus (sec. 7)	2, 127, 458	235, 610	564, 748	696, 543	674, 193
Surplus (sec. 7) Jan. 1	8, 869, 500	10, 996, 958	11, 232, 568	11, 797, 316	12, 493, 859
Surplus (sec. 7) Dec. 31	10, 996, 958	11, 232, 568	11, 797, 316	12, 493, 859	13, 168, 052

	1951	1952	1953	1954	1955
Current net earnings	$9, 326, 854	$11, 009, 282	$11, 264, 633	$7, 346, 674	$7, 007, 514
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	-----	62, 431	61, 029	14, 804	-----
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)	-----	-----	-----	-----	-----
All other	71	4	72	3, 431	86, 471
Total additions	71	62, 435	61, 101	18, 235	86, 471
Deductions from current net earnings:					
Reserves for contingencies	14, 131	14, 267	13, 690	13, 429	11, 536
Chargeoffs on bank premises	-----	-----	-----	-----	-----
Retirement system (salary computation adjustment)	-----	-----	-----	-----	-----
Retirement system (adjustment for revised benefits)	-----	-----	71, 052	-----	-----
Losses on U.S. Government securities sold (net)	51, 867	-----	-----	-----	39
All other	1, 270	43, 835	12, 375	402	1, 971
Total deductions	67, 268	58, 102	97, 117	13, 831	13, 546
Net additions or deductions (—)	—67, 197	4, 333	—36, 016	4, 404	72, 925
Net earnings before payments to U.S. Treasury	9, 259, 657	11, 013, 615	11, 228, 617	7, 351, 078	7, 080, 439
Transferred to reserves for contingencies	-----	-----	-----	-----	-----
Paid to U.S. Treasury (sec. 13b)	-----	-----	-----	-----	-----
Paid U.S. Treasury (interest on F.R. notes)	8, 050, 167	9, 617, 021	9, 791, 772	6, 287, 237	6, 013, 073
Net earnings after reserves and payments to U.S. Treasury	1, 209, 490	1, 396, 594	1, 436, 845	1, 063, 841	1, 067, 366
Dividends paid	314, 934	327, 905	348, 774	365, 163	399, 257
Transferred to surplus (sec. 7)	894, 556	1, 068, 689	1, 088, 071	698, 678	668, 109
Surplus (sec. 7) Jan. 1	13, 168, 052	14, 062, 608	15, 131, 297	16, 219, 368	16, 918, 046
Surplus (sec. 7) Dec. 31	14, 062, 608	15, 131, 297	16, 219, 368	16, 918, 046	17, 586, 155

Federal Reserve Bank of Minneapolis—Profit and loss account, 1956–63—Continued

	1956	1957	1958	1959
Current net earnings	$9, 766, 691	$12, 412, 759	$10, 720, 932	$14, 905, 666
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	7, 371	4, 302	3, 949	4, 325
Reimbursement for fiscal agency expenses incurred in prior years		54, 077		
Transferred from reserves for contingencies (net)				3, 964, 289
All other	377	2, 421	401	1, 071
Total additions	7, 748	60, 800	4, 350	3, 969, 685
Deductions from current net earnings:				
Reserves for contingencies	11, 458	11, 108	11, 816	
Retirement system (adjustment for revised benefits)		259, 276		
All other	438	1, 351	1, 230	1, 420
Total deductions	11, 896	271, 735	13, 046	1, 420
Net additions or deductions (−)	−4, 148	−210, 935	−8, 696	3, 968, 264
Net earnings before payments to U.S. Treasury	9, 762, 543	12, 201, 823	10, 712, 236	18, 873, 930
Paid U.S. Treasury (interest on Federal Reserve notes)	8, 406, 449	10, 587, 139	9, 212, 206	21, 560, 985
Dividends paid	422, 045	438, 340	476, 455	518, 245
Transferred to surplus (sec. 7)	934, 049	1, 176, 345	1, 023, 576	−3, 205, 300
Surplus (sec. 7) Jan. 1	17, 586, 155	18, 520, 204	19, 696, 549	20, 785, 000
Transferred from surplus (sec. 13b)			64, 874	
Surplus (sec. 7) Dec. 31	18, 520, 204	19, 696, 549	20, 785, 000	17, 579, 700

	1960	1961	1962	1963
Current net earnings	$20, 345, 695	$15, 915, 350	$15, 647, 439	$16, 301, 167
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	55, 983	80, 994	41, 395	7, 257
Reimbursement for fiscal agency expenses incurred in prior years	----	----	----	----
Transferred from reserves for contingencies (net)	294, 453	----	----	----
All other	2, 498	175	20, 958	24, 595
Total additions	352, 933	81, 169	62, 353	31, 852
Deductions from current net earnings:				
Reserves for contingencies	----	----	----	----
Retirement System (adjustment for revised benefits)	----	----	----	----
All other	10, 590	1, 921	34, 417	2, 101
Total deductions	10, 590	1, 921	34, 417	2, 101
Net additions or deductions (−)	342, 344	79, 248	27, 936	29, 751
Net earnings before payments to U.S. Treasury	20, 688, 039	15, 994, 598	15, 675, 375	16, 330, 918
Paid U.S. Treasury (interest on Federal Reserve notes)	18, 891, 558	14, 005, 314	13, 564, 350	14, 332, 545
Dividends paid	550, 681	582, 284	634, 325	673, 472
Transferred to surplus (sec. 7)	1, 245, 800	1, 407, 000	1, 476, 700	1, 324, 900
Surplus (sec. 7) Jan. 1	17, 579, 700	18, 825, 500	20, 232, 500	21, 709, 200
Transferred from surplus (sec. 13b)	----	----	----	----
Surplus (sec. 7) Dec. 31	18, 825, 500	20, 232, 500	21, 709, 200	23, 034, 100

Minneapolis—Rentable or usable space

	Number of square feet	Percent of total
Accounting	5, 239	3. 1
Auditing	1, 969	1. 2
Bank examination	4, 356	2. 6
Check collection	16, 976	10. 0
Currency and coin	11, 946	7. 0
Discount and credit	890	. 5
Emergency operations (includes fallout shelter)	6, 381	3. 8
Federal Reserve note issues	785	. 5
Fiscal agency (includes Commodity Credit Corporation, food stamp program, V-loan program, postal money orders, postmasters' deposits, currency verification, Federal taxes, Government checks, Government coupons, public debt, Treasurer's general account, etc.)	18, 531	10. 9
Foreign	----------	--------
Furniture and equipment	1, 311	. 8
General overhead (includes officers' space except fiscal agency, research and public services, and personnel)	14, 324	8. 4
General service (includes automobile and armored car, duplicating, mail and express, office boys and pages, old records, protection and vault maintenance, purchasing and stockroom, telephone and telegraph)	22, 645	13. 3
Legal	639	. 4
Noncash collections	1, 386	. 8
Planning (includes data processing area)	4, 232	2. 5
Personnel (includes cafeteria, 5,190 square feet)	10, 441	6. 1
Provision of space	1, 467	. 9
Purchase and sale of securities	400	. 2
Research, public information and bank relations	13, 429	7. 9
Safekeeping of securities	2, 397	1. 4
Securities exchange	----------	--------
Services rendered others	----------	--------
Stock of supplies (stock inventory space)	6, 503	3. 8
Reserved for Board examiners	2, 803	1. 6
Lounges	4, 604	2. 7
Assembly room	3, 825	2. 2
Rented to FDIC	3, 600	2. 1
Rented to national bank examiners	2, 475	1. 5
Unassigned space	6, 431	3. 8
Total	169, 985	--------

Mr. Deming. Mr. Chairman, if I may, I would like to read about one page of this and then summarize the rest of this long statement. I am quite happy to be before the subcommittee this morning.

The Chairman. All right.

Mr. Deming. I want to address myself first to certain major aspects of the institutional character of the Federal Reserve System. When the System was created 50 years ago it was a new kind of central banking institution, particularly adapted to the American political and economic scene and reflecting the American genius to meet a need in a pragmatic way without being overly concerned about what I might call organization chart logic. The Federal Reserve System was designed to be a Federal system—a unique blend of centralized and regional functions and responsibilities. It was designed to carry out a clearly public purpose but was organized so as to draw strength from the private sector—a unique blend of public and private. And it was designed so as to be shielded from day-to-day political pressures but made responsible to the legislative branch of the Government through what Chairman Martin has aptly called a "trust indenture."

It seems to me that two striking facts stand out when one studies the history of the Federal Reserve System. First, it is not a static, unchanging institution and it never has been. It has been changed by amendments to the Federal Reserve Act and by other statutes, some of these changes being of major proportion and some of minor scope. Within the framework of the laws it also has evolved over the years, changing as its environment has changed, and it will undoubtedly change further as the years go by. These evolutionary changes have been both with respect to structure and to central banking techniques.

Second, despite all of the changes, both statutory and evolutionary, the basic original concepts of federalism or regionality, of the blend of public and private, and of the desirability of insulation from politics have been preserved. And I might comment that this reflects the American genius for making institutions work. Changes are sought for practical reasons—usually when history has demonstrated a need for them but sometimes it may be clearly seen that future developments will call for them. Changes are not made just to tidy up the organization chart.

In my judgment the reasons underlying the concepts of federalism, of drawing strength from the private sector for a public institution, of shielding the central bank from politics, are as valid today as they were in 1913.

The rest of the statement, Mr. Chairman, goes on to discuss the character of regionalism in the Federal Reserve System, the blending of the public and private features of the Federal Reserve System and the question of the once removed status of the System from the day-to-day hurly-burly of politics, and I do not see any reason to do any more than to note that at this time.

The CHAIRMAN. Thank you, sir.

Mr. Swan, I have your statements here from 1914 up to 1962 about how the bank has obtained its earnings, and I noticed here for the first 14 or 15 years, from the time the bank was organized until 1930, including 1930, you received more in discounted bills and purchased bills than you received from U.S. securities.

After that, of course, the discounted bills went way down and also the purchased bills, and now you get nearly all of your income from interest on U.S. Government securities.

That is approximately correct, is it not?

Mr. SWAN. Yes, sir.

The CHAIRMAN. Now, in your statement of 1914, 1915, 1916, 1917, and 1918, there is a column known as "Net Service Charges Received."

One year it was $8,000—that was 1916; $31,000 in 1917; $20,000 in 1918.

From whom were these service charges obtained?

Mr. SWAN. Well——

The CHAIRMAN. Were they obtained from the banks for special services or——

Mr. SWAN. I am sorry, Mr. Chairman, but I would have to look that up.

The CHAIRMAN. Well, will you get it up and let me know, please?

Mr. SWAN. These are net service charges?

The CHAIRMAN. Yes, sir. I will put this in the record so that you will have it there.

(The information to be supplied is as follows:)

Beginning July 15, 1916, the Federal Reserve Bank of San Francisco assessed charges of 2 cents per item for checks and drafts received from member banks for collection, in accordance with Federal Reserve Board's Circular No. 1, series of 1916, dated May 1, 1916. This rate continued until October 15, 1917, when it was reduced to 1½ cents. The latter rate, with modifications on the basis of determining volume, continued until July 1, 1918, when the service charge was abrogated entirely, at the request of the Board of Governors. Net service charges received were $8,000 in 1916, $31,000 in 1917, and $20,000 in 1918.

The CHAIRMAN. Now, you recognize that at present nearly all of your earnings come from the interest on U.S. Government securities. That is correct, is it not?

Mr. SWAN. Yes, sir.

The CHAIRMAN. About 99 percent? In 1962, for instance, you only had $308,000 in discounted bills. That is at the discount window I guess you would call it, and you got $130 million from interest on Government securities.

During the year 1962 the San Francisco bank had expenses of $20 million and it only earned, in discounts and advances, $308,000. The rest of it you received from the Open Market Committee, did you not?

Mr. SWAN. They were earnings on our holdings of securities, yes.

The CHAIRMAN. Your holdings? Well, all of these bonds were in the Federal Reserve Bank of New York. You had nothing to do with their purchase, did you?

Mr. SWAN. No.

The CHAIRMAN. You never did see them?

Mr. SWAN. No.

The CHAIRMAN. You have never seen a bond that they had?

Mr. SWAN. No.

The CHAIRMAN. They buy them, they sell them, and they keep them, and they clip the coupons and they allocate to each bank the amount it should have?

Mr. SWAN. They buy them pursuant to the——

The CHAIRMAN. How do they do that? What formula do they use?

Mr. SWAN. These are allocated among the Reserve banks. I do not know the exact formula.

The CHAIRMAN. You do not know the exact formula?

Do you know it, Mr. Deming?

Mr. DEMING. These are allocated basically in proportion to the assets of the different banks.

The CHAIRMAN. But you do not know the exact formula that is used?

Mr. DEMING. No, sir.

The CHAIRMAN. Neither one of you know that?

All right. Now, Mr. Swan, you, of course, are President of the Federal Reserve Banks of San Francisco, where they lost $7.5 million.

Do you have any new clues as to where that might be?

Mr. SWAN. No, sir, Mr. Chairman. Our opinion is unchanged except as strengthened by the passage of time, that those securities were inadvertently destroyed.

The CHAIRMAN. Inadvertently destroyed? Well, that is a record, I am sure, you are not very proud of, Mr. Swan, that you would lose $7.5 million just inadvertently.

Mr. SWAN. I am sorry that it happened, of course.

The CHAIRMAN. Yes, and at one time we had some criticism, I think, of your bank about the destruction of currency, did we not?

Mr. SWAN. Not to my knowledge, Mr. Chairman.

The CHAIRMAN. But you do destroy currency in incinerators?

Mr. SWAN. Yes, sir.

The CHAIRMAN. What type of currency do you destroy that becomes unusable? Do you destroy U.S. notes, for instance?

Mr. SWAN. Silver certificates and U.S. notes.

The CHAIRMAN. And silver certificates?

Mr. SWAN. Yes, sir.

The CHAIRMAN. You do not destroy any Federal Reserve notes?

Mr. SWAN. No, sir.

The CHAIRMAN. They are destroyed by the Treasury?

Mr. SWAN. Yes, sir.

The CHAIRMAN. And who actually does the destroying, like in the incinerator this morning? Who is in charge of that squad that does that work?

Mr. SWAN. Well, those are destroyed by the people who are assigned to this work under supervision and under check by our audit department.

The CHAIRMAN. And how many people are there?

Mr. SWAN. I am not sure of the exact number, but there are at least two destructors and——

The CHAIRMAN. Who do they work for?

Mr. SWAN. This is carried out through our fiscal department.

The CHAIRMAN. In other words, they work for the Federal Reserve Bank of San Francisco?

Mr. SWAN. Yes, sir.

The CHAIRMAN. They are not civil service employees?

Mr. SWAN. No, sir.

The CHAIRMAN. Although your people could be put under civil service but they are not under civil service?

Mr. SWAN. No, sir.

The CHAIRMAN. You know, at Pittsburgh, Pa., one morning they had an awful wind up there, and the wind got in the incinerator some way and blew out bills all over Pittsburgh, Pa.

You heard about that?

Mr. SWAN. Yes, sir.

The CHAIRMAN. And people picked up 5's and 10's and 20's and got them redeemed and that caused quite a bit of talk at the time, and it was discovered that the method used to destroy this currency, I thought, was a rather loose method and careless.

I hope you have adopted better methods since that time.

Mr. SWAN. Oh, I am sure we have every safeguard that we can reasonably utilize in this connection.

The CHAIRMAN. Now, I notice that your expenses are rather unusual, especially in view of the fact that the money that you do not spend really goes into the Treasury, does it not.

Mr. SWAN. Yes, sir.

The CHAIRMAN. That is correct, is it not?

Mr. SWAN. Yes, sir.

The CHAIRMAN. And I notice here that you spend a lot of money for things like Christmas luncheons and athletic activities and social recreational activities running into $1,000, $1,800, and $1,400, and the American Institute of Banking and the annual dinner of the group, and the training and education programs.

How much do you spend for education each year or training and education?

Mr. SWAN. Well——

The CHAIRMAN. Approximately.

Mr. SWAN. Just a second, Mr. Chairman.

The CHAIRMAN. Well, I will not ask you to do that if it will take too much time.

Now, I notice that you are paying $2,637 for financing the San Francisco chapter of the American Institute of Banking for the year ending May 31, 1963.

I cannot understand why you would be financing an American Institute of Banking chapter and the American Banking Association. Why should you pay dues to the American Banking Association?

Mr. SWAN. Well, we believe that our expenditure to the American Institute of Banking is a reasonable one in light of the educational opportunities that it affords to our employees.

The CHAIRMAN. Mr. Swan, I cannot understand that reasoning. You are spending money for everything in the world here, none of it authorized by law, and if another Government agency such as, say, the Postmaster or the Secretary of Defense or the Secretary of the Treasury were to spend money like this they would put him in jail. They would not allow it at all.

Now, this money is public money. It is not appropriated by Congress. Congress has never seen it. But it is definitely public money—it comes from the taxpayers, as interest on your share of the national debt, and whatever you do not use goes back to the Treasury. So there is no question about the fact that you are using public funds for these things. And yet your expenses are recorded, in some of these categories, in such a way that you can hardly find them. Your auditors did not even report them to the Board of Governors. You claim it is a fair audit and yet the auditors do not report these items at all.

We had an awful time getting them. We not only got your audit but we called for the working papers and we could not find these things in there and we finally had to send representatives to the bank to find them. It was completely hidden and the Federal Reserve Board never had seen it.

Congress had never seen it and nobody has seen it, except maybe your own board of directors because it was just there in your records only——

Mr. SWAN. May I say something?

The CHAIRMAN. Yes, sir. How do you explain that?

Mr. SWAN. First of all, may I say that if we did not feel that we received a commensurate benefit in terms of a better staff we would not spend this money for the American Institute of Banking.

The CHAIRMAN. A better staff?

Mr. SWAN. A better prepared staff.

The CHAIRMAN. Well, let's see what you are doing——

Mr. SWAN. Well, may I finish?

The CHAIRMAN. Yes, sir.

Mr. SWAN. Secondly, with respect to your second point, those expenditures were hidden in no sense whatever. They were made within the general directive of the Board of Governors in this regard, and I assure you——

The CHAIRMAN. No, no; just a minute. The Board of Governors did not see these.

Mr. SWAN. Not specifically but——

The CHAIRMAN. No, you have to admit that now.

Mr. SWAN. May I please say one more thing?

The CHAIRMAN. Yes.

Mr. SWAN. I simply say they were within the general framework. Had we, for instance, in our contributions——

The CHAIRMAN. No, in amounts only, probably.

Mr. SWAN. But had we exceeded the permissible formula in our contribution to the American Institute of Banking I am sure our own auditors and the Board examiners would have picked this up and reported it.

The CHAIRMAN. Exceeded your audit? In other words, everything the board of directors said was legal you considered was legal?

Mr. SWAN. We had a general formula——

The CHAIRMAN. Yes, and that board of directors tossed——

Mr. SWAN. No, I believe this formula I am talking about now is established by the Board of Governors of the Federal Reserve System.

The CHAIRMAN. It is established by the board of directors? Would you put that formula in the record, please?

Mr. SWAN. All right. I will see if I can get it.

(The data referred to is as follows:)

No. 9092. Banking schools, attendance by Federal Reserve bank employees.

[November 30, 1954, S–1552, section of board to presidents of all Federal Reserve banks.]

This letter supersedes the Board's letter S–1488 dated February 26. 1953, (FRLS No. 9092), relating to the support of AIB activities by the Federal Reserve System, and eliminates a number of the restrictive provisions of that letter.

The Board of Governors is in agreement with the policy followed by the Federal Reserve banks of encouraging their employees to participate in AIB activities and study courses, and of providing leadership in other ways to further sound banking methods and the development of efficient bank personnel. Reserve bank officers make a substantial contribution toward the accomplishment of these objectives by showing a cooperative attitude toward AIB activities in their contacts with department managers, supervisors, and assistants; by granting whatever time is necessary for employees to perform duties assigned to a chapter appointment; by accepting assignments as class instructors where possible; and by attending the annual banquets of the local chapters.

While the Federal Reserve bank officers and empolyees enrolling in AIB courses would normally assume the expense of membership dues, tuition fees, and cost of textbooks, the banks are free to utilize whatever means seem desirable for advancing such moneys to those who need assistance. The extent to which the Reserve banks refund tuition fees and the cost of textbooks, as an incentive and reward for scholastic effort, to employees who successfully complete their courses is a matter within the discretion of the banks.

The selection of delegates to the national AIB convention, and the granting of leave with pay and payment of traveling expenses of such delegates, also rests in the discretion of the Federal Reserve bank. It is felt, however, that the Reserve bank's contribution to the expenses of a delegate should be limited to the difference between the bank's normal allowance and any amount that may be allowed by the AIB chapter.

As a further incentive to employee participation, Federal Reserve banks are free to pay all or a portion of the cost of tickets to the chapter banquets for employees who are members of the local AIB chapters.

It is appropriate for the Federal Reserve banks to contribute to the support of the local AIB chapters in some reasonable relation to the percentage of eligible employees at the bank or branch to the total number of employees in the banking community. Generally speaking, in determining the number of eligible employees, guards, elevator operators, janitors, and other building help should not be included.

Source: Federal Reserve Looseleaf Service.

The CHAIRMAN. Yes, I wish you would, but I cannot understand why, when you get this money from the Government and you have no audits of any kind, have not had for 50 years, you are spending money for education and retraining.

I guess you would have to say that the Federal Reserve is carrying on quite an extensive program of Federal aid to education with Government money. And that is kind of unusual, that any agency would be allowed to intercept money on the way to the Treasury and just spend it any way they want to.

Now, some of your member bankers, I could name some, have been rather caustic in their criticisms of the retraining program of ARA.

And so here it looks like you are in the retraining business, too, in competition with ARA, and spending large sums of money. None of it has ever been authorized by the Congress. The items are never submitted to Congress. The items are never submitted to the Federal Reserve Board.

Now, I am making that charge and if either one of you gentlemen have a difference of opinion you speak up, because I am saying that these unusual charges and expenses have not been submitted to the Federal Reserve Board. They have not been submitted to anybody. They are right in your own books only in San Francisco and the other Federal Reserve banks.

Mr. SWAN. Well, this depends on your definition of "unusual," Mr. Chairman. As I say——

The CHAIRMAN. Well, any of these that are mentioned here, and I have a list that I will put in the record, like the American Bankers Association, these Christmas dinners, and these retirees' benefits.

Now, of course, I do not object to retirees having banquets and luncheons but why restrict it just to them? It is Government money. Why not invite retirees from other organizations?

Mr. SWAN. Well, I would say there that we do not consider those unusual. We consider those extremely reasonable——

The CHAIRMAN. Did you not get a memo about this from the Board of Governors?

Now, you have been with the bank a long time, have you not, Mr. Swan?

Mr. SWAN. Yes, sir.

The CHAIRMAN. How long?

Mr. SWAN. Twenty-three years.

The CHAIRMAN. Twenty-three years? Did you get a memo from the Board in 1945 or do you have a record of it, in which they warned you against these unusual expenditures, that you should not make donations, that it is not proper?

And in 1958 they warned you again. They said that these donations for tuition for people to go to Harvard and Yale and retraining and everything else, and for donations, would possibly be allowable for a private corporation, but for a Government institution, such as the Federal Reserve, it should not be done.

Yet, notwithstanding these warnings from the Federal Reserve, over a long period of time you have consistently gone ahead and done it anyway.

Mr. SWAN. I beg your pardon——

The CHAIRMAN. You have carried on Federal aid to education and carried on the retraining program like the ARA carries on, and I cannot understand why you gentlemen would persist in that.

Mr. SWAN. Mr. Chairman, we have operated entirely within those warnings that you have referred to, and which Mr. Hickman furnished for the record when he appeared before your committee on January 29. If we had had any occasion to exceed them, which I do not believe we have, we would have taken them up with the Board individually.

The CHAIRMAN. All right. I will yield now to Mr. Reuss.

Mr. REUSS. Mr. Swan, you say in your statement, and I am quoting from page 3:

> I hope that no one disputes that the Federal Reserve banks are closely supervised and audited, and are required to observe criteria established by the board of directors and by the Board of Governors.

Mr. SWAN. Yes.

Mr. REUSS. Well, of course, this committee disputed that quite decisively in the matter of the mysterious disappearance of the $7.5 million worth of U.S. securities from your bank last year when we found in our report, dated May 29, 1963, that though your Federal Reserve bank had a manual which provided, on page 53, "wastepaper should be scrutinized daily," in fact wastepaper was not scrutinized daily and, as a result, according to your own version of what happened, the $7.5 million worth of securities were burned or destroyed.

Mr. SWAN. We——

Mr. REUSS. You do not mind our disputing you on that point?

Mr. SWAN. But I must say despite that most unfortunate occurrence we still feel that our total procedures are basically sound.

Mr. REUSS. Well, did you read the report of——

Mr. SWAN. Yes; I certainly did.

Mr. REUSS. Do you take issue with any of our recommendations?

Mr. SWAN. No.

Mr. REUSS. I am glad to hear that you did not, because we thought they were constructive recommendations. However——

Mr. SWAN. And, by and large, we followed them, as you know.

Mr. REUSS. That is right. However, there were a whole list of things——

Mr. SWAN. I would not say we did not take issue with any of them. I would have to check back, but certainly you know we were in full agrement with the committee on the major ones.

Mr. REUSS. Well, then your statement that no one disputes that the Federal Reserve banks always follow their criteria is a little too broad, is it not?

Mr. SWAN. Well, I would say "No."

Mr. REUSS. Well, I will have to stay with this point then because the criterion listed on page 53 of your manual of miscellaneous instructions, dated May 21, 1956, is that wastepaper should be scrutinized daily.

That was not followed, was it?

Mr. SWAN. Well, I am not denying that there are not occasions when errors are made. Certainly that is true. That is true in any organization.

Mr. REUSS. Thank you, Mr. Swan.

Mr. Deming, as the president of the Minneapolis bank, you attend the meetings of the Open Market Committee?

Mr. DEMING. Yes, sir.

Mr. REUSS. In that capacity you give advice, do you not, on your notions of what our Nation's monetary policy should be?

Mr. DEMING. You mean at the Open Market Committee, Mr. Reuss?

Mr. REUSS. Yes.

Mr. DEMING. Yes, I speak in the meeting.

Mr. REUSS. When you have something to say or you do not like what is going on or you do like what is going on, you speak out, I hope?

Mr. DEMING. Yes, I generally report what is going on in my own district and then comment on the national scene and on the current monetary policy and any suggestions that have been brought up. That is right.

Mr. REUSS. Just let me exchange philosophies with you on the current 1964 state of our Nation and the free world. The President's Economic Report envisages that if the tax bill passes, which I hope will be the case, we may be able to get unemployment down to 5 percent, which is still extremely high, by the end of the year, and it envisages no price increases.

Assuming that the President's prognostication is found to be correct, do you see any reason at all for tightening money in 1964?

Mr. DEMING. Well, Mr. Reuss, I do not think I could be dogmatic about this.

When you say do I see any reason at all for tightening money in 1964, I would hope as you do——

Mr. REUSS. I asked you on that assumption. Of course, if an inflation breaks out you and I would be the first to require a tightening of money.

Mr. DEMING. Yes, if there are no inflationary tendencies or——

Mr. REUSS. Please do not use that word, because it means so many different things to different people, and it is not really very descriptive.

Take it on the assumption that I put to you, if the President is right, that there will not be a pronounced increase in prices this year.

If the President is right, the unemployment rate will not improve over the 5-percent level this year. If all of this comes true, do you see any reasoning for tightening money?

Mr. DEMING. Can I rephrase this just a bit, Mr. Reuss, to settle it in my own mind?

Mr. REUSS. Please.

Mr. DEMING. If the economy continues to have unused resources, both of men and of machines, and if there are no indications of price increases as we go along I would think that the chances of a tighter monetary policy would be pretty slim.

Mr. REUSS. "A Daniel come to justice," if I may say so.

Mr. DEMING. But if our balance-of-payments situation got into worse shape than it presently is, this is another factor, it seems to me, that would be added to the equation to consider with respect to monetary policy.

Mr. REUSS. Added, if I may ask you to pause a moment at that point, added to the equation. But would you not add it to the equation in portions which took account of the fact that we have a $600 billion——

Mr. DEMING. Oh, certainly.

Mr. REUSS (continuing). Economy and a balance-of-payments deficit on the order of $2 or $3 billion?

Mr. DEMING. Well, I do not think I would weight it as two six-hundredths necessarily or one three-hundredths because I think the factor in this case might be more like 2 or 3 to 16, the gold stock as against the balance-of-payments deficit.

But certainly—this has been, of course, as you know, the problem of monetary policy over the last 3 or 4 years. With unused resources on the one hand and an economy that was certainly not straining at the bit at any time during the period, we have had to face the unpleasant problem of a steady loss of our gold reserves and, therefore, these two factors have had to be put into the equation.

Different people on the committee weight these in somewhat different ways. I do not think that I would say that I would weight it at 2 to 600.

Mr. REUSS. I simply asked you whether you would weight them with exact equality, and I gather your answer is "No"?

Mr. DEMING. No.

Mr. REUSS. That you would weigh the domestic economy as a larger factor than the balance of payments?

Mr. DEMING. I think we have, over the last 3 or 4 years, had more concern with the domestic economy than we have had with the balance of payments.

But at times, in the fall of 1960 and in the early part of 1961, as you will recall, I think we had to weigh the balance of payments pretty heavily at that stage. I think we did last summer.

Mr. REUSS. And thus, you or the Board instituted what is called Operation Twist whereby you set out to keep long-term interest rates from rising and you increased somewhat short-term interest rates?

Mr. DEMING. That is right——

Mr. REUSS. And I, as one of the members of the Joint Economic Committee, approved of that policy as a sensible way to "have our cake and eat it, too."

Mr. DEMING. We did the best we could with it.

Mr. REUSS. You have now squeezed most of the affirmative values out of that policy, have you not?

You cannot raise short-term interest rates, which have gone up by at least a third since you started, much more without thereby raising long-term interest rates, can you?

Mr. DEMING. I think——

Mr. REUSS. Unfortunately——

Mr. DEMING. I think you are basically correct in this, but I would here again put another factor into this situation. As the economy continues to expand, as I hope it will this year, and meets these goals that have been set forth you will have greater forces more steadily focusing on the financial picture, so that even if you were attempting to hold or not do anything with the short-term rate you could get a set of circumstances that would increase the demand for funds to a point where you would have somewhat more pressure on the long-term rate even if you did not get any more pressure on the short-term rate.

Mr. REUSS. Yes. You could, in turn, meet that pressure, of course, by a counterexpansionary policy.

Mr. DEMING. That is correct, and if this seemed to be the policy that was called for, why, of course, we would.

Mr. REUSS. By what?

Mr. DEMING. If this seemed to be the policy that was called for, why, of course, we would.

Mr. REUSS. Well, would you not think that if we have still 5 percent or more unemployment and unused resources and prices have not risen, and there is no international monetary crisis, that that would be the policy?

Mr. DEMING. Yes, given these factors I think I would take your prescription in this case.

Mr. REUSS. Yes. My time has expired, but I want to thank you for your clear and forthright and responsive answers.

Mr. DEMING. Thank you.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Thank you, Mr. Chairman.

Following up the line of questioning by Mr. Reuss, I would just like to point out that he seems to always omit, in quoting from President Johnson's message, something that I feel is very pertinent to the discussion.

On page 11 of his message he said:

> It would be self-defeating to cancel the stimulus of tax reduction by tightening money. Monetary and debt policy should be directed to maintaining interest rates and credit conditions to encourage private investment.

But then there is a very important quote "but"—

> But monetary policy must remain flexible so it can quickly shift to defense if unexpected inflation threatens or the balance of payments worsens.

Mr. DEMING. Yes, sir; I have read the message.

Mr. WIDNALL. Well, do you not feel that it would be really a tragedy in trying to operate our economy to the best interests of unemployment and for the best interests of business and the balance of payments if we had an inflexible policy with respect to the monetary policy?

Mr. DEMING. Oh, yes. I did not take Mr. Reuss' questions as indicating that we should have an inflexible monetary policy. Given the assumptions that he was laying out here, I would say that this would not be inflexible.

If you got some price rises then I think the monetaray policy would have to flex in the direction of being somewhat tighter.

Mr. REUSS. Would the gentleman yield at that point?

Mr. WIDNALL. Yes.

Mr. REUSS. From here on out, we can assume that the entire Johnson economic message is in the record, because I cannot read every part of it every time I question a witness but I would say that Mr. Deming, I think, understood my questions.

Mr. DEMING. Yes.

Mr. REUSS. I think he understood them entirely and the assumptions on which they were based. I found his answer responsive and it was not directed at any supposed question about inflexible monetary policies which no one can possibly support.

Mr. WIDNALL. Well, I just have a feeling that, so far as inflation is concerned, you want to lock the barn door after the horse is stolen. After you see that there is inflation, then you want to——

Mr. REUSS. The question, as stated, was that if you have 5-percent unemployment and unused resources, and if prices do not go up, and if there is no international monetary crisis, money should not be tightened.

Do you object to that?

Mr. DEMING. No, this is all right.

Mr. REUSS. Now, if that be treason, make the most of it.

Mr. WIDNALL. I agree with that, but you were rather quick to shut him off when he said something about inflationary tendencies.

It seems to me that in the analysis of the economy it is extremely important that the members of the Federal Reserve, and the economists look at the inflationary tendencies and see what is building up, and there is some breaking point there where they will probably have to take action.

Mr. DEMING. Mr. Widnall and Mr. Reuss, let me make this as clear as I can. I can conceive of a situation when you would get a certain amount of information as to an inflationary tendency in the economy that would not be reflected immediately in what are called the price indexes, where you would get notice of price rises that simply had not been—they had not come into the indexes at the time.

I was interpreting this to be part of what you would call price behavior here.

Mr. REUSS. If I may interrupt, I was not talking about solely the price index. If prices to your knowledge are actually going up in an inflationary manner, then I think you have to act and you cannot wait for the indexes, but that is not what Mr. Widnall is talking about.

He is talking about some vague third force that the Fed is forever seeing, and tightening money when there is no inflation, and you and I are against that, I gather.

Mr. DEMING. I would say that we try to see as far ahead as we can. If you see a turn coming down the road you would attempt to get your automobile in shape to make the turn but that, generally speaking, in this kind of a situation you probably cannot see that far down the road.

The tendencies would be, I think, apparent to you, to you, Mr. Widnall, and to me, the inflationary tendencies as they develop in the economy, and at that point monetary policy might make a move.

Mr. WIDNALL. I read the news release with interest the other day that President Johnson, through his own warning system, has become worried about price increases and wants an investigation into those price increases in the very near future.

Now, this is one thing. It is a warning signal along the road which, I am sure, you take into consideration in making any decisions.

The CHAIRMAN. Was that not restricted to food?

Mr. WIDNALL. No.

Mr. DEMING. I thought that was general, myself.

Mr. WIDNALL. That is what I thought. In setting up a new consumer staff I think he has that in mind, food, more than anything else.

That is all I have.

The CHAIRMAN. Yes, sir. Mr. Pepper?

Mr. PEPPER. Thank you, Mr. Chairman.

Mr. Deming, I notice that you have given in your statement more attention to the functions of the Reserve bank Presidents, I believe, than Mr. Swan gave in his very able and general statement.

Do you intend to indicate in your statement that perhaps the most important function that the Reserve bank Presidents perform is their participation in the deliberations of the Open Market Committee?

Dr. DEMING. I would say their participations in the deliberations of the Open Market Committee, in the general field of credit policy, yes, I feel this is the primary function.

Mr. PEPPER. What is the primary function and purpose of the Open Market Committee?

By the way, would you say that is one of the most important functions of the whole Federal Reserve System?

Mr. DEMING. Yes, sir, I would.

Mr. PEPPER. Now, what are the functions of the Open Market Committee?

What are their purposes?

Mr. DEMING. Well, the Open Market Committee attempts, as best it can, to assess the general economic situation and to formulate a policy which aims, in its end results, at a high level of employment, a rising standard of living, growth in the national economy, and a reasonably stable price system. These——

Mr. PEPPER. Now, you say they formulate policy. Now, how may the Board implement that policy or tend to do so—I mean, the Committee—or can they do so?

Mr. DEMING. The Open Market Committee itself has jurisdiction over the purchase and sales of Government securities and when it buys Government securities, as you know, it puts reserves into the market and, when it sells them it absorbs reserves from the market.

Mr. PEPPER. Excuse me, but I want to get on the record, and also into my inexperience, an understanding of exactly how that function is accomplished because we were told here yesterday by some of the distinguished Reserve bank Presidents that perhaps the primary aim of the Open Market Committee is to determine the volume of bank credit.

Now, we have also been told that the Open Market Committee buys Government bonds through these 19, I believe it is approximately 19 dealers of Government bonds. Now, just for the record and also for my benefit, if you will, explain how buying those Government bonds through one of more of these 19 approved dealers establishes the volume of bank credit in the country which the Open Market Committee wishes to establish.

Mr. DEMING. Here is how it works, Mr. Pepper, in a somewhat simplified form. The open market account, the management, the people that actually do the buying and selling of the Government securities, will buy Government securities from one of the dealers.

When they do this and the dealer brings the securities over he is paid with a check on the Federal Reserve Bank of New York. He deposits this check in his account at a commercial bank. The bank sends it over to the Federal Reserve to be paid and that bank's reserves go up as a result of this deposit.

Now, as we buy Government securities we add, consequently, to the reserves of the banking system. The banking system, with this additional volme of reserves, is able to expand bank credit either through investments or through loans, and this is what I think the people yesterday were talking about——

Mr. PEPPER. Is that ability of the bank to extend its credit based upon its ownership of a certain share of the portfolio of the Open Market Committee?

Mr. DEMING. You mean—the portfolio of the Open Market Committee is distributed among the 12 Federal Reserve banks. But the amount of reserve credit, the base reserves that are added through the purchase of Government securities runs through the entire banking system. The first effect is on reserves of the particular banks in which these checks are deposited.

Mr. PEPPER. Now, you will forgive my inquiry or my inexperience, but let's suppose you bought, let's say, $100 million worth of Government bonds from a dealer in New York. Now, I suppose that dealer in New York would put that money in some of the banks of New York?

Mr. DEMING. That is right.

Mr. PEPPER. And that money would be evidenced by a check on the Federal Reserve Bank of New York, would it?

Mr. DEMING. Yes.

Mr. PEPPER. But the Open Market Committee would have some bank to do it?

Mr. DEMING. No; this is our own check on the Federal Reserve Bank of New York.

Mr. PEPPER. Who would sign the check?

Mr. DEMING. One of the officers of the Federal Reserve Bank of New York.

Mr. PEPPER. They would be used as the agent of the Open Market Committee?

Mr. DEMING. That is right.

Mr. PEPPER. Now, there would be $100 million, that check given to this dealer in New York, and they would put it in some bank in New York and finally it would come back to the Federal Reserve Bank of New York. Now, that would just be New York. Would that get around all over the country and add to the bank credit of the whole country?

Mr. DEMING. Yes, sir——

Mr. PEPPER. Do you have to distribute those bond purchases, say some in San Francisco, some in Chicago, and some in Atlanta and other places so that all the country will profit by that transaction or how is that handled?

Mr. DEMING. Well, it works through the banking system. The immediate way it works is on the reserves of the New York commercial banks in this instance—in this instance there would be several dealers involved and it would go into several banks if we bought that much, I am sure.

The reserves of these commercial banks would go up. They would have at the moment some excess reserves that they did not need. The commercial banks in Minneapolis or San Francisco can obtain——

Mr. PEPPER. How would they have those reserves, Mr. Deming, because based upon their share of the bonds that the Open Market Committee has bought?

Mr. DEMING. No, no; the way that——

Mr. PEPPER. How would that transaction increase their reserves?

Mr. DEMING. The way that the reserves would immediately increase, let's say, in this Minneapolis commercial bank—let's say if the Minneapolis banks needed some reserves they would, through Federal fund transactions, purchase some of these excess reserves from the New York banks.

Reserves would come immediately to Minneapolis through this purchase of Federal funds. As you move through the mechanism of payments in the banking system the reserves that are created by this initial purchase by the Open Market Account of Government securities in New York spreads reasonably rapidly through the banking system, partly immediately through the Federal fund transactions and partly through what I might call the balance of payments domestically in the United States.

And we would in Minneapolis, and I am sure the banks in San Francisco, would see an almost immediate impact from this purchase of Government securities.

Mr. PEPPER. Do you, as a matter of fact, in order to get the widest distribution of credit—are these 19 dealers distributed all around the country?

Mr. DEMING. Most of them are in New York. There are a couple in Chicago. And if you are dealing with the two in Chicago the immediate impact would be on the reserves of the Chicago commercial banks.

But the balance is transferred through a whole variety of payments, one way or another, around the country and so they get spread around pretty quickly.

Mr. PEPPER. Well, am I correct in this assumption? Let's suppose that in a case the Open Market Committee authorized the bank of New York to buy $100 million of Government bonds and that purchase is made.

Now, then, that means the Open Market Committee portfolio has an additional $100 million worth of bonds in it, does it not?

Mr. DEMING. Yes, sir.

Mr. PEPPER. Now, theoretically those bonds belong to the whole Federal Reserve banks——

Mr. DEMING. Yes.

Mr. PEPPER (continuing). The 12 Federal Reserve banks under this formula of allocation?

Mr. DEMING. Yes, sir.

Mr. PEPPER. So you treat it as though you actually had a share—let's say your share was $10 million.

Theoretically you would have in your vaults $10 million of additional Government bonds. Now, you can use those, can you not?

Mr. DEMING. Yes.

Mr. PEPPER. Now, supposing you did have those $10 million worth of Government bonds in your vault, you can use those on the basis of either to extend credit or issue money, can you not, or Federal Reserve notes?

Mr. DEMING. Well, the reserves initially—we are talking about two different things, Mr. Pepper.

The initial transaction in this case, if these are bought in New York, is the reserves will go into the commercial banks in New York simply because the check is cleared that way. Our assets will go up, of course, by the amount of the securities that are allocated to Minneapolis, in this instance.

Depending on the way the payments flow, we may use gold certificates, replace gold certificates with Governemnt securities in the initial instance.

We may have the balances flowing out so rapidly to Minneapolis that our own reserves or rather those of the commercial banks in the Minneapolis district will go up. This will be the liability offset to the——

Mr. PEPPER. Well, is it proper to say that in this case I put, where this Open Market Committee authorized the Federal Reserve Bank of New York to buy $100 million Government bonds from a dealer, that the reserves of the 12 Federal Reserve banks are then increased by $100 million?

Mr. DEMING. The assets?

Mr. PEPPER. The assets.

Mr. DEMING. That is right.

Mr. PEPPER. They put out that much in a check drawn on the Federal Reserve Bank of New York?

Mr. DEMING. That is right, and their liabilities go up, which is——

Mr. PEPPER. Just one other question. Mr. Chairman, I apologize for running over my time here, but I just want to ask this question of both Mr. Deming and Mr. Swan.

Now, you spoke about the great power of the Open Market Committee and its functions to affect the economy of the country. As of the present time is there any direct way in which the Government may affect the policy decisions of the Open Market Committee?

Mr. DEMING. I am not sure I know how to answer that question, Mr. Pepper. A good many actions that the Government takes affect the deliberations of the Open Market Committee. If you mean by that does the administration directly tell the Open Market Committee that it should do thus and so, no, it does not.

Mr. PEPPER. Well, now, let's take this case. President Johnson has just announced—and also President Kennedy did—I think President Kennedy should be given credit for having enunciated the same idea and President Johnson is ably implementing it, the idea of a war on poverty in this country. The President has made that announcement, and he has recommended it to Congress and he has named a man to head up that program.

Now, have there been any changes in the policy decision on the Open Market Committee to implement that policy declared by the President?

Mr. DEMING. Well, not specifically on that particular point, but the policy of the Open Market Committee will aim at producing, insofar as its actions can produce, a growing economy which will in and of itself help this war on poverty.

In this sense I guess you would say that——

Mr. PEPPER. Suppose the President would write a letter to the Federal Reserve Board and say, "Dear Mr. Chairman, I enclose a copy of my message recently delivered to the Congress, and I think it would be in the national interest if the Federal Reserve System, through all the functions that you exercise, would implement the declaration of the policy that I have made, and I shall appreciate and look forward to your cooperation."

What would be the effect of that?

Mr. DEMING. Well, I think in this case the Open Market Committee, if it were to get such a letter, would reply that this is always the policy of the Open Market Committee, to attempt to have as strongly a growing economy as we can have, and——

Mr. PEPPER. Would not you consider it sort of an inappropriate thing, like trying to talk to a judge in the backroom.

Mr. DEMING. I do not think the President would write such a letter, myself. I do not have any case—I do not know of any case in history where he has, but the——

Mr. PEPPER. But it accentuates the fact that under the present system the Government does not have any direct way of influencing the decisions of this Committee that has so much to do with the economy of the country.

Mr. DEMING. Well, the Committee is fully cognizant of the position against poverty.

Mr. PEPPER. Thank you very much.

Mr. DEMING. And it is completely sympathetic to it.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Thank you, Mr. Chairman.

Mr. Swan, as I look over your statement here, you can tell your statement is pretty much devoted to keeping the GAO out, and I guess you recognize that it is an arm of the U.S. Government.

They are an agency.

Mr. SWAN. Yes, sir.

Mr. MINISH. Why are you so opposed to the GAO?

Mr. SWAN. Well, my feeling is this, Mr. Minish, if this is simply a matter of seeing that the criteria of the Board of Governors and the directors of the Banks are being carried out I submit that this is being done through our present audit procedures.

This would be another layer and would certainly carry some implications as to the judgment and discretion of the Board of Governors and the boards of directors of the Reserve banks.

As I indicate in my statement, I find it difficult to believe that an audit by the General Accounting Office would be confined to applying the standards fixed by these boards. Inevitably it would lead into questions of interpretation of the law and so on, and as we mentioned here, I am not quite sure what standards would apply. Inevitably we would be into the question of policy matters as the ultimate result.

And although the GAO would not have this in mind—I certainly recognize that—it would be a change in policy determination and a dimunition of the independence of the System.

Mr. MINISH. Well, you would not be bound by their recommendaions, would you?

Mr. SWAN. I beg your pardon?

Mr. MINISH. You would not be bound by their recommendations?

Mr. SWAN. No. This would depend upon the conditions under which it was set up, I suppose. As I say, if this was solely a matter of the observation of the authority that the Board of Governors and the directors of the Reserve banks have now, then I say I simply raise the question of whether this is necessary and whether it reflects on the position that has already been taken with respect to these responsibilities.

Beyond that I would have no objection in principle.

Mr. MINISH. Let's assume——

Mr. SWAN. And I just do not think it would stop at that.

Mr. MINISH. Let's assume that this order would take into consideration just that. Would you be for it then?

Mr. SWAN. I would not be opposed to it except for this feeling, that it would not stop there because all sorts of detailed questions would come up of the kind that have come up here that would almost immediately then raise the further question of these responsibilities themselves.

Mr. MINISH. Of course, you are aware that if they audit the Defense Department budget of $50 billion——

Mr. SWAN. Yes, sir.

Mr. MINISH. Now, the chairman of this committee, and the committee, has requested from the Chairman of the Federal Reserve Board that the minutes of the Open Market Committee for 1960, 1961, 1962, and 1963 be turned over to the committee.

What is your feeling on that?

Mr. SWAN. In the context in which this has come up, this is really a question, as I understand it, of whether they should be made available to the committee and to the public.

Now, I have some questions about making the minutes available to the public so currently. As has been mentioned here by others, there is the matter of international questions involved in the minutes, and I feel there is another question, too.

These, I think, are somewhat unusual minutes in the sense that they are extremely full. They involve the raw material of the deliberative process in arriving at these decisions.

And my feeling is that if they are to be made public, without considerable lapse of time, it would lessen the effectiveness of the Committee in the sense that inevitably the content of the minutes would change.

There would be much more "for the record material" inserted, or else there would be less full discussion, and you would get down to skeleton minutes, limited mainly to reporting actions taken, and I do not think any one of those things is a good idea.

I am trying to distinguish here between the minutes per se and the record of our policy actions which, I think, could and should be made available fairly promptly .

Mr. MINISH. Thank you.

Mr. Deming, how do you feel about that?

Mr. DEMING. I feel pretty much the way Mr. Swan does, Mr. Minish.

In our minutes, which are really much more full than the minutes of almost any group that I have been associated with—it is almost a verbatim transcript of the things that are said around the table—there are a good many things that I think one would regard as confidential.

I learn something and report it in here. This is particularly true of some of the information we get, some of the intelligence we get from abroad, which is given us on pretty much of a confidential basis. I think it would be harmful to our general relations with the people from whom we get this information if this were made public in the short run.

After a significant lapse of time I would see no objection to this.

The State Department, as I understand it, makes papers and certain things available after a considerable lapse of time. I agree with Mr. Swan, in trying to draw a distinction between the minutes as minutes and the actions taken by the Open Market Committee or by the System as a whole with respect to credit policy.

Here a reasonably full explanation of what is done, what is aimed at, why it is done, and so on, I think, could very logically be made available via an authoritative article in the Federal Reserve Bulletin, in addition to the report that we presently give to the Congress which for 1963, I think, is now in the hands of the Joint Economic Committee, the record of policy actions for the year 1963.

Mr. MINISH. Well, for what period of time do you think they should be turned over?

Mr. DEMING. This, of course, is a matter of judgment, Mr. Minish. I would think that so far as making these public, in a broad sense, I see a gap of about 10 years.

Now, some of my colleagues——

Mr. MINISH. I am not talking about the public. I am talking about turning the minutes over to the committee.

Mr. DEMING. Well, I think the question of turning the minutes over to the committee comes down to this. If the minutes were turned over to the committee and then were made public through the committee I would still have this same feeling about a long length of time involved in this.

With respect to turning them over to the committee, where the committee would not make them public, I would feel differently about this.

Mr. MINISH. Thank you.

The CHAIRMAN. Mr. Brock?

Mr. BROCK. Well, let me say briefly that I apologize for being late this morning, but I have been interested in this discourse so far.

Mr. Deming, when you say you feel differently about it if the committee is not going to make public the minutes, what would you feel would be a reasonable lag just to give them to the committee?

Mr. DEMING. Well, I would think that the minutes of the Open Market Committee probably should not be furnished to the committee for, oh, let's say a year or 2 years or something like this.

But I would hope that if they were furnished to the committee, even with that kind of a lag, the committee would treat these as confidential as the Federal Open Market Committee attempts to. This is a matter, as I see it, and as Mr. Swan said here, of revealing certain confidential information that is still sensitive.

And I would not be in favor at all of having this revealed either via the Open Market Committee, in making them public, or via the House Banking and Currency Committee.

Mr. BROCK. As I understand it, the amount of foreign investment in this country, both in securities and in long-term indebtedness, is in excess of $40 billion or in that neighborhood anyway.

Now, what would happen should the minutes of the Open Market Committee, as they reflect our international balance of payments problems and projected attitudes toward it—what possible effect could it have, if these minutes were revealed?

Mr. DEMING. You mean immediately?

Mr. BROCK. Yes, sir.

Mr. DEMING. Well, I think that this could have some very adverse effects, depending on just what the context of the minutes were.

I was not thinking of that part so much as I was thinking of the whole variety of information that is contained in the minutes. It certainly is not merely our own position.

It is other people's position that would concern me.

Mr. BROCK. Well, I agree, that I am thinking of that particular part because if the money were withdrawn rapidly you could have a situation of financial and economic chaos occur in this country, could you not?

Mr. DEMING. Yes, sir.

Mr. BROCK. Could you not cause the collapse of our economic system if——

Mr. DEMING. You could have a situation of this kind if the people read the minutes of the Open Market Committee with a very pessimistic interpretation, of course.

Mr. BROCK. I think that is my principal fear and the reason why I personally feel that you should not turn the minutes over to this committee.

Thank you, sir.

Mr. PEPPER (presiding). Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Swan, perhaps you are in a better position to answer several of my questions.

The first one I would like to propound is, Can you tell me approximately what the national debt of the United States was the first 5 years of the operation of the Federal Reserve System?

Mr. SWAN. Well, it was very small. I would have to look it up.

Mr. HANNA. By "very small" would you say that it was less than $50 billion?

Mr. DEMING. Oh, yes; definitely less than $50 billion.

I am guessing, Mr. Hanna, but I would say it was probably on the order of $5, or $6, or $7 billion.

Mr. HANNA. Let me ask you this: Suppose there was anybody at that time or do you suppose there was anybody at that time who envisaged that our national debt at some time in the future would be $300 billion?

Mr. SWAN. The answer to that is "No."

Mr. HANNA. The answer to that is "No"?

Would it appear—it would appear to me then that there has been a very substantial growth in the size of the operation in relation to the national debt over the 50-year period. That is No. 1. No. 2, could you tell me whether there was not a substantial part of the income of the Federal Reserve System, after the first 5 years of its operation, I will say, out of its services to the banks and paid by the banks in discounts and so forth?

Mr. DEMING. Through discounts, yes. I do not——

Mr. HANNA. Through the discount windows. That would have been their substantial part of it, the discounts?

Mr. DEMING. That is right.

Mr. HANNA. Right?

Mr. DEMING. That is right.

Mr. HANNA. Now, I want to make an observation right here, that I do not want to be put in the characterization of somebody who is making wide, sweeping, general criticisms about this fine establishment. I mean, anybody who is an ensconced member of an establishment has a bit of the Horatio in him and, as a member of the establishment here, I suppose there will be a time when I will be a Horatio but, on the other hand, I have been advised to sit at the feet of one of the gentlemen with whom you work, and my position here on the Banking and Currency Committee, and Mr. Martin and—I observed that that gentleman said that due to the growth, the terrific business that we are doing in the banks, there has been a substantial deterioration of credit, which is a rather general sweeping observation.

Now, it occurs to me that if Mr. Martin's observation has any accuracy about the growth of the operations of the bank, leading to some deterioration, that one might find some justification for a feeling that there may be points of deterioration in the operation of the Federal Reserve in this terrific growth of $5 or $6 billion to $300 billion, and I think that it is in this light that we want to try to draw a bill of particulars, and not make sweeping generalities but draw a bill of particulars.

I wish Mr. Martin had done that in his statement about the credit. It does seem to me that there has been a rather remarkable switch of your income.

Now, in regard to that I would like to ask you, Mr. Swan, Is there any validity to the criticism I have received in California that your discount practices in the Federal Reserve System are rather archaic in terms of recognizing certain kinds of paper which are now quite generally approved by the banks but which you people will not handle at all?

Mr. SWAN. May I go back to your first comment just a moment, please?

Mr. HANNA. Yes, surely.

Mr. SWAN. I think that Chairman Martin's reference to the deterioration of credit alluded to simply a current development in the immediately present situation.

I do not think he was referring to deterioration in the quality of commercial bank credit over a long sweep of years or anything like that.

Mr. HANNA. Well, there are a lot of people who have responsibilities relating to growth, and a certain lack of quality which sounds like it might have——

Mr. SWAN. I just meant that I think he was only talking about what happened in the last year or so.

Mr. HANNA. He would have made that statement earlier in that case, I presume.

Mr. SWAN. Now, as to your other point, the question here involves a change in the type of loans in the portfolios of commercial banks that has resulted in a decline in the proportion of these loans that are in so-called "eligible paper" as it was originally defined. That is why the System has proposed a bill which could change this procedure and allow us, in extending credit to banks, to get away from the narrow definition of "eligible paper" and accept any sound collateral.

Mr. HANNA. And you would support the idea——

Mr. SWAN. Yes, sir.

Mr. HANNA (continuing). Of broadening the definition, as you call it, of "eligible paper"?

Mr. SWAN. I would, sir. Well, this eliminates the definition of——

Mr. HANNA. Well, I would think this might put us in the position of moving a little more dramatically.

Certainly, we will not get into consideration or a consideration that we got into before, but it would give your bank a more serviceable posture, it seems to me, with the member banks.

Mr. SWAN. I would add this, that I think this is largely anticipatory as looking toward a time, let's say, that banks didn't have Government securities.

At the moment I am sure nobody—no bank has been denied credit from us because of the lack of eligible paper. I mean, this is not an immediate problem.

Mr. HANNA. Well, I got the impression that some bankers think that.

Mr. SWAN. Some bankers may get the impression that they will have to turn to something else.

Mr. HANNA. And this affects their liquidity, does it not?

Mr. SWAN. Yes, but I mean nobody has been turned down on that basis.

Mr. HANNA. In terms of creating money, which is part of your business, is it not true that by speeding up check exchanges and procedures by which we do this, we are in fact making money more volatile and, therefore, that less money will do more work?

Mr. SWAN. More efficient.

Mr. HANNA. Yes. If we have gotten to a certain stage of efficiency, however, we cannot expect to get very much more gas out of that particular effort.

Would you say that we have gone about as far as we can, like they did in Kansas City?

Mr. SWAN. Well, of course, it is always difficult to look ahead, but I do not see any marked changes here that would increase velocity sharply, no.

Mr. HANNA. Mr. Deming, going back to another statement that you made in this exchange with Mr. Widnall, am I right in assuming that there is a distinction between a cost-push price increase and an excess demand profit pushed price increase?

Mr. DEMING. There is a theoretical distinction between these two things that lead to inflation.

As a practical matter it is awfully difficult to distinguish differences here and if you have what you are calling a cost-push type of increase it has to be financed, if it is going to be effective, through the creation of excess funds. Otherwise you do not really get the cost-push type.

It would not work. These distinctions, which are useful for analytical purposes, and I think quite usable for——

Mr. HANNA. That would be a distinction without a difference, would it not?

Mr. DEMING. It is not a distinction without a difference. It is a distinction that stems from the fact that if it looked as though there was more cost-push than there was demand pull in the inflationary process, I expect that you would get a somewhat different policy mix to deal with it. All I am saying is that you cannot make the cost-push type effective unless you provide the monetary fuel to make it go. And that gives the further demand pull effect. The two types are usually occurring simultaneously.

Mr. HANNA. In that connection, assuming that legislation in the past, involving the GAO it has indicated its lack to check in some instances.

The CHAIRMAN. Well, the GAO audits everything. You take the Defense Department, they audit things involving the hydrogen bomb, and everything else—there is nothing that they cannot audit. They have power over everything, but they do not have unlimited power. They do not have power to make or change policy, but only to see to what extent the expenditures that are made are legal, if they are unauthorized, if they are wrong.

Mr. HANNA. Has there been any attempt by the GAO or the FDIC or any of these others that they would be able to eventually change the policy?

The CHAIRMAN. I have never heard of that charge being made. I think that was brought up by the witnesses from the Fed. and was one of the reasons why they did not want to be audited. I never heard of it from any other agency.

Mr. WIDNALL. Will you yield?

Mr. HANNA. Yes.

Mr. WIDNALL. It is my understanding that the GAO has not audited congressional committee expenses or the expenditures of Congressmen around the world in their trips, or anything like that.

The CHAIRMAN. It might be well for some member to suggest that. To put in a bill on that.

Mr. HANNA. I would support it myself.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Swan, I believe that I asked you about those bonds. You have not heard anything more except that you believe that they were just inadvertently destroyed?

Mr. SWAN. Yes, sir.

The CHAIRMAN. Inadvertently destroyed. Do you carry insurance against that?

Mr. SWAN. Only $500,000.

The CHAIRMAN. What I cannot understand is why a Government agency would carry insurance at all. I thought that the Government did not do that. And this is a part of the Government.

Mr. SWAN. We, actually, do not carry very much insurance, but we have in each Federal Reserve bank a blanket bond up to $500,000.

The CHAIRMAN. Yes, sir. The question arises in my mind that you are spending over $1 million a year for this type of insurance and I guess that it is much more than that now—and I do not know who is getting that insurance—who is writing it. I know that the Government does not expect to carry insurance. It seems to me like an unnecessary expenditure among other expenditures.

Now, Mr. Deming, you are at Minneapolis, and I notice here that you have $4,900 for your full rated share of the annual expenditures for operating the Minneapolis chapter of the American Institute of Banking; $1,100 to the American Bankers Association; $750 to the Minnesota Bankers Association; $250 to the Wisconsin Banking Association; and then $306 to the NABAC; and $310 to the Robert Morris Associates; and $175 to the Minneapolis Chamber of Commerce; $140 to the Minneapolis Association of Building Owners and Managers; $250 to the National Industrial Conference Board, in 1962, but I cannot understand how anybody can, by any stretch of the imagination, make contributions and donations like that of public money. Here we are in a war against poverty. We need every dollar that we can get to help in that drive, and yet you are dispensing this money, paying it out for purposes far beyond what you are supposed to be doing. The Federal Reserve banks are supposed to be in the Federal Reserve business, and they are going out of this business. The number of banks you serve are insignificant in number, in comparison to your membership. You do not serve many banks, do you? You do not have much banking business. I guess that is the reason that you are reaching out and grasping for other things to do while the number of discount transactions in the last year were practically nothing in comparison with what they should have been. The little Federal Reserve business you are doing is with successful bankers.

At the beginning of the Federal Reserve banking system, you charged the banks for servicing checks, and under the existing law, you are supposed to do it. But once you began to buy Government bonds, and were collecting the interest, I guess that you began to think that you ought to help the bankers, and you began to pay for these things. You began to pay for sending the currency out and back and all other services, such as telephone and telegraph. You pay for Brinks, too.

Mr. DEMING. We pay for Brinks when it is doing our business, yes.

The CHAIRMAN. Wouldn't the banks have to do these things themselves if the Federal Reserve did not pay for it?

Mr. DEMING. Where we do not send currency and coin through the mails, we send it by Brinks. We would have to pay the postage if we sent it through the mails.

The CHAIRMAN. You are also training these fellows in banking. What can they do when they are trained? You have no banking business in San Francisco and Minneapolis. You have no real banking business. You just clear checks and things like that. What does a person do when he is educated to be a banker, and you spend a lot of money to educate him—how does he use his education?

Mr. DEMING. He is doing a great many things, Mr. Chairman. This sum that you refer to is the pro rata share of the American Institute of Banking in Minneapolis which is really to maintain a banking school which a good many of our people go to. They take all sorts of courses in these schools, such as in accounting and various other things as that. There are a lot of operations in the Federal Reserve bank that are other than discounting. Discounting has not been particularly active during this past year.

The CHAIRMAN. How about the year before that.

Mr. DEMING. Monetary policy basically has been easy for the last 3 years.

The CHAIRMAN. Through this, Mr. Deming, you are just depending on the Government helping. You are getting more bonuses and subsidies than the farmer ever received, or any other group.

Mr. DEMING. You mean the Federal Reserve?

The CHAIRMAN. Yes. That is all you live on. You know, we have this farmers program, and somebody would say that it was terrific, the cost, and that the farmer would get his pea check, and that is the same way with the bankers now. You get your pea check from New York—you get all of your money from them—99 percent of it. You have gone out of business, you have gone out of the business that you were supposed to be in. And I think that this committee should take a look and find out why we should keep all of these modern ivory tower buildings all over the Nation to clear checks in. It might pay us to just erect some buildings to clear the checks and to use these other buildings for public services in some way. You have more buildings than they have here in Washington; that is, public buildings. And yet they are mostly for clearing checks. The private banks have their own places. You have practically gone out of the Federal Reserve business. And the business that you do is very minor in comparison with what it was intended for.

Mr. DEMING. May I make one comment? The amount of space in the Federal Reserve Bank of Minneapolis—I cannot speak for all of the other Reserve banks—devoted to the collection function is about 10 or 11 percent of the total.

The CHAIRMAN. For collection purposes?

Mr. DEMING. For collection of checks and the like.

The CHAIRMAN. What is the other then—what is the other breakdown?

Mr. DEMING. I have a statement here which gives the breakdown of space. We have about 7 percent for currency and coin.

The CHAIRMAN. For what?

Mr. DEMING. For currency and coin—the money.

The CHAIRMAN. Seven percent?

Mr. DEMING. Yes. And we have about 10, 11 percent in what is called fiscal agency, where we are dealing with the CCC programs, food stamps.

The CHAIRMAN. You get reimbursed for that, do you not?

Mr. DEMING. Yes, sir; at least, for part of it.

The CHAIRMAN. Go ahead.

Mr. DEMING. We are reimbursed. We have 13 percent of our space which is devoted to what we call the general service area here which includes the vaults, security, mail, records, and that sort of thing.

We have 2.5 percent devoted to planning. I have a statement here, Mr. Chairman, that lists these. I will be glad to put it in the record.

The CHAIRMAN. All right.

(The statement for the Minneapolis Federal Reserve Bank of use of space follows, together with comparative statement of assets, as well as comparative statement of liabilities and the annual statement of the San Francisco Federal Reserve Bank annual statement, 1963, and list of space:)

Comparative statement of assets, Minneapolis and Helena combined

[In thousands of dollars]

	Dec. 31, 1963	Change from Dec. 31, 1962
Assets:		
Cash reserves:		
Interdistrict settlement fund	162, 320	−68, 294
Gold certificates with Federal Reserve agent	120, 000	−10, 000
Redemption fund—Federal Reserve notes	29, 060	+764
Total gold certificate reserves	311, 380	−77, 530
Federal Reserve notes of other Federal Reserve banks	40, 875	+9, 238
Other cash	6, 741	−3, 223
Bills discounted	300	+300
Foreign loans on gold	736	+713
U.S. Government securities:		
Bills	80, 107	+29, 778
Certificates of indebtedness	136, 661	−135, 019
Notes	342, 879	+121, 996
Bonds	89, 842	+4, 583
Uncollected items:		
Transit items	197, 209	−6, 831
Exchanges for clearinghouse	5, 661	+1, 962
Other cash items	8, 426	+7, 023
Total uncollected items	211, 296	+2, 154
Bank premises	6, 913	0
Less reserve	2, 971	+344
Bank premises—Net	3, 942	−344
Miscellaneous assets:		
Fiscal agency expense, reimbursable	115	−18
Interest accrued	4, 311	−611
Premium on securities	296	−297
Deferred charges	40	+5
All other assets	3, 518	+1, 657
Total miscellaneous assets	8, 280	+736
Total assets	1, 233, 039	−46, 618

Comparative statement of liabilities, Minneapolis and Helena combined

[In thousands of dollars]

	Dec. 31, 1963	Change from Dec. 31, 1962
Liabilities:		
Federal Reserve notes in circulation	592, 151	+14, 749
Deposits:		
Member bank—Reserve accounts	403, 596	−27, 937
U.S. Treasurer—General account	45, 899	+12, 916
Foreign	3, 680	−2, 300
Nonmember bank—Clearing accounts	68	−11
Officers' checks	176	+9
Other deposits	1, 328	−109
Total deposits	454, 747	−17, 432
Deferred availability items:		
U.S. Treasurer—General account	6, 065	−272
All other	143, 409	−46, 007
Total deferred availability items	149, 474	−46, 279
Miscellaneous liabilities:		
Discount on securities	1, 440	+220
Sundry items payable	676	+137
Total miscellaneous liabilities	2, 116	+357
Total liabilities	1, 198, 488	−48, 605
Capital accounts:		
Capital stock paid in	11, 517	+662
Surplus	23, 034	+1, 325
Total capital accounts	34, 551	+1, 987
Total liabilities and capital accounts	1, 233, 039	−46, 618

Mr. DEMING. In a lot of cases the space in the bank is used for other things than check collection, as you call it.

The CHAIRMAN. But, of course, I understand what you are supposed to do. You got out of the business like discounting. You used to accommodate a lot of banks. And now you accommodate very few.

Mr. DEMING. Only in part. The discount window——

The CHAIRMAN. The Federal funds——

Mr. DEMING. These are transactions where the banks use the reserves already in being.

The CHAIRMAN. That is right.

Mr. DEMING. They are moved around in the banking system, but the discount window is not closed, Mr. Chairman. As I say, during the last 2 or 3 years, monetary policy on the whole has been reasonably easy. The banks have been amply supplied with reserves.

The CHAIRMAN. Let us go back 20 years.

Mr. Deming. Well, during the war years there was not any particular activity. I think that it was during the 1950's, in the early part of the 1950's and in the middle part of the 1950's that the discount window was used very extensively.

The Chairman. I cannot understand how anyone can insist that the bankers should have an agency all to themselves, that the Congress cannot pass on them, check the funds, audit the books, cannot find out what they are spending money for—they are not entitled to that—that is like a dictatorship. I think that you had better take another look at this thing, because you will get by with it for a while, but you will not eventually. That is, in our form of government. The Constitution says that it shall be the duty of the Congress to coin the money. The Supreme Court has so said. The Congress farmed this out, so to speak, to some agency to do the work, because obviously Congress cannot do it. But it is not expected to give up its authority, its responsibility and have no supervision over it at all. They did not expect that. You are our agent to report to us. And over the years we do not find much in your reporting to us. And these reports, like in the annual reports, do not tell us much. And then that memo about how you allocate the amount of bonds that a bank should have, the amount of earnings. And that is all in gobbledygook. It is in language which almost reminds me of a sect that has an unknown tongue. You just go around talking and talking, and nobody else can understand you. I doubt that we would even get any public information from our standpoint from your minutes if we got them. I just doubt that they are written in language that we can even understand. That might be one of the reasons that you are reluctant to give them up and to let us see them, because you are operating under an unknown language.

Mr. Widnall. Mr. Chairman, did you not receive the 1961 reports?

The Chairman. Yes, we had them in the Joint Economic Committee. And we employed two of the finest economists in the United States to tell us what they said. It took them nearly a year, and then by that time the Congress was ending its session, and we could not get them printed, because there was objection and points of order and everything else.

I saw the reports at the time, but we had to ask the staff to explain them, and the staff could not explain them, so we got two of the best experts in the United States, and they were going to interpret them for us and to tell us what they meant.

Mr. Widnall. Did not the New York Times report on what their interpretation was?

The Chairman. I do not recall. It seems to me like there was an article in the New York Times about it. They got it somewhere. But where they got it from, I do not know—you know about such things.

Mr. Brock. That is the point of it.

The Chairman. I do not buy that at all. I think that is an excuse. I do not think that is any reason. The minutes are a year old and in language that nobody can understand except the fellows who wrote them. I cannot buy that at all. The truth is that this whole System now is in the Federal Reserve Bank of New York. They are doing the whole business. They could have 12 sets of books up there, and forget about all of the other 11 Reserve banks. They do not need you. You do not do anything for them except every few years you go on the Open Market Committee which comes down here, and give them the benefit of your knowledge. I am sure that it is helpful to them. I am not denying that.

But all of the people who are running this open market account here, where they own this $33 billion in bonds, that they bought for nothing, just by creating some money, are in the bank of New York, and that bank is run by the President of the bank. The Open Market Committee does not run it. You do not have a thing to do with it. You have never seen those bonds. You would not even know where they were. You do not know anything about when they were bought or sold. You do not clip the coupons. They send you part of the money.

Now the law is that the President of the Federal Reserve bank shall be the chief executive officer of the bank. I am reading a section of the law. And he shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System for a term of 5 years, and all other executive officers and all employees of the bank shall be directly responsible to him.

So the Federal Reserve Bank of New York is running this show 100 percent. All of the employees up there who are handling this huge account, they are employees of the Federal Reserve Bank of New York. And the law says that all of these employees are directly responsible to the President of that bank. You cannot make anything plainer than that in the law. And this business of saying, "Well, the Open Market Committee advises," and things like that are not effective. The law is effective.

So you have just turned all of the business over to the Federal Reserve Bank of New York and there is really not much use for all of these other banks, except that they clear checks. And the banks used to have to pay for that service.

Mr. SWAN. Mr. Chairman, could I just say in connection with the Open Market Committee that they are employed——

The CHAIRMAN. He is an employee of the Federal Reserve Bank of New York. You do not deny that?

Mr. SWAN. That is right.

The CHAIRMAN. The law says that any employee who works directly under him, receives his guidance and direction and is responsible to the President of that bank. You cannot make it plainer than that.

Mr. SWAN. I would like to say that the manager is appointed by the Open Market Committee.

The CHAIRMAN. Maybe he is, but that still does not answer this law. It says that he is under the Federal Reserve Bank of New York, and the President controls it.

Mr. BROCK. Who has the authority to fire him?

The CHAIRMAN. The Federal Reserve Bank of New York—the President only.

Mr. SWAN. The Open Market Committee could remove him from his position as manager of the account.

Mr. BROCK. They could fire him.

Mr. SWAN. He is responsible to them.

The CHAIRMAN. I beg to differ with you. That is not in accordance with the testimony of Mr. Hayes. I read this to him, and I went over this, and he admitted that was correct, but he said that the Open Market Committee does this. The law is that all of these employees are directly under the President of the Federal Reserve Bank of New York.

Mr. DEMING. With respect to the open market operation, the manager of the open market account carries out the policy under the direction given him by the Federal Open Market Committee. He is also an officer of the Federal Reserve Bank of New York. He could be removed from the managership of the open market account by the Open Market Committee. It would not necessarily follow, I suppose, that he would stop being an officer of the New York bank.

The CHAIRMAN. Mr. Hayes stated——

Mr. DEMING. I think that it would be the Committee itself there.

The CHAIRMAN. There is also a grave question in my mind about the stock of the Federal Reserve banks, too. Are there many bankers in your area— in the area of either of you gentlemen—who still insist that the Federal Reserve banks are owned by the member banks?

Mr. DEMING. I do not know any banker who says that, in the sense that they have the normal rights of stockholders in any sense.

The CHAIRMAN. There was a report put out by one of the banks—wherever it was—that said it is a private institution owned by the member banks. The only people who own stock are the private banks who are members of this great System and they own the Federal Reserve banks. They do not do that any more then?

Mr. DEMING. We do not do it in Minneapolis.

Mr. SWAN. Nor do we in San Francisco.

The CHAIRMAN. We finally got that over after 15 or 20 years. We have talked to bankers. They do not own the System. It is owned by the Government. The stock they have is not stock at all. But now we have a man who is president of the U.S. Chamber of Commerce, a banker from Wilmington, Del., who is going around proclaiming from the housetops to everybody that the bankers are subsidizing the Treasury, because last year $48 million went from the Philadelphia Federal Reserve Bank to the Treasury. He says the Treasury receives a subsidy under the System wherein banks keep reserves at the Federal Reserve, 6,000 banks, on which interest is earned and paid to the Treasury Department. This is in the American Bankers Association Bulletin of January 15, 1964. He cited the Federal Reserve Bank of Philadelphia and said that it paid the Treasury $48,852,000 earned from the required reserve deposit of member banks, including $10,400,000 from his own bank.

You know that is not true; do you not?

Mr. DEMING. I assume, Mr. Chairman, that as the Federal Reserve banks purchase securities that they add reserves to the banking system; yes, sir.

The CHAIRMAN. No, that is not the point at all. You know that they carry reserves in the Philadelphia bank. This particular bank does. They do not get any interest on those reserves. They are not entitled to it, because that is a kind of nest egg that the banking system can expand 10 to 1 on, and the banks certainly would not want to be given the privilege of creating $10 million in money for every $1 million that they have in reserves, and then still expect to get interest on the reserves. So they do not get interest on the reserves, do they?

Mr. DEMING. No.

The CHAIRMAN. Then the point is, too, that those reserves are not invested in something; that is, in that bank, are they?

Mr. DEMING. It is true, of course, Mr. Chairman, as I said, as the System purchases securities or extends credit to the banks, it creates reserves.

The CHAIRMAN. Well, I know, but that adds to the unfairness of it. You know, when the Wilmington banks sells $1 million in bonds to the Open Market Committee, the Committee gives the Wilmington bank $1 million credit in the Philadelphia bank, and upon that all the banks can expand credit and make investments to $10 million. That is in our present system. All right, but the point is that some bankers claim—and this fellow from Wilmington seems to be one of those—and I think that you ought to deny it rather than hedge on it—because if this is an "if" and "but" answer, it is incorrect, because this is either a "yes" or "no" answer. They either use those reserves to invest in Government bonds and interest is paid on the Government bonds or it is not. Is it true or false that the reserves of the member banks which at this time aggregate about $17 billion, I think, are invested at all—that can be answered "yes" or "no."

Mr. DEMING. Mr. Chairman——

The CHAIRMAN. Can you not answer that "yes" or "no"?

Mr. DEMING. No, sir; I cannot.

The CHAIRMAN. You are just hedging the question—you are hedging. Now here in the December 1962 issue of the bulletin of the Federal Reserve Bank of Richmond, the question is answered and there is no hedging, and I can go back for 30 years on these things—they come out every year or two. How in the world any banker, including yourself, would insist that they directly or indirectly invest those reserves of member banks, I just cannot understand.

Mr. DEMING. Mr. Patman, we do not have any dispute at all in the general economic field.

The CHAIRMAN. You can answer my question, then. Do you invest the reserves of member banks or not?

Mr. DEMING. From the balance sheet sense, yes, we do, because these are liabilities as against assets over here. From the economic standpoint, the reserves are created through the purchase of Government securities.

The CHAIRMAN. And that those reserves were invested in Government bonds, and they are part of the interest of $48 million in Philadelphia that went into the Treasury. Is that true or false?

Mr. DEMING. I would not agree with that statement, no.

The CHAIRMAN. You think it is false, do you not, when this——

Mr. DEMING. I would not agree with it.

The CHAIRMAN. You would not agree with it?

Mr. DEMING. No, sir.

The CHAIRMAN. Of course, you would not. No fairminded person would agree.

Mr. WIDNALL. I think that in all fairness, in asking that question, you should make a direct quote as to what Mr. Neilan said and then obtain a comment on it.

The CHAIRMAN. I think that you are right. I will do that.

Mr. WIDNALL. And then ask him to comment on it.

The CHAIRMAN. There is one question in one of these bills about paying the stock back to the Federal Reserve and using the surplus to go into the Treasury. The Federal Reserve banks have about $1 billion now in their surplus accounts. That money is uninvested. It is idle, unused, it could be paid into the Treasury and would save the taxpayers about $40 million a year. Do you know of any conceivable reason that the Federal Reserve System, or a Federal Reserve bank will ever need any part of any surplus, even $1?

Mr. DEMING. Mr. Patman, there are special circumstances where you can conceive of a use for surplus. I am not sure that I can list all of them.

The CHAIRMAN. Will you speak of one of them?

Mr. DEMING. You could have losses in the Government security account. You could have losses in foreign currency transactions. You could have a building burn down. I cannot really conceive that we would use up the $1 billion very quickly.

The CHAIRMAN. Or $1 million.

Mr. DEMING. A million, yes.

The CHAIRMAN. Well, anyway, you can create money. You do not need that surplus. It is lying idle and unused. That is the way the Reserve System gets the money. There are only two financial institutions in the United States that can create money—commercial banks and the Fed.

Do you approve of the suggestion of Chairman Martin that the term be 4 years?

Mr. SWAN. I would approve of this. I would rather see a slight lag in his appointment, after the Presidents assume office.

The CHAIRMAN. Would you agree to that?

Mr. DEMING. Yes, I have no reason to differ with Mr. Martin on that.

The CHAIRMAN. Would you want the terms to still stay 14 years, so that there will just be one retiring every 2 years, and then when the new President comes in the first term he will appoint two members of that seven-member Board and after he serves half of the second term he will have appointed three, and then in the last 2 years of the 8-year term he will appoint the fourth man. Would you want to continue that?

Mr. DEMING. With a seven-man Board it seems to met that it is perfectly logical to have 14 years as a term. If you have a five-man board, I think that you could get along with a lesser number of years in the term. I have no particular belief in 14 years just as 14 years.

The CHAIRMAN. Now the Chairman of the Federal Reserve Board is the most important office in the civilized world—more important than this Congress, because the Board can veto what the Congress does—it is more important than any other—they can veto what the President wants. And the President of the United States of America, this great democracy and Republic, he does not have the privilege to pick out the best man in the United States and put him in there as Chairman of that Board. He was not privileged to do so. He was denied that privilege. He was compelled to appoint one of the seven. Most of them had been selected under the preceding administration, as you know. He could only appoint one of the seven. He did not have a freedom of choice. You talk about discrimination or denying people freedom of choice. Here is a case where over the years the law has been corrupted a little bit every now and then to where they have the operation in a straitjacket. He could not do anything else except to appoint one of those seven. Do you believe that was right?

Mr. DEMING. I think that the President, when Mr. Martin's term as Chairman expired, had the privilege of appointing any one of these different Board members as chairman. There have been two appointments to the Board within the last 3 years, I believe.

The CHAIRMAN. That is right. But they did not have the experience of the others. The point is that you are putting your President in a straitjacket. And no other business or industry except bankers have that privilege.

Mr. DEMING. I am not quite sure.

The CHAIRMAN. You put him in a straitjacket. He has to take one of those seven; he cannot have anybody else. The President does not have freedom of choice. That is denied—that is denying our President of the United States a freedom of choice.

Mr. DEMING. The President does have a freedom of choice to appoint a Chairman, if Mr. Martin's suggestion goes through.

The CHAIRMAN. A freedom of choice handicapped, restricted, and restrained, limited to the seven men only.

Mr. DEMING. Yes, but if you have any term at all, I do not see how you can get away from this kind of thing.

The CHAIRMAN. You could disqualify them. That is what the President ought to be able to do. Our President is elected by all of the people, and why should he be compelled to take a direction from anybody so that he has to confine his selection to a certain small group? He cannot go outside and pick the best man in the United States for the job. He is denied that privilege.

Mr. DEMING. I am not quite sure, Mr. Chairman. Are you intending to say that the terms of all of the members of the Board should expire simultaneously?

The CHAIRMAN. No, I think that they should have 4-year terms. That is what I think about it. And I think that you have built up an autocracy here in the Federal Reserve System that may not be a pure dictatorship, but it is pretty near it—pretty near it.

Mr. DEMING. I think that you give us a credit for more power than we possess.

The CHAIRMAN. No, I do not. You admit yourself you pay no attention to what the President says or the Congress, either, unless we pass a law. And you cannot go back and take care of a mistake you made a year ago or 10 years ago and pass law now to do so.

Mr. DEMING. I do not mean to imply at all that the Federal Reserve System does not pay any attention to what the President says.

The CHAIRMAN. Of course, you do not. The statement that you have made, how many Government securities you own?

Mr. DEMING. Yes.

The CHAIRMAN. Do you have that?

Mr. DEMING. You want me to give you the figures?

The CHAIRMAN. Yes.

Mr. DEMING. At the end of 1963 we had $80 million in bills.

The CHAIRMAN. I am talking about Government securities. Do you have the total?

Mr. DEMING. I do not have a total on this particular statement. I just have it by parts. Here it is, about $650 million.

The CHAIRMAN. Each one of the banks has Government securities; that is, open market securities, does it not?

Mr. DEMING. Yes.

The CHAIRMAN. And do you own any yourself—I mean your bank, does it own any bonds?

Mr. SWAN. We do not need to.

The CHAIRMAN. You claim to own them. I do not care to debate the question with you. It is unimportant whether you do or do not own them, but the fact is that those are securities you never see and will never see—you never clip a coupon—other people do that. You have no control over them. They are all in New York City. You just get your part in what I consider to be a mutual fund, so that really if you want to put something down there that would meet with the approval of the SEC which you do not have to do, you would not list that you own those bonds, because you do not own them—you do not have them.

Mr. DEMING. Mr. Chairman——

The CHAIRMAN. You have a participating interest in a stockpile. And you claim that is the only amount that you are entitled to. Well, I think that you ought to put it all down. And of the amount of bonds in the New York bank, under the supervision of the Open Market Committee, you are entitled to a certain participation. That is the only thing that you have there. You have a participation in them.

Mr. DEMING. I am not sure that I see the distinction. The securities that are listed in our statement here are to our credit, held in the vaults in New York, I agree.

The CHAIRMAN. You have a participating interest. Do you have a copy of the oath to directors?

Mr. DEMING. I do not have one with me.

The CHAIRMAN. Would you put it in the record at this point?

Mr. DEMING. Yes, sir.

The CHAIRMAN. And I want Mr. Swan to put one in for his.

(The documents follow:)

Board of Governors of the Federal Reserve System, Form F.R. 253

OATH OF OFFICE OF CLASS A DIRECTOR OF FEDERAL RESERVE BANK

*State of*______________________________ } *ss.*
__________________*of*________________ }
(City or County)

I, the undersigned, a resident of the State of ______________________________, having been duly elected a Class A director of the Federal Reserve Bank of ____, do solemnly swear (affirm) that I will, so far as the duty devolves upon me, diligently and honestly administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks; and that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States applicable to this bank.

____
(*Signature*)

Subscribed and sworn to (affirmed) before the undersigned, a Notary Public in and for the State and ____ aforesaid, this _______________ day of ____________________________, 19____.

____
Notary Public

Board of Governors of the Federal Reserve System, Form F.R. 254

OATH OF OFFICE OF CLASS B DIRECTOR OF FEDERAL RESERVE BANK

*State of*________________________ } *ss.*
________________*of*________________ }
(City or County)

I, the undersigned, a resident of the State of ______________________________, having been duly elected a Class B director of the Federal Reserve Bank of ____, do solemnly swear (affirm) that I will, so far as the duty devolves upon me, diligently and honestly administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks; that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States applicable to this bank; that at the time of my election, I was actively engaged in commerce, agriculture or some other industrial pursuit in the ____ Federal Reserve District; and that I am not an officer, director, or employee of any bank other than the above-mentioned Federal Reserve Bank.

____
(*Signature*)

Subscribed and sworn to (affirmed) before the undersigned, a Notary Public in and for the State and ____ aforesaid, this ________________ day of ______________________________, 19____.

____
Notary Public

Board of Governors of the Federal Reserve System, Form F.R. 255

OATH OF OFFICE
OF
CLASS C DIRECTOR OF FEDERAL RESERVE BANK

*State of*________________________________ } *ss.*
________________________of______________ }
(City or County)

I, the undersigned, a resident of the State of______________________________, having been duly appointed a Class C director of the Federal Reserve Bank of____, do solemnly swear (affirm) that I will, so far as the duty devolves upon me, diligently and honestly administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks; that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States applicable to this bank; and that I am not an officer, director, employee, or stockholder of any bank other than the above-mentioned Federal Reserve Bank.

____
(*Signature*)

Subscribed and sworn to (affirmed) before the undersigned, a Notary Public in and for the State and ____ aforesaid, this ______________ day of ________________________, 19______.

____
Notary Public

The CHAIRMAN. Do they take one or two oaths?

Mr. DEMING. They take one oath.

The CHAIRMAN. Okay. That is what I am talking about. The Supreme Court members have two.

I will read you this statement that Mr. Neilan made, and this is from the American Banker of January 15, 1964. Mr. Neilan said the U.S. Treasury receives a subsidy under the system wherein banks keep reserves at the Federal Reserve on which interest is earned, and paid to the Treasury Department. He cited the Federal Reserve Bank of Philadelphia and said it paid the Treasury $48,852,000 earned from the required reserve deposit of the member banks, including $10,400,-000 from his own bank. Thus, Mr. Neilan says, "It might be said that member banks, including the bank of Delaware, subsidize the Treasury."

Now, you can answer this "yes" or "no," Was the $48,852,000 earned from the required reserves deposited by member banks, including the $10,400,000 from the Wilmington bank?

Mr. DEMING. The earnings of the Federal Reserve System came, in the most part, as you have indicated from the bond portfolio.

The CHAIRMAN. From the bond portfolio?

Mr. DEMING. Yes.

The CHAIRMAN. Yes. And did not come from the reserves, because everybody knows that you do not invest the reserves. That would be double duty. You cannot make the reserves do double duty.

Mr. DEMING. I say, Mr. Chairman, I do not think that we really have any dispute as to the way in which reserves are created, but I was attempting to say that from a balance sheet standpoint, you have assets match liabilities and in this sense the reserves, or member banks' deposits, that we have are liabilities against part of the assets that we have.

The CHAIRMAN. The last thing I will ask you gentlemen, each one of you, please, is this. The Federal Reserve bank in San Francisco, in the years 1916, 1917, 1918, had net service charges for each year, respectively, of $8, $31, and $21 million and I want you to tell me who paid those service charges—not in detail, but you know how they were collected, and then I want you to tell me how much of your capital remained intact and remains intact now. I happen to have knowledge, at least, I believe I have, that the San Francisco bank is the one that when they accumulated their capital, so-called capital stock money, it was in your case, I think, in gold, and they did not have a very good time for awhile, because they were not collecting from the banks on the service charges to pay their expenses, so that they asked permission to use a part of that capital stock. Is that correct, am I correct in my conclusion?

Mr. SWAN. Mr. Chairman, I do not know. I would have to check that.

The CHAIRMAN. All right. I want you to look into it. I think you will find that you did. And I think that you will find that same thing, Mr. Deming, that your bank used a part of its capital stock in 1916. The net service charges received by you were $17 million, and in 1917, $51 million, and in 1918, $28 million.

Mr. DEMING. That is in thousands.

The CHAIRMAN. Is that thousands?

Mr. DEMING. Yes.

The CHAIRMAN. It is thousands. I said millions. Make that thousands then. It was the amount that you received. I want to know where you got that money. Of course, you received interest, because the banks were not collecting service charges.

(The information to be supplied is as follows:)

Operations of the Federal Reserve Bank of San Francisco from November 16, 1914, the date of organization, through December 31, 1915, resulted in a net loss of $52,358. This amount was not deducted from the balance reflecting capital stock outstanding, but was shown as an asset on the December 31, 1915, statement, entitled "Expense—organization," consisting of the following:

Organization expense	$33,626
Deficit 1915	11,459
F.R. notes, cost of redemption	7,273
Total	52,358

Gross earnings for 1916 aggregated $316,450, and after charging current expenses and the total amount shown above against these earnings, the net profit was $59,153.

Net profit	$59,153
Less dividends paid, 6 percent for period Nov. 16, 1914, to Mar. 31, 1915	43,736
Balance in profit and loss, Dec. 31, 1916	**15,417**

From this point forward, there were no years in which losses from operations or dividend payments were not adequately covered by the surplus account.

FEBRUARY 7, 1964.

MEMORANDUM ON INCOME ITEM "NET SERVICE CHARGES RECEIVED" FOR FEDERAL RESERVE BANK OF MINNEAPOLIS, 1916–18

NET SERVICE CHARGES RECEIVED

Pages 141 and 142 of the 1914 Annual Report of the Federal Reserve Board contain the following statements with regard to charges for collection:

"The Federal Reserve Act provides in section 16 that—

" 'The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve bank.

" 'The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal Reserve banks and their branches. * * *'

"It must be borne in mind that the banking power of the United States will divide more sharply than it has ever done before into two groups—members and nonmembers. It is the intent of the act itself to bring nonmembers into the System. But so long as there is any considerable body of nonmember banks, the two groups will of necessity be in competition with one another, producing two parallel clearing systems. The organization of the domestic exchange machinery of the new system thus takes on a double aspect. On the one hand, Federal Reserve banks and their members must be prepared to meet a competition on the part of nonmembers; but, on the other hand, the domestic exchange business of the Federal Reserve System must be so arranged as to offer constant inducement to nonmembers to enter the System. At the same time members must find it more profitable to use the Federal Reserve System than to make collections as at present. The situation is more complex when it is taken into consideration that member banks are in a position to deal on favorable terms either with the Federal Reserve banks and their members or with nonmembers."

In the years 1916 through 1918 the Minneapolis net check collection service charges received totaled about $96,000. Page 10 of the 1916 Annual Report of the Federal Reserve Board states: "The clearing plan provided also that a small service charge (not exceeding 2 cents per item) be made at stated intervals against such banks as send to the Federal Reserve banks checks on other banks for collection and credit. It follows that no portion of this charge can be assessed against any bank unless it shall have availed itself of the facilities offered. Besides checks drawn on member banks, Federal Reserve banks receive checks on such State banks as can be collected at par, and member banks desiring to collect checks drawn on nonmember banks in their vicinity are given the preference. During crop-moving periods this will give a distinct advantage to member banks in agricultural sections."

Page 11 of the same report indicates that the service charge per item for collecting checks at Minneapolis was 1.5 cents. We are unable to locate detailed information regarding the $17,068 in net service charges received by us in 1916 but detail for the 1917 and 1918 net receipts are as follows:

	1917	1918
Member banks	32, 821	17, 414
Other Federal Reserve banks	20, 542	11, 722
Total service charges received	53, 363	29, 136
Service charges paid other Federal Reserve banks	2, 773	1, 417
Service charges, net	50, 590	27, 719

Pages 76 and 77 of the 1918 Annual Report of the Federal Reserve Board states: "At the close of the year 1917 the Reserve banks were assessing upon member banks a service charge of from nine-tenths of 1 cent to 1½ cents per item, the charge being made to cover cost of postage, stationery, and accounting. Early in 1918 this charge was modified by some of the banks taking 500 checks per month from each member bank free, all checks in excess of that number being subject to the service charge. On July 1 the service charge was abrogated entirely, and the Federal Reserve banks now collect without charge all checks on members and other banks on the par list."

Memorandum on Earnings and Capital, Federal Reserve Bank of Minneapolis, 1914–17

Current Net Earnings

For the period from November 1914 through December 1915 we had current net earnings of $8,098. These current net earnings were applied against organization expenses and at year end showed the following net expenses:

Organization expenses, November 1914 to Dec. 31, 1915

Expenses prior to Nov. 16, 1914	$13, 205
Assessment account, Federal Reserve Board, prior to July 1, 1915	8, 533
Cost of Federal Reserve notes used prior to Dec. 31, 1915, not offset by current earnings	10, 603
Net organizational expenses	32, 341

The above total of $32,341 was reflected as a minus amount in the "Profit and loss" account at the close of 1915 and would in effect represent a capital impairment. Current net earnings in 1916 were sufficient to pay dividends of $57,720, wipe out the minus figure of $32,341 that was carried forward from 1915, and leave a plus $44,542 in "Profit and loss" at the end of 1916.

CAPITAL STOCK

The following table shows the capital stock of the Federal Reserve Bank of Minneapolis in thousands of dollars for various dates from December 31, 1914, through December 31, 1917:

Dec. 31, 1914	$814
July 2, 1915	2,422
Dec. 30, 1915	2,547
June 30, 1916	2,576
Dec. 31, 1916	2,609
June 30, 1917 [1]	2,469
Dec. 31, 1917	2,620

[1] On Jan. 2, 1917, there were 52 Wisconsin banks holding capital stock amounting to $229,400 transferred to the Chicago district.

DIVIDENDS

The first dividend declared and paid by the Federal Reserve Bank of Minneapolis was in December 1916 and covered accruals for an 8-month period ended June 30, 1915. The second dividend declared and paid in June 1917 covered a 12-month period ended June 30, 1916, and the third dividend declared and paid in December 1917 covered an 18-month period through December 31, 1917. With the payment of the December 1917 dividend, we were on the current basis. Dividends paid for the period 1914 through 1917 were as follows:

Number of months covered	Period covered	Amount	Declared
8	November 1914 to June 30, 1915	$57,720	December 1916.
12	July 1, 1915, to June 30, 1916	143,821	June 1917.
18	July 1, 1916, to Dec. 31, 1917	220,055	December 1917.

The CHAIRMAN. Are there any other questions?

Mr. BROCK. It I might follow this for my own clarification. Mr. Deming, you said that you owned the securities and there seems to be a difference in terminology between ownership and participating interest. If I have a checking account in a bank and I transfer money to it from another bank or put in cash dollars, they do not hold the specific dollars in my name. They can use them for any number of purposes. I have what you call a participating interest in the assets of that bank to the amount of my checking account. Is that not true?

Mr. DEMING. Yes, but you own the checking account.

Mr. BROCK. I certainly do. If I did not I would be pretty unhappy with the bank. Is there any difference in the degree of ownership that I have with the degree of ownership that you have?

Mr. DEMING. Not as I see, the securities are owned by the Federal Reserve Bank of Minneapolis, allocated in the System by the Open Market Committee, and held in the vaults in New York. This is quite the common practice, as you know, in financial circles for an asset to be held some place other than at home base.

Mr. BROCK. There are many securities which are lodged with other banks?

Mr. DEMING. We have quite a lot of them in our own vaults that are owned by banks that have them in safekeeping, for loan accounts, securities, and the like.

Mr. BROCK. That does not change the actual ownership.

The CHAIRMAN. Mr. Brock, would you yield to me?

Mr. BROCK. Yes.

The CHAIRMAN. Did I understand you to say that although that was your money that was on deposit that they could lend it to other people?

Mr. BROCK. I said that they could use it for a number of other purposes.

The CHAIRMAN. How would they use it?

Mr. BROCK. For any particular purpose they wanted. The particular dollars that I put in, Mr. Chairman, as such. Somebody else is doing the same thing each day. I do not have a vested interested in any particular dollar bill. I have an ownership in a certain number of dollars of a certain value.

The CHAIRMAN. If I go in there, immediately after you leave, and I want to borrow $100 and I give a note for $100, they give me credit for $100 and I have a deposit for $100. They have not taken that money from your account. They have not taken it from depositor's account. They have not taken it from their assets. They have just created that money, have they not?

Mr. BROCK. Yes, but the money is there and you can write a check on it for every dollar you have in the account. That is an indication of ownership.

Another point, Mr. Deming and/or Mr. Swan, either one of you, do you have examiners who go out and examine member banks of the Reserve System located in your particular bank?

Mr. DEMING. Yes.

Mr. SWAN. Yes.

Mr. BROCK. And do they participate in some sort of a training program, such as the membership in these various associations, getting knowledge of banking, so that, perhaps, they might be more qualified?

Mr. DEMING. Yes. There is here what is called an interagency bank examination school operated by the Federal supervisory people, and we send our examiners for training in these schools—there are two of them. I have forgotten whether they are called junior and senior or whether they are called advanced and further advanced, but there are two courses, I guess you would say, to help train examiners.

Mr. BROCK. Do you consider this a normal expense in your normal operation?

Mr. DEMING. Yes.

Mr. SWAN. Yes.

Mr. BROCK. Is there any way in which these examiners can advance their knowledge of the banking field, and banking practices in any formal fashion other than this—it is a very logical and regular expense to the Federal Reserve Bank System, is it not?

Mr. DEMING. We think so.

Mr. SWAN. Yes.

Mr. BROCK. Certainly, you would not, as some of the questions might indicate, send out a librarian or a shoe salesman to examine one of your member banks.

Mr. DEMING. We would not.

Mr. BROCK. Thank you very much.

The CHAIRMAN. Are there any further questions?

Thank you gentlemen very much. We appreciate your testimony. The information you have given us will be considered in connection with the matter we are studying now and, particularly in connection with the bills we have before us.

We will recess now until 9:30 o'clock in the morning.

(Whereupon, the subcommittee recessed at 11:35 p.m., to reconvene at 9:30 o'clock on Wednesday, February 5, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

WEDNESDAY, FEBRUARY 5, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC FINANCE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Hanna, Wilson, Kilburn, Harvey, Bolton, and Taft.

The CHAIRMAN. The committee will please come to order.

We have as our witnesses this morning the President of the Federal Reserve Bank of Chicago, Mr. C. J. Scanlon, and the President of the Federal Reserve Bank of Kansas City, Mr. George H. Clay.

Mr. Scanlon, you have a statement, and if it is satisfactory to you it will be accepted in the record at this point, and then we will ask you to summarize it, and then we will ask Mr. Clay to make a brief statement of his views. Then we will insert immediately after your statement the information we obtained from the two banks—including expenditure items and other information relevant to this inquiry. So, you may proceed, Mr. Scanlon.

STATEMENT OF CHARLES J. SCANLON, PRESIDENT, FEDERAL RESERVE BANK OF CHICAGO

Mr. SCANLON. Mr. Chairman, as I have indicated in my statement, I have spent my entire business life at the Federal Reserve Bank in Chicago. I assume today you would like an expression of my views on certain of the bills that are before the House Banking Committee.

The CHAIRMAN. Yes, sir.

Mr. SCANLON. As to H.R. 3783, providing for the retirement of Federal Reserve bank stock, I have indicated in my statement that I don't consider the ownership of stock of the Federal Reserve bank by the member banks of the System to be a matter of great important in and of itself.

However, it is an aspect of the institutional concept which the Congress provided at the time the Federal Reserve System was organized and for reasons considered compelling at that time.

I conclude that the retirement of the stock would not necessarily be an improvement over the present situation and might destroy the effectiveness of the combination of public and private interest which the Congress conceived.

H.R. 9631, to increase to 12 the number of members of the Federal Reserve Board, and for other purposes, and H.R. 9685, to authorize appropriations for the expenses of the Federal Reserve banks and Board of Governors, and for other purposes, are, in my judgment, open to serious objection, Mr. Chairman.

Experience has taught us, as well as most other economically developed countries, the undesirability of subordinating the central bank to the Treasury. Both of the agencies work toward the attainment of the Nation's economic goals, but the Treasury is also responsible for financing the expenditures of the Federal Government, and I think there should be not a merger of the two responsibilities but a separation of the two.

I would like to comment briefly on particular points in the two bills: First, placing the Secretary of the Treasury on the Federal Reserve Board and having him serve as chairman would be likely to subordinate the objectives of long-run stability to more immediate objectives. I believe this would be undesirable.

Second, if the Federal Reserve is to remain insulated somewhat from daily political pressures it can't at the same time be subject to annual appropriations measures.

Third, if the size of he Board were to be changed, I would favor a reduction rather than an increase. A board of five was recommended by both the Commission on Money and Credit and by your committee in 1952, Mr. Chairman.

Fourth, with respect to the terms of the members of the Board of Governors, I find nothing sacrosanct about a 14-year term. Four years seems to me a little too short. The term of membership of most Government regulatory agencies ranges between 4 and 7 years. If I had a choice I would favor a term closer to the upper end of that range, particularly since the bill does not provide for reappointment.

Fifth, as President of a Reserve bank I may not be the most appropriate person to comment on the role of Presidents on the Open Market Committee, but I feel strongly that they do something worthwhile to the Committee. I think this is to the good.

Sixth, on audits, I have no real objection to audits being made of the Federal Reserve System by the Comptroller General, so long as the purpose of the audits is to determine that the funds are being handled honestly and efficiently. If the purpose of the audits is to establish control over policy, this would be undesirable.

As to H.R. 9686, to require payment of interest on certain funds of the United States held on deposit in commercial banks, I think this is a matter that should be reviewed periodically to determine the cost and benefits to the Treasury and to the commercial banks. I would hope that the Secretary of the Treasury would have ample authority to exercise judgment and discretion in this field.

On H.R. 9687, to eliminate the prohibition against the payment of interest on demand deposits. I believe this has in its favor very persuasive logic in a competitive free enterprise system. But this same logic would also apply to time and savings deposits and to many other features of commercial banking that are now circumscribed by regulations intended to serve the public interest. As you know, Mr. Chairman, these prohibitions go back to the days following the bank holiday. I think there were reasons, good reasons, why these limitations were established at the time. In general, I would like to see restrictions of this type removed but I would have to say, as a result of many years' experience in the field of bank supervision, this removal would not be a good thing for the soundness of the banking system.

If the Congress were disposed to remove such limitations, it would be my recommendation to give the Board of Governors standby authority, at least for the time being.

I believe those are all the comments I have, Mr. Chairman.

(The prepared statement and expenses of Mr. Scanlon follow:)

Statement of Charles J. Scanlon, President, Federal Reserve Bank of Chicago

Mr. Chairman and members of the subcommittee, my name is Charles J. Scanlon; I am President of the Federal Reserve Bank of Chicago. I am here today at your request to be of whatever help I can in providing useful information on the Federal Reserve System and, in particular, the Federal Reserve Bank of Chicago and the Seventh Federal Reserve District. My entire business life has been spent with the Federal Reserve Bank of Chicago. The major portion of that time I was directly engaged in the field of bank supervision.

I assume you would like to have my views on bills you have recently introduced for the consideration of the House of Representatives.

First, as to H.R. 3783, to provide for the retirement of Federal Reserve bank stock, and for other purposes, I do not consider the ownership of stock in the Federal Reserve banks by members banks of the Federal Reserve System to be a matter of great importance, in and of itself. The Reserve banks can operate without such stock. However, the capital stock is an aspect of the institutional concept which the Congress provided at the time the Federal Reserve System was organized for reasons considered compelling at the time. I know of no evidence that indicates the existence of such stock ownership has interfered with the effective operation of the Federal Reserve System to serve the public interest. I conclude, therefore, that retirement of the stock would not necessarily be an improvement over the present situation and might destroy the effectiveness of the combination of public and private interest which the Congress conceived.

While retirement of the stock would be readily understood by those well informed about the System, there is the distinct possibility that it would be looked upon by others, both at home and abroad, as a major change and could have at least some adverse effect on confidence in the soundness of the dollar: This possible adverse effect would be enhanced if other changes were to be made (or proposed) concurrently, the net effect of which would be to submerge monetary policy to pressing temporary expedients.

Retirement of the stock would detract somewhat from the attractiveness of membership in the System to State banks. Since I believe that a nationwide banking system, in which all banks are subject uniformly to certain basic requirements, is desirable, it would seem appropriate to me either to make membership in the Federal Reserve System mandatory for all insured banks or to make the "costs" of membership so nominal and the "benefits" of membership so great that all banks would voluntarily desire to be members. An alternative would be to subject all commercial banks to uniform reserve requirements, as was recently recommended by the President's Committee on Financial Institutions and earlier by the report of the Patman Committee in 1952.

Because States may permit lower reserve requirements for nonmember banks and/or permit these reserves to be invested in earning assets or to be held as deposits at other banks, member banks in the seventh Federal Reserve district hold a larger proportion of nonearning cash assets to total assets than do nonmember banks of similar size. The holding of these additional cash balances, as the following table indicates, is a "cost" of Federal Reserve membership:

Distribution of deposit liabilities and cash assets among all insured commercial banks according to membership status of banks, June 29, 1963

[Dollar amounts in millions]

	Total deposits	Cash assets [1]	Percent to deposits of—		
			Total cash assets	Reserves at Federal Reserve banks	Cash and deposits with banks
All member banks	$222, 619	$44, 929	20. 2	7. 4	12. 8
Insured nonmember commercial banks	42, 035	5, 841	13. 9		13. 9
All insured commercial banks	264, 654	50, 770			

[1] Cash assets include reserves with the Federal Reserve banks, cash in vault, time and demand balances with banks, cash items in the process of collection.

NOTE.—Since reserve requirements differ among banks and are less for time than for demand deposits, the percentages of cash assets to deposits are influenced, but not significantly, by differences in the size and composition of deposits of member and nonmember banks as well as by membership status.

Source: "Federal Reserve Bulletin," December 1963, p. 1676. "Summary Report," No. 168, p. 4.

It has been suggested that ownership of stock of Federal Reserve banks by the member banks projects a misleading and undesirable image of the Federal Reserve System; namely, that it is owned and managed by the commercial banks. I must admit that in years past I have had occasional difficulty in explaining how in this instance stockownership does not imply stockholder control. However, this image, if it exists, could be corrected in any of several ways without resorting to cancellation of the stock. One way would be for a majority of the directors to be appointed by the Board of Governors. The Chairman and Deputy Chairman would continue, as now, to be designated from among the "public" members. Such a change should eliminate any suspicion that the Federal Reserve banks could at some time be operated for the benefit of a private group and not in the public interest.

H.R. 9631, "To increase to 12 the number of members of the Federal Reserve Board, and for other purposes," and H.R. 9685 * * * "to authorize appropriations for the expenses of the Federal Reserve banks and the Board of Governors of the Federal Reserve System, and for other purposes," are, in my judgment, open to serious objection. Experience has taught us, as well as most other economically developed countries, the undesirability of subordinating the central bank to the Treasury. While both agencies work toward the attainment of the Nation's economic goals, the Treasury is also responsible for financing the expenditures of the Federal Government. This it does by raising funds through taxation and borrowing.

It is not difficult to visualize occasions when the Treasury's fund-raising function might interfere with its economic stabilization function, when, because of the more immediate demands of the former, stabilization objectives might be subordinated. Consequently, the most desirable tax, debt or interest rate policy for stabilization purposes might not always be followed. I believe that responsibility for monetary policy and fiscal policy should be lodged with different officials. It is necessary, of course, that there be adequate coordination and consultation, but the responsibilities should not be merged.

The Federal Reserve System, while insulated somewhat from daily political pressures, does operate within the control of the Federal Government. I am always aware that the System was created by the Congress and can be modified or terminated by the Congress at any time. The System is charged with working toward the same economic goals, spelled out in the Employment Act of 1946, as other departments and agencies of the Government. Subordination of the Federal Reserve to the Treasury would make the attainment of these goals more, not less, difficult.

I would like to comment briefly on some of the particulars of the two bills:

1. Placing the Secretary of the Treasury on the Federal Reserve Board and having him serve as Chairman would be likely to subordinate the objectives of longrun stability to more immediate objectives. I believe this would be undesirable. The Treasurys' financing needs are now given full and careful consideration along with other probable demands on the credit markets in formulating monetary policy.

2. If the Federal Reserve is to remain insulated somewhat from daily political pressures, it cannot at the same time be subject to annual appropriation pressures.

Moreover, I believe there is serious question whether our money and credit mechanism could perform as satisfactorily on an appropriation basis. I do not know who is to blame, whether it is the appropriation system or something else, but in the Middle West we have had a shortage of coins for years. We have had to ration coins almost constantly and have been unable to supply enough to take care of the normal needs of commerce and trade. It is difficult to explain to a storekeeper in a small town in Iowa how this country can produce 7,500,000 automobiles a year but cannot mint enough nickels to accommodate the needs of our people.

3. If the size of the Federal Reserve Board were to be changed, I would favor a reduction, not an increase, in the number of members. A Board of five members was recommended by both the Commission on Money and Credit and the Patman Committee in 1952, while the first Hoover Commission of 1949 recommended a Board of only three.

4. I find nothing sacrosanct about a 14-year term for members of the Board of Governors. Four years, however, strikes me as too short, particularly if reappointment is to be prohibited. The art of central banking and monetary control is not inherited; it must be learned. It seems unlikely that representatives of a broad spectrum of American life—and I assume that the Board would continue to be made up of such persons—would possess a thorough understanding of the technical aspects of this difficult field at the times of their appointments. At the end of their 4-year terms their knowledge would no longer be available to the System or if available in an advisory capacity, it would be separated from responsibility and, therefore, of reduced value.

I note the term of membership of most Federal regulatory agencies ranges between 4 and 7 years. A term close to the upper end of this range seems reasonable to me. In addition, I would favor permitting a person to be reappointed to serve a second term and would stagger the terms so as to have some experienced members present on the Board at all times.

5. As the President of a Reserve bank, I may not be the most appropriate person to comment on the role of bank Presidents on the Open Market Committee. My own experience persuades me, however, that the Presidents bring helpful information and views to the conference table based on their proximity to regional problems and the daily operations of the Federal Reserve banks. I think this is to the good. The presidents with whom I have been acquainted have always considered themselves representatives of the public and not spokesmen for the commercial banking community or any other special interest group. I would like to make the record clear that I am not now, nor have I ever been, beholden to any group. The directors of my bank give freely of their time and counsel but I have never had one of them tell me how to vote on monetary policy or exert pressure of any kind. They are well aware that their role as directors is in the interest of serving the general public—they are public-spirited men in every sense of the word.

6. I have no fundamental objection to audits being made of the Federal Reserve System by the Comptroller General so long as the purpose of such audits is to determine that funds are being handled honestly and efficiently. Having had many years' experience in bank supervision, I feel that I have some ability to judge the need for audits and their appropriate uses. As Chairman Martin has testified, such audit would not substitute for the specialized audit and control procedures now in use in the System and, therefore, would be additional expense. I believe it would be highly undesirable, however, for an additional audit procedure to be undertaken for the purpose of influencing the formulation and implementation of monetary policy. The present proposal appears to have that as its objective and I, therefore, do not favor it.

As to H.R. 9686, to require the payment of interest on certain funds of the United States held on deposit in commercial banks * * * and for other purposes, I think this is a matter that should be reviewed periodically as to "costs and benefits" to the Treasury and the participating commercial banks with the appropriate policy to be based on the specific evidence. The Secretary of the Treasury should have authority and responsibility to exercise judgment and discretion in this area.

H.R. 9687, to * * * eliminate the prohibition against the payment of interest on demand deposits has in its favor very persuasive logic in a competitive, free-enterprise economy. The same logic would also apply to time and savings deposits and to many other features of commercial banking now circumscribed by regulations intended to serve the public interest by assuring the maintenance of sound and viable banking services to the public. As you know, many of these regulations and prohibitions have their roots in the experience of the 1920's, culminating in the widespread bank failures in the early 1930's. The prohibition of payment of interest on demand deposits is one of these; the limitation of interest payments on time and savings deposits is another. In general, I would like to see restrictions of this type removed and competition given maximum freedom. It is my judgment, however, based on many years of work in bank supervision, that the removal of the restriction on interest payments on demand deposits and the limitation on interest payments on time and savings deposits would soon have substantial adverse effects on the maintenance of a sound system of commercial banking. My recommendation in this area, therefore, is to retain the present statutory limitations. However, if the Congress were desirous of eliminating these regulations, I would recommend that standby authority for their uses be provided, at least for the time being.

Statement of condition of the Federal Reserve Bank of Chicago at the close of business Dec. 31, 1963

[In thousands of dollars]

Assets:	
Gold certificate account	2,426,548
Redemption fund for Federal Reserve notes	256,163
Total gold certificate reserves	2,682,711
Federal Reserve notes of other banks	50,379
Other cash	25,167
Discounts and advances:	
Secured by U.S. Government securities	3,300
Other	4,512
Acceptances:	
Bought outright	--
Held under repurchase agreement	--
U.S. Government securities:	
Bought outright	5,395,397
Held under repurchase agreement	--
Total loans and securities	5,403,209
Cash items in process of collection	1,277,431
Bank premises	22,531
Other assets:	
Denominated in foreign currencies	21,519
All other	39,465
Total assets	9,522,412
Liabilities:	
Federal Reserve notes	5,891,488
Deposits:	
Member bank reserves	2,497,544
U.S. Treasurer—General account	65,426
Foreign	22,560
Other	33,279
Total deposits	2,618,809
Deferred availability cash items	788,877
Other liabilities	13,471
Total liabilities	9,312,645
Capital accounts:	
Capital paid in	69,922
Surplus	139,845
Other capital accounts	--
Total liabilities and capital accounts	9,522,412
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	31.5
Contingent liability on acceptances purchased for foreign correspondents	12,958

Federal Reserve note statement of Federal Reserve Bank of Chicago at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	6,147,231
Less held by issuing bank, and forwarded for redemption	255,743
Federal Reserve notes, net [1]	5,891,488
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	1,100,000
Eligible paper	--
U.S. Government securities	5,077,000
Total collateral	6,177,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

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Federal Reserve Bank of Chicago—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914–15	94	24	76	62	------	------	13	269
1916	124	101	204	91	------	19	127	666
1917	939	394	444	31	12	62	201	2, 083
1918	6, 447	1, 253	311	1	65	27	378	8, 482
1919	8, 916	2, 142	736	------	45	------	174	12, 012
1920	25, 727	2, 989	995	------	174	------	418	30, 303
1921	18, 829	375	858	------	123	------	197	20, 382
1922	3, 862	547	2, 081	------	50	------	208	6, 749
1923	3, 872	1, 420	1, 050	------	38	------	132	6, 511
1924	2, 044	706	2, 122	------	40	------	290	5, 202
1925	2, 122	1, 055	1, 834	------	43	------	370	5, 425
1926	3, 016	1, 231	1, 930	------	50	------	340	6, 567
1927	2, 247	1, 189	2, 216	------	48	------	468	6, 167
1928	5, 428	1, 302	1, 723	------	44	------	440	8, 936
1929	6, 777	1, 285	1, 270	------	76	------	481	9, 889
1930	1, 222	630	2, 504	------	35	------	443	4, 834
1931	940	765	1, 937	------	32	------	470	4, 144
1932	1, 337	367	3, 455	------	54	------	400	5, 614

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Chicago—Current earnings—Continued

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		619	234				5, 668	244	6, 765
1934		48	17	9			7, 843	234	8, 152
1935		2	4	99	9		5, 837	227	6, 178
1936		2	4	105	2		4, 125	187	4, 423
1937		7	3	52			4, 331	183	4, 576
1938		4		27			3, 748	175	3, 954
1939		3		23	1		4, 044	184	4, 255
1940		3		15			4, 617	196	4, 831
1941		1		17	5		4, 885	181	5, 089
1942		2		13	10		6, 407	159	6, 591
1943		4		2			8, 606	126	8, 738
1944		45					14, 033	127	14, 205
1945		228		3	1		19, 705	140	20, 077
1946		404					20, 683	147	21, 235
1947		243			1		20, 935	140	21, 319
1948	705				2		42, 592	108	43, 408
1949	418						46, 578	55	47, 052
1950	233				2		41, 374	51	41, 660
1951	643				6		58, 031	19	58, 699

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	2, 855		13		64, 612		13	67, 493
1953	3, 564				77, 107		20	80, 692
1954	633				75, 692		15	76, 339
1955	2, 640				69, 427		24	72, 091
1956	5, 943				99, 443		32	105, 418
1957	5, 657				127, 820		53	133, 530
1958	1, 220				128, 023		41	129, 284
1959	4, 914				148, 277		50	153, 241
1960	4, 098				185, 581		84	189, 763
1961	609				160, 030		47	160, 685
1962	875				175, 592	487	44	176, 998

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Chicago—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	$23, 301	$428, 206	$1, 499, 095	$7, 003, 437	$9, 561, 834	$26, 139, 042
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses	-	-	-	-	-	66, 764
Probable losses	-	-	-	-	-	-
Depreciation on U.S. bonds	-	-	-	-	-	-
All other	-	-	2, 127	-	-	2, 543
Total additions	-	-	2, 127	-	-	69, 307
Deductions from current net earnings:						
Bank premises—depreciation	-	-	-	-	820, 000	29, 062
Furniture and equipment	3, 210	25, 000	32, 225	172, 365	98, 080	289, 064
Reserve for probable losses	-	-	-	-	-	-
Reserve for Federal Reserve Board expenses	-	-	-	-	66, 764	-
Reserve for depreciation, U.S. bonds	-	-	237, 118	-	-	-
All other	-	-	-	25, 991	786	14, 474
Total deductions	3, 210	25, 000	269, 343	198, 356	985, 630	332, 600
Net deductions from current net earnings	3, 210	25, 000	267, 216	198, 356	985, 630	263, 293
Net earnings	20, 091	403, 206	1, 231, 879	6, 805, 081	8, 576, 204	25, 875, 749
Distribution of net earnings:						
Dividends paid	-	361, 319	862, 259	604, 635	700, 807	792, 769
Transferred to surplus account	-	-	215, 799	6, 200, 446	7, 875, 397	14, 688, 500
Franchise tax paid U.S. Government	-	-	215, 799	-	-	10, 394, 480
Balance to profit and loss	20, 091	41, 887	−61, 978	-	-	-

	1921	1922	1923	1924	1925
Current net earnings	$15, 648, 070	$2, 668, 806	$2, 138, 335	$1, 255, 733	$1, 680, 624
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Probable losses		427, 465			
Depreciation on U.S. bonds		144, 554	29, 946	21, 370	
All other	4, 826		11, 957	6, 487	12, 646
Total additions	4, 826	572, 019	41, 903	27, 857	12, 646
Deductions from current net earnings:					
Bank premises—depreciation	145, 000	1, 400, 000	451, 044	165, 197	165, 197
Furniture and equipment	118, 158	238, 923	166, 662	11, 818	32, 718
Reserve for probable losses	758, 812		363, 586	181, 674	323, 097
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds					
All other	125, 809	196, 687	20, 591	15, 778	50, 985
Total deductions	1, 147, 779	1, 835, 610	1, 001, 883	374, 467	571, 997
Net deductions from current net earnings	1, 142, 953	1, 263, 591	959, 980	346, 610	559, 351
Net earnings	14, 505, 117	1, 405, 215	1, 178, 355	909, 123	1, 121, 273
Distribution of net earnings:					
Dividends paid	853, 785	876, 203	904, 371	909, 123	934, 016
Transferred to surplus account	2, 075, 323	[1] −657, 289	27, 398		187, 257
Franchise tax paid U.S. Government	11, 576, 009	[1] 1, 186, 301	246, 586		
Balance to profit and loss					

[1] After charging surplus and crediting franchise tax with $710,190 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $52,901 and $476,111, respectively.

Federal Reserve Bank of Chicago—Profit and loss account, 1926–35

	1926	1927	1928	1929	1930
Current net earnings	$2, 494, 370	$1, 984, 377	$4, 978, 057	$5, 503, 650	$756, 375
Additions to current net earnings:					
Profit on U.S. Government securities sold					255, 952
Other additions	13, 098	13, 061	11, 833	8, 050	42, 558
Total additions	13, 098	13, 061	11, 833	8, 050	298, 510
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses	241, 032	50, 809	23, 658	31, 500	
Reserve for self-insurance					
Building for Board of Governors					
All other deductions	12, 513	18, 984	202, 803	55, 535	557
Total deductions	253, 545	69, 793	226, 461	87, 035	557
Net deductions from current net earnings	240, 447	56, 732	214, 628	78, 985	+297, 953
Net earnings	2, 253, 923	1, 927, 645	4, 763, 429	5, 424, 665	1, 054, 328
Dividends paid	985, 959	1, 029, 990	1, 099, 761	1, 170, 363	1, 211, 418
Franchise tax paid U.S. Government				602, 838	
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	1, 267, 964	897, 655	3, 663, 668	3, 651, 464	[1] −157, 09

	1931	1932	1933	1934	1935
Current net earnings	$376,635	$1,932,708	$2,652,060	$4,349,227	$2,312,935
Additions to current net earnings:					
Profit on U.S. Government securities sold	211,754	873,140	140,466	1,498,266	901,875
Other additions	52,213	1,124	232,779	113,724	49,429
Total additions	263,967	874,264	373,245	1,611,990	951,304
Deductions from current net earnings:					
Special depreciation allowances on bank premises				2,200,000	
Reserve for losses		21,593	717,260	1,352,519	902,868
Reserve for self insurance		500,000	500,000	1,000,000	
Building for Board of Governors					116,194
All other deductions	30,707	42,654	17,552	4,207	1,473,957
Total deductions	30,707	564,247	1,234,812	4,556,726	2,493,019
Net deductions from current net earnings	+233,260	+310,017	861,567	2,944,736	1,541,715
Net earnings	609,895	2,242,725	1,790,493	1,404,491	771,220
Dividends paid	1,170,633	1,029,933	858,127	761,334	753,583
Franchise tax paid U.S. Government		1,091,513	(2)		
Paid U.S. Treasurer (sec. 13b)					17,637
Transferred to surplus (sec. 13b)				−26,322	
Transferred to surplus (sec. 7)	[1] −560,738	121,279	932,366	669,479	

[1] Deficit in earnings after payment of dividends, charged to surplus account.

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of Chicago—Profit and loss account, 1936–45

	1936	1937	1938	1939	1940
Current net earnings	$970, 096	$1, 376, 025	$636, 024	$938, 250	$1, 360, 053
Additions to current net earnings:					
Profits on sales of U.S. Government securities	1, 150, 317	276, 470	932, 997	487, 914	1, 292, 363
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	375, 743	534, 718	704, 144	33, 399	237, 658
Total additions	1, 526, 060	811, 188	1, 637, 141	521, 313	1, 530, 021
Deductions from current net earnings:					
Reserves for contingencies	927, 009				
Losses and reserves for losses on industrial advances (net)				14, 000	
Special reserves and chargeoffs on bank premises			516, 149	462, 500	
Chargeoffs and special depreciation on bank premises					282, 000
Prior service contributions to retirement system	329, 958	332, 999	665, 997		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	231, 578	165, 119			
All other	75, 433	1, 489	61	146	100
Total deductions	1, 563, 978	499, 607	1, 182, 207	476, 646	282, 100
Net additions or deductions (−)	−37, 918	311, 581	454, 934	44, 667	1, 247, 921
Net earnings	932, 178	1, 687, 606	1, 090, 958	982, 917	2, 607, 974
Paid U.S. Treasury (sec. 13b)	28, 354	28, 354	20, 714	5, 120	10, 924
Dividends paid	725, 553	763, 115	791, 007	819, 532	826, 919
Transferred to surplus (sec. 13b)	25, 030	12, 767	206		
Transferred to surplus (sec. 7)	153, 241	883, 370	279, 031	158, 265	1, 770, 131
Surplus (sec. 7) Jan. 1	21, 350, 361	21, 503, 602	22, 386, 972	22, 666, 003	22, 824, 268
Additions, as above	153, 241	883, 370	279, 031	158, 265	1, 770, 131
Transferred to reserves for contingencies					−1, 770, 131
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	21, 503, 602	22, 386, 972	22, 666, 003	22, 824, 268	22, 824, 268

	1941	1942	1943	1944	1945
Current net earnings	$861,561	$1,413,105	$2,888,091	$7,447,542	$13,525,750
Additions to current net earnings:					
Profits on sales of U.S. Government securities	147,895	378,311	4,135,904	371,580	415,493
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)				5,376	
All other	1,166	8,587	1,788	7,318	7,473
Total additions	149,061	386,898	4,137,692	384,274	422,966
Deductions from current net earnings:					
Reserves for contingencies					
Losses and reserves for losses on industrial advances (net)	[1] 14,000	10,000			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises					
Prior-service contributions to retirement systems					
Retirement system (interest base adjustment)		592,793			
Retirement system (interest base and increased benefits adjustments)			1,266,073		
Assessment for building for Board of Governors					
All other	157	49	357	379	518,405
Total deductions	[2] 13,843	602,842	1,266,430	379	518,405
Net additions or deductions (−)	162,904	−215,944	2,871,262	383,895	−95,439
Net earnings	1,024,465	1,197,161	5,759,353	7,831,437	13,430,311
Paid U.S. Treasury (sec. 13b)	27,215	4,021	50	5,713	2,516
Dividends paid	896,766	955,508	993,684	1,115,422	1,215,381
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	100,484	237,632	4,765,619	6,710,302	12,212,414
Surplus (sec. 7) Jan. 1	22,824,268	22,924,752	22,924,752	26,490,371	33,200,673
Additions, as above	100,484	237,632	4,765,619	6,710,302	12,212,414
Transferred to reserves for contingencies		−237,632	−1,200,000		
Transferred from reserves for contingencies					7,615,843
Surplus (sec. 7) Dec. 31	22,924,752	22,924,752	26,490,371	33,200,673	53,028,930

[1] Net recoveries.
[2] Net additions.

Federal Reserve Bank of Chicago—Profit and loss account, 1946–55

	1946	1947	1948	1949	1950
Current net earnings	$13, 445, 847	$12, 475, 871	$32, 564, 214	$35, 443, 658	$29, 749, 788
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	231, 046	340, 409	826, 315	4, 268, 571	5, 131, 653
All other	12, 090	107, 449	289, 304	131, 944	7, 987
Total additions	243, 136	447, 858	1, 115, 619	4, 400, 515	5, 139, 640
Deductions from current net earnings:					
Reserves for contingencies	45, 982	52, 647			54, 821
Special depreciation on bank premises			282, 238		
Chargeoffs and special depreciation on bank premises		100, 000		117, 762	
Retirement system (salary computation adjustment)	281, 169				
Retirement system (adjustment for revised benefits)				328, 771	
Losses on U.S. Government securities sold (net)					
All other	1, 064	1, 858	2, 582	36, 737	1, 590
Total deductions	328, 215	154, 505	284, 820	483, 270	56, 411
Net additions or deductions (—)	—85, 079	293, 353	830, 799	3, 917, 245	5, 083, 229
Net earnings before payments to U.S. Treasury	13, 360, 768	12, 769, 224	33, 395, 013	39, 360, 903	34, 833, 017
Transferred to reserves for contingencies			5, 676, 601	5, 936, 360	
Paid to U.S. Treasury (sec. 13b)		427			
Paid U.S. Treasury (interest on Federal Reserve notes)		10, 249, 336	23, 621, 237	28, 681, 442	29, 845, 729
Net earnings after reserves and payments to U.S. Treasury	13, 360, 768	2, 519, 461	4, 097, 175	4, 743, 101	4, 987, 288
Dividends paid	1, 311, 792	1, 380, 234	1, 472, 491	1, 556, 097	1, 670, 666
Transferred to surplus (sec. 7)	12, 048, 976	1, 139, 227	2, 624, 684	3, 187, 004	3, 316, 622
Surplus (sec. 7) Jan. 1	53, 028, 930	65, 077, 906	66, 217, 133	68, 841, 817	72, 028, 821
Surplus (sec. 7) Dec. 31	65, 077, 906	66, 217, 133	68, 841, 817	72, 028, 821	75, 345, 443

	1951	1952	1953	1954	1955
Current net earnings	$44, 598, 502	$51, 937, 713	$63, 736, 463	$59, 979, 070	$55, 690, 515
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)		293, 142	292, 477	72, 999	
All other	18, 330	6, 171	123	11, 578	9, 049
Total additions	18, 330	299, 313	292, 600	84, 577	9, 049
Deductions from current net earnings:					
Reserves for contingencies	64, 863	68, 387	81, 996	49, 792	44, 972
Special depreciation on bank premises					
Chargeoffs and special depreciation on bank premises					
Retirement system (salary computation adjustment)					
Retirement system (adjustment for revised benefits)			299, 518		
Losses on U.S. Government securities sold (net)	222, 407				[1] 7
All other	3, 736	8, 971	5, 343	111, 432	20, 908
Total deductions	291, 006	77, 358	386, 857	161, 224	65, 873
Net additions or deductions (−)	−272, 676	221, 955	−94, 257	−76, 647	−56, 824
Net earnings before payments to U.S. Treasury	44, 325, 826	52, 159, 668	63, 642, 206	59, 902, 423	55, 633, 691
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserve notes)	38, 297, 506	45, 238, 680	55, 473, 066	51, 963, 902	47, 949, 747
Net earnings after reserves and payments to U.S. Treasury	6, 028, 320	6, 920, 998	8, 169, 140	7, 938, 521	7, 683, 944
Dividends paid	1, 772, 557	1, 894, 010	2, 005, 407	2, 164, 551	2, 356, 233
Transferred to surplus (sec. 7)	4, 255, 763	5, 026, 978	6, 163, 733	5, 773, 970	5, 327, 711
Surplus (sec. 7) Jan. 1	75, 345, 443	79, 601, 206	84, 628, 184	90, 791, 917	96, 565, 887
Surplus (sec. 7) Dec. 31	79, 601, 206	84, 628, 184	90, 791, 917	96, 565, 887	101, 893, 598

[1] Net recoveries.

Federal Reserve Bank of Chicago—Profit and loss account, 1956–63

	1956	1957	1958	1959
Current net earnings	$87, 769, 073	$114, 557, 025	$109, 326, 403	$132, 525, 299
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	43, 529	27, 882	26, 380	33, 137
Reimbursement for fiscal agency expenses incurred in prior years		123, 875		
Transferred from reserves for contingencies (net)				12, 966, 576
All other	44, 821	5, 436	26, 960	27, 654
Total additions	88, 350	157, 193	53, 340	13, 027, 366
Deductions from current net earnings:				
Reserves for contingencies	41, 017	37, 505	44, 771	
Retirement system (adjustment for revised benefits)		1, 118, 809		
All other	2, 360	1, 155	622	449
Total deductions	43, 377	1, 157, 469	45, 392	449
Net additions or deductions (—)	44, 973	—1, 000, 277	7, 948	13, 026, 917
Net earnings before payments to U.S. Treasury	87, 814, 045	113, 556, 748	109, 334, 351	145, 552, 216
Paid U.S. Treasury (interest on Federal Reserve notes)	76, 747, 423	99, 743, 254	95, 789, 048	167, 266, 066
Dividends paid	2, 539, 170	2, 730, 921	2, 902, 076	3, 110, 883
Transferred to surplus (sec. 7)	8, 527, 453	11, 082, 573	10, 643, 227	—24, 824, 734
Surplus (sec. 7) Jan. 1	101, 893, 599	110, 421, 051	121, 503, 625	132, 158, 534
Transferred from surplus (sec. 13b)			11, 682	
Surplus (sec. 7) Dec. 31	110, 421, 051	121, 503, 625	132, 158, 534	107, 333, 800

	1960	1961	1962	1963
Current net earnings	$168, 016, 431	$137, 121, 910	$152, 166, 516	$165, 562, 532
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	417, 446	592, 468	336, 027	51, 785
Reimbursement for fiscal agency expenses incurred in prior years	----------	----------	----------	----------
Transferred from reserves for contingencies (net)	1, 474, 704	----------	----------	----------
All other	132, 125	40, 031	130, 050	53, 889
Total additions	2, 024, 276	632, 499	466, 077	105, 674
Deductions from current net earnings:				
Reserves for contingencies	----------	----------	----------	----------
Retirement system (adjustment for revised benefits)	----------	----------	----------	----------
All other	5, 589	2, 851	226, 167	113, 032
Total deductions	5, 589	2, 851	226, 167	113, 032
Net additions or deductions (—)	2, 018, 687	629, 648	239, 910	—7, 358
Net earnings before payments to U.S. Treasury	170, 035, 117	137, 751, 558	152, 406, 426	165, 555, 174
Paid U.S. Treasury (interest on Federal Reserve notes)	158, 382, 686	126, 275, 435	139, 999, 295	153, 713, 724
Dividends paid	3, 333, 632	3, 613, 523	3, 849, 832	4, 069, 450
Transferred to surplus (sec. 7)	8, 318, 800	7, 862, 600	8, 557, 300	7, 772, 000
Surplus (sec. 7) Jan. 1	107, 333, 800	115, 652, 600	123, 515, 200	132, 072, 500
Transferred from surplus (sec. 13b)	----------	----------	----------	----------
Surplus (sec. 7) Dec. 31	115, 652, 600	123, 515, 200	132, 072, 500	139, 844, 500

Expenditures

The several Federal Reserve banks spend substantial sums on luncheons and dinners for bankers and industrialists. For example, the New York bank gave a luncheon at the Waldorf-Astoria Hotel at a cost of $5,320.10 which averaged about $8 per person. Most of the guests were bankers but several represented securities brokerage and underwriting companies. The New York and Philadelphia banks sponsored jointly a luncheon at the Haddon Hall in Atlantic City, N.J., at a cost of about $5.40 per person.

The most friutful of the four expense categories tested for examples of questionable expenditures was the "All other" category. During 1962 and the first half of 1963 the system total for this category was more than $4.5 million. Within this classification were several kinds of expense. A few examples of each type follow:

Chicago

Parties luncheons, etc., for employees

Spring card party, May 9 and 10, 1962—Total cost of $2,335.09:

Major items:		
Prizes		$606.29
Food and supplies furnished by cafeteria		767.40
Salaries of cafeteria employees		683.24
Attendance, 764.		

Annual garden show, Aug. 23, 1962, held in bank lobby; cost of $249.39, including $112.26 for prize ribbons and $33 for cash awards.

Annual ladies' party, Saturday, Oct. 6, 1962, held at Blackstone Theater, matinee performance of "Mary, Mary," net cost of $3,293.76:

925 tickets (597, at $4.18; others, $2.82–$3.73)		$3,577.73
Prizes (924 purses)		534.57
2,000 announcements, etc		137.26
Total		4,249.56
Less tickets sold:		
914 to employees, at $1	$914.00	
10 to outsiders, at $4.18	41.80	
		955.80
Net cost of party		3,293.76

Men's annual outing, Columbus Day, Friday, Oct. 12, 1962, held at River Forest Country Club, Elmhurst, Ill., net cost of $2,163.49, after deducting $670 for tickets sold (268 tickets, at $2.50):

Major items:	
Greens fees, lunches, and dinners	$2,383.55
Prizes	466.80

Thanksgiving luncheon, served Thursday, Nov. 15, 1962, in cafeteria to 2,305 employees (including cafeteria and night-force employees), cost of $1,744.51.

Christmas luncheon, served Thursday, Dec. 20, 1962, in cafeteria to 2,271 (including cafeteria and night-force employees and directors), cost of $1,738.45.

Voucher 259355, $930.80, 1962 Christmas decorations.

Voucher 258615, $116, 4 musicians to entertain employees on Friday, Dec. 21, 1962, for 3 to 4 hours with Christmas music (same in 1961 per voucher 248625).

Voucher 258843, $44, rental of 5 carolers costumes for the 4 musicians and 1 bank employee who assisted the musicians (same in 1961 except that amount was $40 per voucher 249004).

Parties luncheons, etc., for employees—Continued

Annual ladies' party (luncheon and fashion show), Friday, Feb. 22, 1963, held at Palmer House Hotel, net cost of $4,126.52:		
Prizes	$1,524.23	
Less sale of excess prizes ($361.50) and excess gifts transferred to card part ($179.86)	541.36	
		$982.87
625 luncheons		3,290.63
Stage, runway, footlights, etc		159.00
Orchestra		150.00
Flowers in vials ($112.50) and for table ($35)		147.50
Supplies and miscellaneous		42.52
Total		4,772.52
Less sale of 646 tickets, at $1		646.00
Net cost		4,126.52
Spring card party, May 15 and 16, 1963, cost of $2,466.61:		
Major items:		
Prizes		775.46
Food furnished by cafeteria		837.52
Salaries of cafeteria employees		723.04
Attendance, 783.		

Membership dues, bankers associations

Voucher		
255099	American Institute of Banking (year 1962–63)	$7,243
254308	American Bankers Association (year Aug. 31, 1963)	1,600
	Illinois Bankers Association:	
253268	Associate membership (year May 31, 1963)	115
263439	Associate membership (year May 31, 1964)	115
255690	Chicago district (year Aug. 31, 1963)	175
254182	Indiana Bankers Association (year June 30, 1963)	100
258355	Iowa Bankers Association (year Dec. 31, 1963)	25
254267	Michigan Bankers Association (year July 1, 1963)	100
263112	Wisconsin Bankers Association (year 1963–64)	60

Membership dues, other than bankers associations

	Illinois Nurses Association and American Nurses Association:	
249221	4 memberships, at $42.50 (year 1962)	$170.00
258919	4 memberships, at $47.50 (year 1963)	190.00
	Building Managers Association of Chicago:	
249254	Year 1962	790.20
259287	Year 1963	790.20
	Chicago Better Business Bureau, Inc.:	
261624	Year April 1, 1964	500.00
261624	Year April 1964	500.00
	Illinois State Chamber of Commerce:	
252357	Year June 1, 1963	150.00
262256	Year June 1, 1964	150.00
	American Statistical Association:	
254573	July 1, 1962, to Jan. 1, 1963	36.00
259044	Year 1963	60.00
252746	National Machine Accountants Association (4, at $30, year June 30, 1963).	120.00
253573	Chicago Association of Commerce & Industry (year July 1, 1963).	500.00
254066	NABAC, the Association for Bank Audit, Control & Operation (year June 30, 1963).	328.00
255102	Robert Morris Associates, the National Association of Bank Loan Officers & Credit Men, year Aug. 31, 1963, including $20 for 2 additional representatives.	320.00

Membership dues, other than bankers associations—Continued

Voucher		
255668	Financial Executives Institute (formerly Controllers Institute of America), year Aug. 31, 1963, 2 memberships at $75.	$150.00
256000	Systems & Procedures Association (year 1962–63)	35.00
256134	Investment Analysis Society of Chicago (year 1962–63)	40.00
256462	National Industrial Conference Board, Inc. (year Sept. 30, 1963).	250.00
257270	Library of International Relations (year Oct. 31, 1963)	100.00
261225	International Trade Club of Chicago (1 year)	35.00

Bankers associations' conferences, conventions, etc., held outside Chicago

Voucher		
	American Institute of Banking:	
	National convention, Atlanta, May 28 to June 1, 1962:	
250696	Delegate fees for 2	$120.00
252176	Expenses of 2 delegates ($290 each; transportation, $96; hotel, $84; meals, $70; and miscellaneous, $40); meals and lodging total almost $31 a day for the 5 days, and miscellaneous averages $8 a day.	580.00
	Regional chapter leaders conference, South Bend, Ind., July 20 and 21, 1962:	
253948	Delegate fees for 2	40.00
253948	Expenses of 2 delegates (transportation, hotel, meals, etc.).	80.00
	National convention, Denver, May 27–31, 1963:	
262283	Expenses of 2 delegates (delegate fees of $65 for each on another voucher).	660.00
	American Bankers Association:	
	Mid-winter trust conference, New York City, Feb. 4–7, 1962:	
250034	Combined with trip to Washington, Board of Governors, and to Feb. 3, 1962, annual correspondent bank forum, First National City Bank, New York; in New York, meals and lodging averaged about $26 a day for 5 days.	422.19
250057	2 other men also attended the conference, combined with attending a conference of trust. Examiners of Federal Reserve banks Feb. 8 and 9, 1962, in New York; meals and lodging averaged over $24 a day for 4 days for 1 of the men and about $17.50 a day for the other.	{254.76 269.60
	Midwinter trust conference, New York City, Feb. 4–6, 1963:	
260124	2 men attended, 1 staying over for trust examiners' meeting (Federal Reserve Bank of New York); meals and lodging averaged over $31 a day for 3 days for 1 of the men and over $30 a day for 2 days for the other.	279.59
	State bankers associations:	
	Wisconsin Bankers Association; 33d midwinter conference, Milwaukee, Jan. 22 and 23, 1962:	
248990	Registrations ($7) and banquet tickets ($6) for 3; annual meeting of groups 5 and 8, Oct. 18, 1962, at Browns Lake, Burlington, Wis.	39.00
256590	Dinner tickets and registrations for 2, 67th Annual Convention, Milwaukee, June 17–19, 1963, combined with trip to 77th Annual Convention, Michigan Bankers Association, Mackinac Island, Mich., June 20–22, 1963; transportation in bank-owned Buick (846 miles).	14.00
263792	Travel expenses; meals and lodging averaged over $22 a day for the 6 days.	173.83

Bankers associations' conferences, conventions, etc., held outside Chicago—Con.

Voucher		
263797	Registration fee (Michigan)	$25.00
	Indiana Bankers Association Convention, French Lick, Ind., June 12–13, 1963:	
263562	2 men attended; meals and lodging averaged over $21	136.83
263642	a day for each of them for the 3 days they were there (registration fees were covered by another voucher).	133.30
	National Association of Bank Women:	
251886	Triregional conference in Detroit (May 2–5, 1962); meals and lodging averaged about $21 a day for the 4 days; total covers travel expense and registration fee.	143.89
6252	40th annual convention, St. Louis, Oct. 29 to November 1, 1962); registration fee and convention function meals only (transportation, subsistence, etc., on another voucher).	65.00
253061 253855	National Planning Association, national economic projections conference in Washington, D.C., June 18 and 19, 1962—travel expense and registration fee of $30.	199.60
	National Machine Accountants Association, 1962 international data processing conference, at Statler-Hilton Hotel, New York City, June 19–22, 1962:	
253399	Registration fee	75.00
253892	Travel expenses; the 3 full days averaged about $19 a day for meals and lodging.	195.05
	National Association of Building Owners and Managers, 55th Annual Meeting, Fairmount Hotel, San Francisco, June 10–14, 1962:	
252855	Registration fee	50.00
253953	Travel expenses; meals and lodging averaged over $25 a day for the 5 days.	404.75
	National Association of Supervisors of State Banks, 1962 Annual Convention, Bretton Wood, N.H., Sept. 17–20, 1962:	
254176	2 registration fees	40.00
256411	Travel expenses of 2 men; meals and lodging for each man	264.19
256416	for the 3 full days averaged over $24 a day	255.75
	Robert Morris Associates:	
	Annual fall conference, New York City, Oct. 14–17, 1962:	
254100	Registration fee	60.00
256953	Travel expenses; meals and lodging averaged almost $26 a day for the 4 full days.	279.10
	Annual fall conference, Detroit, Sept. 15–18, 1963:	
263856	Registration fee (travel expense in last half of 1963)	50.00
	NABAC, the Association for Bank Audit, Control & Operation:	
	38th annual convention, Bal Harbour, Fla., Oct. 21–24, 1962:	
254625	2 registration fees	70.00
257258	Travel expenses of 2 men; meals and lodging for the 4 days averaged $23.50 a day for 1 of the men and almost $28 for the other.	299.81 316.49
	39th annual convention, Minneapolis, Sept. 15–18, 1963:	
	Registration fee (travel expense in last half of 1963)	35.00
	American Management Association:	
	Data processing conference, New York City, Feb. 25–28, 1962:	
250684	Travel expenses; meals and lodging averaged almost $21 a day for the 3 full days; registration fee was covered by another voucher.	185.05
	EDP conference, New York City, Feb. 25–28, 1963:	
	Registration fee only (travel expenses on another voucher.	125.00
248982	American Economic Association and allied social science meetings, New York, Dec. 27–29, 1961; 3 made the trip.	178.05 170.71 165.50

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Bankers associations' conferences, conventions, etc., held outside Chicago—Con.

Voucher		
251970	Midwest Economics Association, annual meeting, Omaha, Apr. 12–14, 1962; travel expenses only.	$100.35
252518	To address 8th annual public utilities marketing seminar, sponsored by Public Utilities Section and New York Chapter, American Market Association, New York, May 2–3, 1962.	137.15
	American Institute of Cooperation, annual meeting, Columbus, Ohio, Aug. 5–8, 1962:	
254793	Registration and fees only (travel expenses on another voucher).	17.00
	Economic outlook conference, University of Michigan, Ann Arbor, Nov. 15–16, 1962:	
256540	Conference fee only (travel expenses on another voucher)	100.00
	Data Processing Management Association, 1963, international data processing conference, Detroit, June 25–28, 1963:	
263290	2 registration fees only (travel expenses on another voucher).	150.00

Travel to Federal Reserve System or Government agencies' meetings, conferences, etc., where meals and lodging averaged considerably more than $16 a day

Voucher	
249583	Washington, D.C., 2 days at about $23.50.
249583	Washington, D.C., 1 day at $23.65.
251328	Washington, D.C., 1 day at $22.23.
251970	Kansas City, 3 days at $20.75.
256654	Washington, D.C., 2 days at $21.60.
257696	Washington, D.C., 2 days at about $20.40.
257729	Washington, D.C., 3 days at about $20.50.
258037	Washington, D.C., 4 days at about $20.50.
260937	Washington, D.C.., 1 day at $24.39.
260937	New York City, 1 day at $28.78.
261978	Washington, D.C., 1 day at $22.88.
262255	New York City, 10 days at about $25.20.
262397	Washington, D.C., 3 days at about $24.70.
262397	Washington, D.C., 3 days at about $25.20.

Bankers associations' conferences, conventions, etc., held in Chicago

Voucher	American Bankers Association:	
252004	Personnel conference, Apr. 30 and May 1, 1962, registration and lunch fees for 1.	$35
258038	15th national credit conference, Jan. 21 and 22, 1963, 2 registrations.	40
	Illinois Bankers Association:	
251388	Annual dinner of Chicago district, Apr. 24, 1962, 10 officers (president, 8 vice presidents, and 1 assistant vice president) attended.	140
252234	71st annual convention, May 17 and 18, 1962, registration fees ($36.50), 6 luncheon tickets ($28.50), and 10 banquet tickets ($95).	160

Associations' meetings, conferences, dinner meetings, luncheon meetings, etc., held in Chicago, other than bankers associations

Voucher	Robert Morris Associates:	
252730	Annual meeting, May 23, 1962, 8 dinner tickets	$64.00
259882	3d meeting, educational program, Feb. 14, 1963, 6 tickets	25.50
260760	General dinner meeting, Mar. 14, 1963, 6 tickets	33.00
262767	Annual meeting, May 22, 1963, 6 dinner tickets	48.00
	Systems and Procedures Association of America:	
256150	Monthly dinner meeting, Sept. 18, 1962, 1 ticket	5.50
258204	Meeting, Dec. 4, 1962, 4 tickets	22.00
261588	Monthly dinner meeting, Apr. 2, 1963, 1 ticket	6.00

Associations' meetings, conferences ,dinner meetings, luncheon meetings, etc., held in Chicago, other than bankers associations—Continued

Voucher		
	American Statistical Association:	
256150	Dinner meeting, Sept. 13, 1962, 2 tickets	$8.50
260167	Luncheon meeting, Jan. 31, 1963, 4 tickets	10.00
261588	Dinner meeting, Apr. 2, 1963, 7 tickets	26.25
249088	Executive seminar on foreign areas, Library of International Relations, 5th annual, Jan. 25, Feb. 1, March 1 and 15, 1962 (4 sessions), covers registration, dinner, and cocktails (at each session).	60.00
253595	Bank Men's Association, June 1962, dinner meeting, 4 attended.	28.00
256150	Chicago Farmers Club luncheon, Sept. 17, 1962	2.00
256150	Luncheon meeting of 822 Club, at University Club, Aug. 15, 1962.	6.28
259045	National Association of Manufacturers, Midwest conference on foreign economic policy, 1 reservation.	25.00
257390	Conference sponsored by Chicago Association of Commerce & Industry, Nov. 20, 1962, 1 registration fee.	29.50
258133	Board of Trade, forum on national agricultural policy, Dec. 11 and 12, 1962, and banquet Dec. 12, 1962, 1 banquet ticket.	10.00
261588	Farm Foundation luncheon meeting, Apr. 2, 1963, 2 attended.	2.50
261588	Financial Writers Group of Chicago, dinner meeting, Mar. 14, 1963 ($4) and dues ($5).	9.00
261588	Chicago Agricultural Club, luncheon meeting, Mar. 25, 1963, 2 attended	7.00
261725	Service Engineering Associates, Inc., seminar, May 6–8, 1963, 2 reservations	140.00
261926	1963 Chicago systems conference, Apr. 26, 1963, registration fees for 3 members ($60) and 1 nonmember ($25)	85.00
262665	American Bar Association, anuual meeting, Aug. 12–16, 1963, 1 registration fee	25.00

GUESTS IN DINING ROOM

Luncheon meetings of "Chicago Economists' Group" appear to be held the second Wednesday of each month (based on the 15 vouchers we have); there are 203 guests listed on these 15 vouchers, ranging from 9 to 18 on each.

Representatives of the following attended most regularly:

Swift & Co.
Standard Oil Co.
Citizens National Bank of Decatur, Ill.
Northern Trust Co.
Continental Illinois National Bank & Trust Co.
Allis-Chalmers Manufacturing Co., Milwaukee.

Representatives of the following attended frequently:

Ford Motor Co.
United Air Lines.
Sears, Roebuck & Co.
Broun Bros., Harriman & Co.
A. O. Smith Corp., Milwaukee.
Inland Steel Co.
Jewel Tea Co.

Representatives of the following attended several meetings:

Illinois Bell Telephone Co.
International Harvester Co.
Stein, Roe & Farnham.
Zenith Sales Corp.
Halsey, Stuart & Co.

Voucher	Other guests include:	Total number of guests on voucher
249093	Dec. 26, 1961: Mr. Stuart, of Halsey, Stuart & Co	2
249842	Jan. 10, 1962: 2 from First Wisconsin National Bank of Milwaukee; 2 from Continental Bank, Chicago; 2 from Department of the Air Force, Washington, D.C	11
249842	Jan. 15, 1962: Chamber of Commerce of Cleveland; Chamber of Commerce of Chicago; Chamber of Commerce of Minneapolis; Chicago Clearing House Association, manager; NABAC, research director	18
252409	April 1962: 2 from Field Enterprises	2
254976	July 12, 1962: 4 from Yugoslavia	6
256505	Sept. 27, 1962: Director, Commerce Department of Government of Germany	6
257418	Oct. 11, 1962: 9 from member banks; 6 from business; 1 from Australia	25
258964	Dec. 6, 1962: Chairman, board of governors; 7 directors, Chicago; 3 directors, Detroit; 2 officers, Detroit; president, Union Tank Car Co.; president, Citizens First National Bank of Storm Lake, Iowa	15
262325	Apr. 24, 1963: Re conference of bankers, Apr. 24 and 25, 1963 (25 representatives from 24 banks in Illinois, Indiana, Iowa, and Wisconsin)	29
262325	Apr. 25, 1963: Same 25 as on Apr. 24, 1963	32

NOTE.—Expense accounts are charged for guests' meals at the rate of $2 a meal.

Complimentary meals served to employees and meals served to guests in cafeteria

Voucher		Number served	Amount
254798	Month of July 1962:		
	Complimentary meal served to new employee and sponsor from department to which employee was assigned	58	$35.10
	Complimentary birthday luncheons served to employees	169	117.90
	Guests of personnel department	3	1.48
	Guests of bank and public relations department	50	29.46
	Total, July 1962	280	183.94
255608	Month of August 1962:		
	New employees	76	53.25
	Birthdays	189	133.37
	Guests of personnel department	1	.40
	Guests of bank, etc	70	37.45
	Total, August 1962	336	224.47
256311	Month of September 1962:		
	New employees	113	85.01
	Birthdays	205	171.33
	Guests of personnel department	9	4.42
	Guests of bank, etc	19	11.78
	Total	346	272.54
257148	Month of October 1962:		
	New employees	68	44.11
	Birthdays	172	144.40
	Guests of personnel department	13	4.76
	Guests of bank, etc	165	99.58
	Total, October 1962	418	292.85

Cigars and cigarettes used by directors

Voucher		
249773	Month of January 1962	$10.23
250531	Month of February 1962	10.75
251419	Month of March 1962	15.80
257204	Month of October 1962	11.21

Tuition, registration, and diploma fees, dormitory and dining hall charges, etc., for employees who avail thmselves of the bank's educational program

Voucher		
	Tuition for courses completed satisfactorily:	
254172	"Financial Management" and "Functions of Production," at the Graduate School of Business, University of Chicago, completed by a credit analyst in the loans department.	$171.00
254172	"Pitman Shorthand Review." at Moser Secretarial School, completed by a typist-clerk in the new issues department.	118.75
255352	"Speech I," at DePaul University, completed by a security clerk in the security custody department.	69.50
255352	"Business English I," at Northwestern University, completed by a payroll and salary allocation clerk in the disbursing department.	44.00
258717	"Production Management," at University of Chicago, completed by an economist in the research department.	120.00
	Registration, tuition, dormitory, and dining hall charges, etc.:	
259704	For 1 employee attending the Stonier Graduate School of Banking, American Bankers Association.	370.00
260934	For 5 employees attending the Graduate School of Banking, University of Wisconsin (3 as juniors; 2 as seniors).	1,245.00

Fellowship awards program—Research fellowships to graduate students (not employees) in economics, money and banking, and finance

Voucher		
	Monthly installments ($375 to each student):	
249295	January 1962, to 4 students	$1,500.00
250129	February 1962, to same 4 students as in January	1,500.00
256001	September 1962, to 4 students (different)	1,500.00
256753	October 1962, to same 4 students as in September	1,500.00
257545	November 1962, to same 4 students as in September	1,500.00
258412	December 1962, to same 4 students as in September	1,500.00
	Tuition and fees to universities for above students:	
249298	University of Chicago; tuition ($350) and fees for quarter, Jan. 2 through Mar. 17, 1962, for 1 of students paid a monthly installment in January 1962.	385.00
250456	Purdue University; fees and tuition for February 1962 semester for another of the students paid a monthly installment in January 1962.	307.50
251128	University of Michigan; fees and tuition for semester, Feb. 12 through June 12, 1962; for another of the students paid a monthly installment in January 1962.	375.00
255217	University of Wisconsin; tuition and fees for fall semester, 1962; for 1 of students paid a monthly installment in September 1962.	118.00
256916	University of Chicago; tuition ($500) and fees for quarter, Oct. 1 through Dec. 15, 1962; for each of 2 other	515.00
257344	students paid a monthly installment in September 1962.	515.00

Fellowship awards program—Research fellowships to graduate students (not employees) in economics, money and banking, and finance—Continued

Voucher		
	Additional award of $500, payable upon acceptance of a completed report of the assigned research project:	
254719	Payment of $500 to each of 3 of the 4 students; daid a monthly installment in January 1962.	$500.00
256592	Do	500.00
256888	Do	500.00
	Consulting fees ($75 a day), per diem ($16), and transportation to Chicago and return:	
254354	Week of July 9–13, 1962, ($91 a day)	455.00
255661	Week of Aug. 27–31, 1962 ($91 a day)	455.00
255661	Transportation, Aug. 26 and Sept. 1, 1962	122.45
	Honorarium to members of advisory selection committee ($50 to each):	
250604	To 3 members at Mar. 2, 1962 meeting	150.00
260407	To 3 members at Feb. 26, 1963, meeting	150.00

NOTE.—The announcement of the program for 1963 includes the following provisions:
The awards cover a term of 12 months and include—
1. Award of $6,000, paid at rate of $500 a month.
2. Tuition and fees, if any, at university where applicant is candidate for a degree.
3. Travel between Chicago and university as needed for consultation with faculty advisers.
4. Typing and computational services and clerical assistance.
5. An additional award of $500, payable upon substantial completion of a doctoral dissertation within the period covered by the fellowship.

It is expected that recipients will receive no employment income for this period and that full time will be devoted to the furtherance of their research and dissertation at the Federal Reserve Bank of Chicago.

Upon completion of program, an applicant may be offered employment by the bank, but there is no obligation on the part of the bank to offer such employment.

Applicants must be nominated by departments of economics or schools of business in universities in the Seventh Federal Reserve District which offer a Ph. D. or equivalent in these fields.

Final selection of applicants is made in cooperation with an advisory selection committee composed of representatives from seventh district universities. Announcement of award recipients will be made by Mar. 8, 1963.

Monthly Business Conditions, 1962 annual report, and other publications of the bank

Voucher		
	For each of the following publications, we have requested the bank to provide the details of the costs; the vouchers (copies) we have cover printing:	
	Monthly Business Conditions: the 6 issues we have (January–June 1963) are 16 pages, except 8 pages in March, size 7¼ by 9 inches:	
259622	For 46,700 copies, January 1963 issue	$2,542.95
260513	For 46,550 copies, February 1963 issue	2,578.83
261088	For 48,500 copies, March 1963 issue	1,521.30
262197	For 47,200 copies, April 1963 issue	2,555.25
260102	1962 annual report, 36 pages plus cover, size 8½ by 11 inches, 5,225 copies.	4,398.22
258377	Booklet "Modern Money Mechanics—A Workbook on Deposits, Currency, and Bank Reserves," 32 pages, size 8½ by 11 inches 51,550 copies.	4,019.43
260821	"An Informal Handbook for the Folks Who Work Here," 36 pages plus cover, and "The Start of a Career," 4 pages, size of each 5½ by 8½ inches, 7,500 copies of each, including artwork of $1,355.	3,749.50
261935	Booklet "1962 Operating Ratios of Seventh District Member Banks," 2 pages plus cover, size 8½ by 11 inches, 3,635 copies.	641.50

Eighth seminar on central banking, Sept. 5–Sept. 7, 1962, for college teachers of money and banking—35 participants

Participants were provided room and meals while in attendance at the seminar and were reimbursed for travel expense between their school and Chicago on the basis of actual cost of first-class roundtrip transportation by airline or railroad; the following vouchers were charged to the seminar:

No. 255814	$1,274.91
No. 255902	55.00
No. 256202	54.50
No. 256228	449.15
Total	1,833.56

Miscellaneous employee relations

Employees' monthly magazine the Commentator; the 6 issues we have (January–June 1963) are printed on coated stock, 16 pages, size 8½ x 11 inches; we have requested the bank to provide the details of cost; we have a copy of the voucher covering the printing of the December 1962 issue:

Voucher		
259210	For 3,675 copies	$862.86
258040	Christmas 1962 remembrance of $10 sent to each of the 21 employees on military leave, 6 of whom were overseas and were sent money orders.	211.20
253487	Floral pieces for 4 employees who died in April and May 1962	80.00
250195	Renewal of membership of Federal Reserve Bank Gun Club in National Rifle Association of America, year ending Mar. 31, 1963.	10.00
256710	Equipment for employees lounges—6 plastic boxes for checker pieces.	1.66

Joint meeting of Chicago and Detroit directors

Voucher 259147 ($405.84), Union League Club of Chicago, Dec. 6, 1962, dinner for 37 people:

Chicago directors	9
Detroit directors	5
Head office officers	12
Detroit branch officers	2
Chairman, board of governors	1
Former Federal advisory council representative	1
Secretary, Federal advisory council	1
Member of Federal advisory council	1
Former chairman of board of directors	1
Former vice presidents of bank	3
New director	1
Total	37

Subscriptions

Voucher		
	Dow Jones Ticker:	
249328	News service for January 1962	$160.00
251627	News service for April 1962	160.00
254203	News service for July 1962	160.00
	Magazines:	
252635	Atlantic Monthly, Cosmopolitan, Fortune, Glamour, Holiday, Saturday Evening Post, etc	242.97
262484	American Home, Bridge's Magazine, Field and Stream, Life, New Yorker, Popular Science, etc	232.25
	Group C subscriber to pay data service (Business Research, a division of Ebasco Services Inc.):	
256910	1st installment for period Oct. 1, 1962, to Sept. 30, 1963	250.00
	30, 1963	250.00
262645	2d installment for period Oct. 1, 1962, to Sept. 30, 1963	250.00
	Reporting on Governments (weekly analysis and forecast on U.S. Government securities, Washington monetary policies and trends in interest rates):	
251007	Two 1-year subscriptions to Apr. 26, 1963 (renewals)	120.00
	The Bureau of National Affairs, Inc.:	
256174	1 year to Nov. 1, 1963 (renewal)	1,012.70

Books for recreational library

Purchases during the 18-month period ended June 30, 1963, totaled $1,563.15:

January–June 1962	$639.81
July–December 1962	621.96
Total, year 1962	1,261.77
January–June 1963	301.38
Total, 18 months	1,563.15

Source of the titles: "The Poor Rockefellers," "Scandal's Child," "Shattered Sexes," "Prologue to Love," "Funny Thing Happened," "Conscience of Love," "King's Bed," "Capitol Hill—JFK Color Book," "To Love and Corrupt."

The CHAIRMAN. Thank you, sir. Mr. Clay, you may present your statement if you please.

STATEMENT OF GEORGE H. CLAY, PRESIDENT, FEDERAL RESERVE BANK OF KANSAS CITY

Mr. CLAY. Mr. Chairman, as you know. I do not have a statement. I don't know that I can add anything here but I should tell you I am George H. Clay; I spent 10 years practicing law; 14 years as an officer, vice president of administration and director of Trans World Airlines; and in 1958 came into the System as vice president and counsel of the Kansas City Federal Reserve Bank, and became President in 1961.

I have no long history from which I can claim that I have made any great contribution to the building of this great System, but I have come to admire it very much in the time that I have been in it. As a result of what I have learned about the System and its efficiency (which I believe competes very well with industry that I have been in during my life), I admire it as an organization. I hope that all government is as efficient as the Federal Reserve System, and, if it is, I am very happy for the United States.

Having that attitude, I should what I believe insofar as these bills are concerned. I believe that institutions such as this are hard to come by, and since they are hard to come by, I believe in what I would call, using an old airline term, progressive maintenance, overhaul, and modification. I think historically there has been pretty good progressive maintenance and overhaul. The System is quite different from what it was when it was originally set up, and it has come about by the actions that Congress has taken from time to time in making these modification in the whole credit system and structure as we learn more about the economic system.

I think that the changes suggested in the structural bill particularly, H.R. 9631, are, really, building a new institution. I believe that is what results from it, because you move away so much from, what I would call, independence within Government, which I think is a valuable thing. I think that the confidence of the American people in the System rests upon this independence. I will have to admit that a great many of the American people don't know what this is about at all, but they do have a respect for the System and it is a respect that is dependent, I believe, a great deal on this dual situation that you have here.

And yet I don't believe that anybody thinks of it as anything except a Government organization, as such, and I think that we have an institution that has worked well, that is respected here at home, and it is respected abroad.

You know a lot of times the things that actually are, are sometimes not as important as the things that people think. I think this whole thing of confidence and the working of the whole monetary system depends a lot on what people think. I think this is an important aspect in my job right now in trying to interpret the economic situation of my district and the district as a whole, and the Nation as a whole. You can build all your statistical models you want to, with figures the economists might bring in, but what will result from that depends a great deal on what people are thinking.

Well now, you have a system I believe that works pretty well as it is right now. Maybe there are some modifications that might be advisable, but I think they should be taken in small steps rather than great big chunks so that we know where we are going on this. I think this is a matter of safety to the whole economy.

With regard to the bill concerning paying interest on demand deposits: so far as my district is concerned, I feel positive that this would result in the traveling of funds from our district into the larger banks. There is no doubt about that in my mind. The inability to loan money out on the short term in the type of economy we have in my district; the inability to loan it out on a short-term basis so you have got it there when you need it, so you still have a sufficient amount of funds available, would cause those funds to gravitate to these hot money centers, rather than stay out in my district. When you make an agricultural loan you really need to know you will be able to make another one if the crop turns out bad. Or if the corn gets caught in the field and you have to get some cattle to go in there and eat the corn, you may have to finance this another step, or another step before you are through, and I don't think this works very well on demand deposits that you are paying interest on.

Now, if you have questions as to a particular bill, I will try to answer. I think I have given you just a general statement, but I don't have a great deal of difference with the other people who have testified here.

(The expenses of Kansas City referred to follow:)

Kansas City

EMPLOYEE RELATIONS

Date	Amount	
		Annual Christmas party at hotel (for employees and one guest of each employee) and annual Christmas carol singing party in bank's lobby (for employees):
Dec. 28, 1962	$4, 231. 40	Dinners at Hotel Muehlebach.
Do------	525. 00	Dance orchestra and services of coordinator for employee talent show presented at hotel.
Dec. 18, 1962	181. 08	Catering service.
Dec. 19, 1962	108. 33	Favors.
Dec. 31, 1962	100. 00	Refreshments served in lobby by bank's cafeteria.
Dec. 28, 1962	35. 00	Rental of organ for lobby.
Dec. 26, 1962	15. 00	Rental of palm trees for talent show at hotel.
Dec. 31, 1962	97. 19	Miscellaneous expenses.
Nov. 30, 1962	831. 25	Thanksgiving dinner served in bank's dining room and cafeteria for bank officers and employees and retired former employees.
Aug. 31, 1962	268. 75	Dinner served in bank's cafeteria to employees and their guests purchasing tickets to the Kansas City Athletics baseball game on bank's annual baseball game night.
Sept. 7, 1962	95. 00	Bus transportation to municipal baseball stadium for above group.
Oct. 31, 1962	200. 00	Refreshments served in bank's cafeteria to employees and retired former employees on Halloween day.
July 2, 1962	150. 00	Bank's 10 percent cost of tickets to Starlight Theater productions; bank annually purchases a block of tickets having a face value of $1,500 at a 20-percent discount on advance sale and recalls them to its employees at an additional 10-percent discount.
Oct. 31, 1962	100. 00	Refreshments served in bank's cafeteria to employees and their guests incident to the bank's open house for viewing renovated officers' dining room and employees' lounge.
------------	----------	Bank awards, as a prize, a trip to the annual American Institute of Banking Convention to the 2 employees who achieve the highest grade averages in AIB courses each year:
May 9, 1962	566. 30	Expense of attendance at 1962 convention in Atlanta, Ga., May 28 to June 1—2 employees at $283.15
May 14, 1963	470. 40	Expenses of attendance at 1963 convention in Denver, Colo., May 27 to May 31—2 employees at $235.20.
Jan. 17, 1962	627. 00	Bank's portion of cost-of-line fees for men's bowling league, second half of 1961–62 season.
Do.	470. 25	Same as above, except women's bowling league.
Aug. 28, 1962	396. 00	Same as above, except first half of 1962–63 season.
Do.	528. 00	Same as above, except men's bowling league.
Apr. 30, 1962	1, 904. 00	Contribution to cover 25-Year Club expenses for year 1962.
Sept. 28, 1962	292. 50	Luncheons served in bank's dining room for branch representatives of the 25-Year Club and their hosts incident to attendance at the 25-Year Club's annual dinner.
Mar. 22, 1962	167. 75	Identification badges for members of the 25-Year Club.

Kansas City—Continued

EMPLOYEE RELATIONS—continued

Date	Amount	
Aug. 31, 1962	187.50	Special luncheon served in bank's dining room and refreshments in bank's cafeteria incident to a vice president's retirement.
Oct. 31, 1962	61.50	Special luncheon served in bank's dining room incident to retirement of an employee.
Feb. 28, 1962	97.50	Refreshments served in bank's dining room and cafeteria incident to retirement of employees.
Mar. 30, 1962	97.50	
Apr. 30, 1962	97.50	
May 31, 1962	97.50	
Oct. 31, 1962	48.00	
Dec. 31, 1962	97.50	
		Typical payments relating to the employees' monthly magazine—printing and etchings, halftones, artwork, and negatives:
Feb. 2, 1962	454.29	Etchings, etc.—January 1962 issue.
Feb. 9, 1962	525.00	Printing—January 1962 issue.
May 4, 1962	525.00	Printing—April 1962 issue.
Do	148.69	Etchings, etc.—April 1962 issue.
Oct. 8, 1962	314.19	Etchings, etc.—September 1962 issue.
Do	550.00	Printing—September 1962 issue.
Jan. 8, 1963	550.00	Printing—December 1962 issue.
Do	409.25	Etchings, etc.—December 1962 issue.
June 24, 1963	240.06	Etchings, etc.—May 1963 issue.
June 19, 1963	550.00	Printing—May 1963 issue.

TRAINING AND EDUCATION

Dec. 7, 1962	$770.00	Bank's share of employees' tuitions for American Institute of Banking study courses.
Apr. 5, 1963	226.00	
Jan. 11, 1963	610.00	Registration and tuition fees for 3 employees to attend the Stonier Graduate School of Banking.
Do	480.00	Dormitory and dining hall charges for the above.
Mar. 26, 1963	470.00	Registration and tuition fees for 4 employees to attend the Graduate School of Banking, Madison Wis.
Do	480.00	Dormitory and dining hall charges for the above.
Feb. 4, 1963	385.00	Registration fee for an officer to attend the management development course at Oklahoma State University.
Apr. 23, 1963	270.00	Registration and tuition fees for 1 employee to attend the NABAC School for Bank Audit & Control.

Kansas City—Continued

RESERVE BANK SPONSORED DINNERS AND LUNCHEONS HELD OUTSIDE THE BANK

Date	Amount	
Mar. 15, 1962	$254.40	Special dinner at Kansas City Club for a retiring director.
Apr. 18, 1962	5,912.19	Luncheons, dinners, etc., incident to economic forums conducted in Kansas; managing officers of both member and nonmember banks are invited to attend.
May 18, 1962	253.55	Dinner for participants in Federal Reserve System Business Analysis Committee meeting, for which the bank was host.
Sept. 24, 1962	1,308.72	Luncheons, dinners, etc., incident to economic forums conducted in Wyoming; managing officers of both member and nonmember banks are invited to attend.
Mar. 7, 1963	234.91	Special dinner at Kansas City Club for a retiring director.
May 23, 1963	398.03	Dinner at the Denver Club for attendants at regional meeting of National Association of Supervisors of State Banks.

MEMBERSHIP DUES, ETC.

Oct. 15, 1962	$1,884.66	Pro rata share of expenses of Kansas City Chapter, American Institute of Banking, for year.
Aug. 17, 1962	1,250.00	American Bankers Association.
Jan. 3, 1962	500.00	Missouri Bankers Association.
Jan. 17, 9162	375.00	Kansas Bankers Association.
Nov. 14, 1962	400.00	Chamber of Commerce of Kansas City.
Mar. 1, 1962	400.00	Kansas City Crime Commission.
Jan. 18, 1962	385.00	American Management Association, Inc.
Aug. 16, 1962	313.00	NABAC, the Association for Bank Audit, Control, and Operation.
Aug. 9, 1962	310.00	Robert Morris Associates.
Jan. 16, 1962	100.00	Better Business Bureau.
July 9, 1962	90.00	Heart of America Chapter, Systems and Procedures Association (for 3 employees).
Dec. 13, 1962	60.00	National Association of Credit Men, Kansas City Division.

Kansas City—Continued

TRAVELING EXPENSES TO CONVENTIONS, CONFERENCES, MEETINGS, ETC.

Date	Amount	
Jan. 26, 1962	$224.61	American Bankers Association Annual Credit Conference in Chicago, Jan. 21 to Jan. 25, 1962; meals and lodging averaged over $27 a day for 4 days.
Feb. 8, 1962	284.40	ABA Mid-Winter Trust Conference in New York City, Feb. 3 to Feb. 7, 1962; meals and lodging there seem to have averaged over $26 a day for 3 days.
Feb. 9, 1962	279.07	Same as above, except meals and lodging there seem to have averaged about $25 a day for 3 days.
Mar. 8, 1962	320.13	Same as above, except Feb. 3 to Feb. 10, 1962, and average of $25 a day for 5 days.
June 7, 1962	114.93	Oklahoma Bankers Association Convention in Oklahoma City, May 3 to May 5, 1962.
June 26, 1962	301.22	National Machine Accountants Association Conference in New York City, June 17 to June 23, 1962.
Sept. 24, 1962	357.60	Annual Convention of National Association of Supervisors of State Banks in Bretton Woods, N.H., Sept. 15 to Sept. 21, 1962.
Oct. 1, 1962	313.85	Same as above, except Sept. 17 to Sept. 20, 1962.
Oct. 3, 1962	686.90	Same convention as above, plus National Industrial Conference Board in New York City and ABA Annual Convention in Atlantic City, Sept. 14 to Sept. 26, 1962; meals and lodging averaged about $27 a day for 12 days.
Oct. 16, 1962	385.03	ABA Annual Convention in Atlantic City, Sept. 19 to Sept. 28, 1962; meals and lodging there seem to have averaged over $27 a day for 4 days.
Nov. 5, 1962	729.86	Same convention as above, plus time at Federal Reserve Bank of New York and in Washington, D.C., Sept. 20 to Oct. 2, 1962; meals and lodging there seem to have averaged about $28 a day for 10 days.
Oct. 23,1962	413.70	Fall Conference of Robert Morris Associates in New York City, Oct. 13 to Oct. 22, 1962; meals and lodging there seem to have averaged over $28 a day for 6 days.
Oct. 31, 1962	344.25	NABAC National Convention, Miami Beach, Oct. 19 to Oct. 22, 1962; meals and lodging there seem to have averaged about $29 a day for 4 days.
Nov. 13, 1962	335.75	Do.
Jan. 3, 1963	222.32	Annual Convention of American Economic Association in Pittsburgh, Dec. 26 to Dec. 29, 1962; meals and lodging averaged $28 a day for 3 days.
Apr. 10, 1963	269.75	ABA National Consumer Credit Conference in New York City, Mar. 31, to Apr. 3, 1963; meals and lodging averaged over $28 a day for 3 days.
Apr. 16, 1963	295.20	American Personnel and Guidance Association Convention in Boston, Apr. 7 to Apr. 11, 1963.
May 16, 1963	130.42	ABA National Personnel Conference in Chicago, May 12 to May 14, 1963.
June 10, 1963	199.17	Annual Conference of National Office Management Association in Pittsburgh, June 2 to June 5, 1963.
Do------	203.42	Annual Convention of New Mexico Bankers Association in Santa Fe, June 6 to June 9, 1963.

Kansas City—Continued

Date	Amount	
June 26, 1963	257.38	Convention of Special Libraries Association in Denver, June 8 to June 14, 1963.
June 19, 1963	452.76	Annual Convention of Wyoming Bankers Association in Jackson, Wyo., and committee meeting of Robert Morris Associates in Chicago, June 11 to June 17, 1963.
		Federal Reserve System meetings, etc., where meals and lodging averaged considerably more than $16 a day:
Oct. 12, 1962	263.35	New York City—over $24 a day for 3 days.
Do	266.25	New York City—over $25 a day for 3 days.
Oct. 15, 1962	264.75	New York City—over $24 a day for 3 days.
Oct. 26, 1962	229.70	New York City—over $25 a day for 2 days.
Feb. 21, 1963	214.55	New York City—over $27 for 1 day.
Feb. 28, 1963	360.02	New York City—over $25 a day for 7 days.
Apr. 5, 1963	234.02	New York City—over $27 a day for 2 days.
May 6, 1963	154.84	Denver—about $25 a day for 2 days.
May 14, 1963	222.27	Washington, D.C.—over $27 a day for 2 days.

PUBLIC INFORMATION

Jan. 31, 1962	$2,638.50	Printing of January 1962 issue of Monthly Review.
Feb. 23, 1962	1,798.70	Printing of February 1962 issue of Monthly Review.
Aug. 29, 1962	1,779.30	Printing of combined July–August 1962 issue of Monthly Review (combined 2-month issues began with the March–April 1962 issue).
Jan. 31, 1963	2,661.50	Printing of combined January–February 1963 issue of Monthly Reveiw.
May 2, 1963	1,904.50	Printing of combined March–April 1963 issue of Monthly Review.
Sept. 25, 1962	5,222.00	Printing of booklet, "Essays on Commercial Banking," distributed to commercial bankers, educators, and other interested parties.
Nov. 27, 1962	2,679.24	Printing of book, "A Study of Scale Economies in Banking," distributed same as above.
Feb. 7, 1963	553.00	Printing of annual statements for 1962.

MISCELLANEOUS

Feb. 23, 1962	$96.50	Engrossing of resolution for a retiring director.
Do	71.00	Engraved nameplate for a retiring director.
May 29, 1962	500.00	Pro rata share of the cost of the Kansas Bankers Association Convention held in Kansas City, Kans., May 2 to May 4, 1962.
Oct. 29, 1962	175.00	Pro rata share of expenses incident to Missouri Bankers Association's annual group 4 meeting.

Statement of condition of the Federal Reserve Bank of Kansas City at the close of business Dec. 31, 1963

[Dollar amounts in thousands]

Assets:	
Gold certificate account	$587,203
Redemption fund for Federal Reserve notes	54,605
Total gold certificate reserves	641,808
Federal Reserve notes of other banks	16,405
Other cash	6,690
Discounts and advances:	
Secured by U.S. Government securities	11,265
Other	1,344
Acceptances:	
Bought outright	---------
Held under repurchase agreement	---------
U.S. Government securities:	
Bought outright	1,354,366
Held under repurchase agreement	---------
Total loans and securities	1,366,975
Cash items in process of collection	386,698
Bank premises	6,524
Other assets:	
Denominated in foreign currencies	6,410
All other	10,656
Total assets	2,442,166
Liabilities:	
Federal Reserve notes	1,257,629
Deposits:	
Member bank reserves	766,731
U.S. Treasurer—General account	73,207
Foreign	6,720
Other	5,338
Total deposits	851,996
Deferred availability cash items	264,309
Other liabilities	3,354
Total liabilities	2,377,288
Capital accounts:	
Capital paid in	21,626
Surplus	43,252
Other capital accounts	---------
Total liabilities and capital accounts	2,442,166
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	30.4
Contingent liability on acceptances purchased for foreign correspondents	$3,860

Federal Reserve note statement of Federal Reserve Bank of Kansas City at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	$1,296,114
Less held by issuing bank, and forwarded for redemption	38,485
Federal Reserve notes, net [1]	1,257,629
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	272,000
Eligible paper	11,265
U.S. Government securities	1,100,000
Total collateral	1,383,265

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

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Federal Reserve Bank of Kansas City—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscellaneous	Total earnings
1914 to 1915	65	7	21	10				102
1916	85	30	186	14		15	50	380
1917	439	171	257	5	37	47	47	1,003
1918	2,643	158	312		100	23	215	3,452
1919	3,889	341	405		107		220	4,961
1920	6,441	212	506		238		13	7,410
1921	5,134	49	383	1	126		19	5,713
1922	1,493	9	1,409		47		137	3,095
1923	1,794	29	971	2	37		160	2,994
1924	860	159	948		36		260	2,263
1925	362	538	1,118		25		267	2,310
1926	643	508	1,214		24		289	2,677
1927	501	376	1,106		18		304	2,305
1928	1,034	522	778		15		249	2,598
1929	1,986	448	198		22		323	2,977
1930	625	204	530		11		297	1,668
1931	544	222	500		7		282	1,555
1932	873	97	773		14		265	2,02[illegible]

***Federal Reserve Bank of Kansas City—Current earnings*—Continued**

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		297	26				1,200	220	1,742
1934		29	5	3	1		1,692	231	1,960
1935		9	1	44	17		1,683	192	1,947
1936		4	1	48	10		1,744	167	1,973
1937		7	1		2		1,943	150	2,134
1938		8		20	12		1,646	155	1,840
1939		8		10	13		1,799	165	1,995
1940		8		9	5		1,987	152	2,160
1941		10		9			1,908	155	2,082
1942		3		19	2		2,315	158	2,496
1943		3		9			3,129	156	3,296
1944		9		2			4,573	163	4,747
1945		84		1			6,492	156	6,734
1946		109					6,969	160	7,238
1947		111					7,552	172	7,835
1948	202				1		13,933	182	14,318
1949	175						15,099	224	15,498
1950	117				1		12,660	238	13,016
1951	336				5		18,289	17	18,647

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	1, 286		6		19, 891		17	21, 200
1953	1, 203		5		20, 346		15	21, 570
1954	250		5		18, 790		13	19, 058
1955	908		10		17, 271		18	18, 207
1956	1, 363		12		24, 719		21	26, 115
1957	1, 855		9		31, 508		27	33, 399
1958	608	3			31, 339		25	31, 974
1959	2, 894				36, 792		34	39, 720
1960	1, 827				46, 458		45	48, 329
1961	260				40, 665		43	40, 967
1962	366				45, 468	147	30	46, 012

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Kansas City—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	−$61, 776	$229, 339	$682, 785	$2, 809, 418	$3, 829, 703	$5, 680, 115
Additions to current net earnings:						
Withdrawn from reserve for depreciation on U.S. bonds					147, 846	
All other					103	1, 040
Total additions					147, 949	1, 040
Deductions from current net earnings:						
Bank premises—depreciation				100, 000		
Furniture and equipment	5, 000	4, 350	40, 794	46, 710	54, 290	128, 088
Reserve for probable losses						
Reserve for depreciation, U.S. bonds				220, 734		11, 579
All other			75, 587	4, 226		807
Total deductions	5, 000	4, 350	116, 381	371, 670	54, 290	140, 474
Net deductions from current net earnings	5, 000	4, 350	116, 381	371, 670	[1] 93, 659	139, 434
Net earnings	−66, 776	224, 989	566, 404	2, 437, 748	3, 923, 362	5, 540, 681
Distribution of net earnings:						
Dividends paid		66, 707	364, 503	309, 729	228, 755	257, 672
Transferred to surplus account				2, 421, 426	3, 694, 607	3, 042, 781
Franchise tax paid U.S. Government						2, 240, 228
Balance to profit and loss	−66, 776	158, 282	201, 901	−293, 407		

	1921	1922	1923	1924	1925
Current net earnings	$3,485,002	$1,083,840	$1,065,800	$396,823	$582,542
Additions to current net earnings:					
Withdrawn from reserve for depreciation on U.S. bonds	38,605	38,499	----------	168	----------
All other	3,826	63,460	4,547	18,019	13,232
Total additions	42,431	101,959	4,547	18,187	13,232
Deductions from current net earnings:					
Bank premises—depreciation	87,576	337,810	393,983	628,468	262,887
Furniture and equipment	183,761	60,128	60,379	36,408	38,569
Reserve for probable losses	200,000	----------	128,086	----------	----------
Reserve for depreciation, U.S. bonds	----------	----------	12,178	----------	----------
All other	----------	4,825	128,010	3,316	11,397
Total deductions	471,337	402,763	722,636	668,192	312,853
Net deductions from current net earnings	428,906	300,804	718,089	650,005	299,621
Net earnings	3,056,096	783,036	347,711	−253,182	282,921
Distribution of net earnings:					
Dividends paid	268,620	275,655	275,313	265,697	258,426
Transferred to surplus account	486,918	[2] −157,432	7,240	[3] −518,879	2,450
Franchise tax paid U.S. Government	2,300,558	[2] 664,813	65,158	----------	22,045
Balance to profit and loss	----------	----------	----------	----------	----------

[1] Net additions.

[2] After charging surplus and crediting franchise tax with $208,170 paid as an additional franchise tax for 1921. Amounts transferred to surplus and paid as a franchise tax out of earnings for 1922 were $50,738 and $456,643, respectively.

[3] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Kansas City—Profit and loss account, 1926–35

	1926	1927	1928	1929	1930
Current net earnings	$802, 843	$410, 897	$744, 911	$936, 644	−$290, 401
Additions to current net earnings:					
Profit on U.S. Government securities sold					85, 439
Other additions	5, 555	4, 911	17, 996	77, 392	8, 893
Total additions	5, 555	4, 911	17, 996	77, 392	94, 332
Deductions from current net earnings:					
Special depreciation allowances on bank premises	42, 842				
Reserve for losses					
Reserve for self-insurance					
Building for Board of Governors					
All other deductions	9, 087	1, 082	103, 147	450	4, 907
Total deductions	51, 929	1, 082	103, 147	450	4, 907
Net deductions from current net earnings	46, 374	+3, 829	85, 151	+76, 942	+89, 425
Net earnings	756, 469	414, 726	659, 760	1, 013, 586	−200, 976
Dividends paid	252, 764	252, 753	253, 254	256, 549	259, 397
Franchise tax paid U.S. Government	453, 335	145, 775	365, 855	681, 333	
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	50, 370	16, 198	40, 651	75, 704	[1] −460, 373

	1931	1932	1933	1934	1935
Current net earnings	−$274, 913	$302, 823	−$69, 611	$133, 552	$37, 037
Additions to current net earnings:					
Profit on U.S. Government securities sold	92, 552	98, 455	33, 848	297, 302	235, 400
Other additions	3, 585	5, 021	12, 739	28, 880	12, 145
Total additions	96, 137	103, 476	46, 587	326, 182	247, 545
Deductions from current net earnings:					
Special depreciation allowances on bank premises					
Reserve for losses		60, 280	205, 682	28, 750	9, 869
Reserve for self insurance		100, 000	2, 949	183, 802	4, 559
Building for Board of Governors					26, 637
All other deductions	6, 710	663	36, 620	3, 648	3, 658
Total deductions	6, 710	160, 943	245, 251	216, 200	44, 723
Net deductions from current net earnings	+89, 427	57, 467	198, 664	+109, 982	+202, 822
Net earnings	−185, 486	245, 356	−268, 275	243, 534	239, 859
Dividends paid	253, 621	245, 356	250, 321	247, 156	239, 859
Franchise tax paid U.S. Government			(2)		
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)				−3, 622	
Transferred to surplus (sec. 7)	[1] −439, 107		[1] −518, 596		

[1] Deficit in earnings after payment of dividends, charged to surplus account.

[2] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

Federal Reserve Bank of Kansas City—Profit and loss account, 1936–45

	1936	1937	1938	1939	1940
Current net earnings	$236,272	$413,805	$177,975	$285,445	$411,682
Additions to current net earnings:					
Profits on sales of U.S. Government securities	308,607	122,583	416,446	216,909	570,275
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)					
All other	20,205	7,387	8,028	8,348	52,381
Total additions	328,812	129,970	424,474	225,257	622,656
Deductions from current net earnings:					
Reserves for contingencies	88,309				
Prior service contributions to retirement system	170,760	170,760	341,520		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	57,837	40,840			
All other	386	530	239	172	45
Total deductions	317,292	212,130	341,759	172	45
Net additions or deductions (−)	11,520	−82,160	82,715	225,085	622,611
Net earnings	247,792	331,645	260,690	510,530	1,034,293
Paid U.S. Treasury (sec. 13b)	10,959	9,994	10,270	3,981	
Dividends paid	236,833	241,360	249,901	256,136	263,803
Transferred to surplus (sec. 13b)					−4,265
Transferred to surplus (sec. 7)		80,291	519	250,413	774,755
Surplus (sec. 7) Jan. 1	3,612,681	3,612,681	3,612,681	3,612,681	3,612,681
Additions, as above		80,291	519	250,413	774,755
Transferred to reserves for contingencies		−80,291	−519	−250,413	−774,755
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	3,612,681	3,612,681	3,612,681	3,612,681	3,612,681

	1941	1942	1943	1944	1945
Current net earnings	$265, 504	$468, 037	$1, 082, 281	$2, 176, 525	$4, 121, 661
Additions to current net earnings:					
Profits on sales of U.S. Government securities	64, 578	161, 654	1, 718, 824	160, 039	161, 320
Recoveries of, and withdrawals from, allowances for losses on industrial advances (net)				16, 958	
All other	1, 520	3, 328	845	1, 668	32, 836
Total additions	66, 098	164, 982	1, 719, 669	178, 665	194, 156
Deductions from current net earnings:					
Reserves for contingencies					885, 955
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		276, 464			
Retirement system (interest base and increased benefits adjustments)			542, 451		
Assessment for building for Board of Governors					
All other	31	40	93	100	49, 923
Total deductions	31	276, 504	542, 544	100	935, 878
Net additions or deductions (−)	66, 067	−111, 522	1, 177, 125	178, 565	−741, 722
Net earnings	331, 571	356, 515	2, 259, 406	2, 355, 090	3, 379, 939
Paid U.S. Treasury (sec. 13b)		8, 309	1, 842	17, 973	873
Dividends paid	271, 913	280, 355	290, 875	307, 792	330, 263
Transferred to surplus (sec. 13b)	−501				
Transferred to surplus (sec. 7)	60, 159	67, 851	1, 966, 689	2, 029, 325	3, 048, 803
Surplus (sec. 7) Jan. 1	3, 612, 681	3, 612, 681	3, 612, 681	4, 554, 369	6, 196, 267
Additions, as above	60, 159	67, 851	1, 966, 689	2, 029, 325	3, 048, 803
Transferred to reserves for contingencies	−60, 159	−67, 851	−1, 025, 000	−387, 427	
Transferred from reserves for contingencies					2, 646, 415
Surplus (sec. 7) Dec. 31	3, 612, 681	3, 612, 681	4, 554, 370	6, 196, 267	11, 891, 485

Federal Reserve Bank of Kansas City—Profit and loss account, 1946–55

	1946	1947	1948	1949	1950
Current net earnings	$4, 244, 611	$4, 446, 342	$10, 557, 008	$11, 401, 503	$8, 716, 557
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	88, 083	128, 464	299, 614	1, 499, 577	1, 770, 582
All other	7, 200	2, 729	1, 032	329	16, 476
Total additions	95, 283	131, 193	300, 646	1, 499, 906	1, 787, 058
Deductions from current net earnings:					
Reserve for contingencies	15, 406	16, 611			18, 444
Retirement system (salary computation adjustment)	125, 622				
Retirement system (adjustment for revised benefits)				186, 597	
Losses on U.S. Government securities sold (net)					
All other	354	479	479	1, 239	670
Total deductions	141, 382	17, 090	479	187, 836	19, 114
Net additions or deductions (−)	−46, 099	114, 103	300, 167	1, 312, 070	1, 767, 944
Net earnings before payments to U.S. Treasury	4, 198, 512	4, 560, 445	10, 857, 175	12, 713, 573	10, 484, 501
Transferred to reserves for contingencies			1, 845, 874	1, 915, 442	
Paid to U.S. Treasury (sec. 13b)		11			
Paid U.S. Treasury (interest on Federal Reserve notes)		3, 757, 934	7, 743, 024	9, 328, 916	9, 014, 088
Net earnings after reserves and payments to U.S. Treasury	4, 198, 512	802, 500	1, 268, 277	1, 469, 215	1, 470, 413
Dividends paid	361, 190	383, 667	407, 803	432, 519	468, 845
Transferred to surplus (sec. 13b)	−286				
Transferred to surplus (sec. 7)	3, 837, 608	418, 833	860, 474	1, 036, 624	1, 001, 568
Surplus (sec. 7) Jan. 1	11, 891, 485	15, 729, 093	16, 147, 926	17, 008, 400	18, 045, 024
Surplus (sec. 7) Dec. 31	15, 729, 093	16, 147, 926	17, 008, 400	18, 045, 024	19, 046, 592

	1951	1952	1953	1954	1955
Current net earnings	$13, 817, 747	$16, 063, 651	$16, 067, 063	$13, 673, 883	$12, 755, 934
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)		94, 386	88, 787	21, 791	
All other	991	1, 191	763	2, 711	1, 825
Total additions	991	95, 577	89, 550	24, 502	1, 825
Deductions from current net earnings:					
Reserve for contingencies	22, 727	22, 223	29, 746	23, 210	21, 333
Retirement system (salary computation adjustment)					
Retirement system (adjustment for revised benefits)			221, 937		
Losses on U.S. Government securities sold (net)	75, 621				33
All other	885	1, 235	444	57, 158	131
Total deductions	99, 233	23, 458	252, 127	80, 368	21, 497
Net additions or deductions (−)	−98, 242	72, 119	−162, 577	−55, 866	−19, 672
Net earnings before payments to U.S. Treasury	13, 719, 505	16, 135, 770	15, 904, 486	13, 618, 017	12, 736, 262
Transferred to reserves for contingencies					
Paid to U.S. Treasury (sec. 13b)					
Paid U.S. Treasury (interest on Federal Reserve notes)	11, 879, 030	14, 022, 539	13, 780, 962	11, 691, 201	10, 843, 053
Net earnings after reserves and payments to U.S. Treasury	1, 840, 475	2, 113, 231	2, 123, 524	1, 926, 816	1, 893, 209
Dividends paid	520, 513	555, 050	592, 217	627, 677	688, 430
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	1, 319, 962	1, 558, 181	1, 531, 307	1, 299, 139	1, 204, 779
Surplus (sec. 7) Jan. 1	19, 046, 592	20, 366, 554	21, 924, 735	23, 456, 042	24, 755, 181
Surplus (sec. 7) Dec. 31	20, 366, 554	21, 924, 735	23, 456, 042	24, 755, 181	25, 959, 960

Federal Reserve Bank of Kansas City—Profit and loss account, 1956–63

	1956	1957	1958	1959
Current net earnings	$20, 200, 686	$26, 716, 055	$24, 982, 456	$32, 274, 232
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	11, 702	7, 177	6, 664	8, 191
Reimbursement for fiscal agency expenses incurred in prior years		52, 223		
Transferred from reserves for contingencies (net)				5, 206, 431
All other	1, 388	998	810	2, 946
Total additions	13, 090	60, 398	7, 474	5, 217, 568
Deductions from current net earnings:				
Reserves for contingencies	19, 999	18, 221	21, 479	
Retirement system (adjustment for revised benefits)		452, 488		
All other	343	694	35	38, 589
Total deductions	20, 341	471, 403	21, 514	38, 589
Net additions or deductions (−)	−7, 251	−411, 005	−14, 040	5, 178, 979
Net earnings before payments to U.S. Treasury	20, 193, 435	26, 305, 051	24, 968, 416	37, 453, 211
Paid U.S. Treasury (interest on Federal Reserve notes)	17, 409, 249	22, 947, 784	21, 696, 020	37, 739, 576
Dividends paid	760, 994	807, 520	861, 731	928, 427
Transferred to surplus (sec. 7)	2, 023, 192	2, 549, 747	2, 410, 665	−1, 214, 792
Surplus (sec. 7) Jan. 1	25, 959, 962	27, 983, 154	30, 532, 901	32, 934, 892
Transferred from surplus (sec. 13b)			−8, 674	
Surplus (sec. 7) Dec. 31	27, 983, 154	30, 532, 901	32, 934, 892	31, 720, 100

	1960	1961	1962	1963
Current net earnings	$40, 299, 828	$32, 683, 511	$36, 589, 901	$38, 247, 928
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	104, 362	150, 470	86, 574	14, 474
Reimbursement for fiscal agency expenses incurred in prior years	--------	--------	--------	--------
Transferred from reserves for contingencies (net)	513, 585	--------	--------	--------
All other	1, 542	1, 076	49, 429	14, 066
Total additions	619, 489	151, 547	136, 003	28, 540
Deductions from current net earnings:				
Reserves for contingencies	--------	--------	--------	--------
Retirement system (adjustment for revised benefits)	--------	--------	--------	--------
All other	1, 213	1, 047	62, 605	642
Total deductions	1, 213	1, 047	62, 605	642
Net additions or deductions (−)	618, 276	150, 499	73, 398	27, 898
Net earnings before payments to U.S. Treasury	40, 918, 104	32, 834, 010	36, 663, 299	38, 275, 826
Paid U.S. Treasury (interest on Federal Reserve notes)	36, 794, 934	29, 207, 957	33, 264, 791	33, 396, 652
Dividends paid	1, 003, 470	1, 081, 952	1, 157, 408	1, 251, 974
Transferred to surplus (sec. 7)	3, 119, 700	2, 544, 100	2, 241, 100	3, 627, 200
Surplus (sec. 7) Jan. 1	31, 720, 100	34, 839, 800	37, 383, 900	39, 625, 000
Transferred from surplus (sec. 13b)	--------	--------	--------	--------
Surplus (sec. 7) Dec. 31	34, 839, 800	37, 383, 900	39, 625, 000	43, 252, 200

The CHAIRMAN. Thank you, sir. The way these hearings have gone, I am impressed that all of you gentlemen are advocating a system that will be insulated against political pressure. That is your position, I believe, Mr. Scanlon, and do you agree with that, Mr. Clay?

Mr. CLAY. Definitely. The day-to-day swings in political pressure.

The CHAIRMAN. Yes. But remember we are in a democracy. Of course, I think the correct title of our country is a "democracy in a republic," I think that is what President Madison said, and I agree with President Madison.

We have, of course, certain principles that we believe in, for example, equal rights to all and special privileges to none.

Now, obviously you wouldn't have the broadcasters in charge of the FCC. Obviously you wouldn't have the railroad presidents and owners in charge of the Interstate Commerce Commission. And the question is, in my view, how far we should go in letting any particular industry or business have anything to do with administering laws that are for the whole people.

If you let the group that can be benefited go in and have tremendous power over the execution of these laws, the administration of them, why it occurs to me that that alone might be against the public interest. If you are going to insulate against the political pressures, why wouldn't it be just as reasonable, Mr. Scanlon, to insulate against the banker pressures, the people who can benefit by this the most. Don't you think there is some consideration that should be given to the public interest to the extent that you would insulate against pressures from the groups who are benefiting?

Mr. SCANLON. I think that is right, Mr. Chairman. But my experience has been that there aren't banker pressures.

The CHAIRMAN. In the Federal Reserve System?

Mr. SCANLON. Yes, sir.

The CHAIRMAN. Well, we differ about that. I won't pursue that any further then.

Now, the prohibition of the payment of interest on demand deposits—of course, I know when that was enacted and why. There were arguments made that the banks were competing with one another and spending too much for interest and jeopardizing the safety and solvency of the banking system. Also we were putting into effect the Federal Deposit Insurance Corporation and charging the banks a small fee to accumulate an adequate reserve fund. And so the banks were forbidden to pay interest on demand deposits because many thought at the time that it was against the people's interest and the banks' interest to pay such high interest, and also that it was necessary to provide some compensation for the extra fee they were assuming for FDIC.

Is that your recollection?

Mr. SCANLON. I can't reply from a recollection.

The CHAIRMAN. No; you were not old enough then. You were not, either, Mr. Clay, but what do you think from reading the history of the act?

Mr. SCANLON. I thought that an additional factor was that the payment of interest on demand deposits tended to draw the money to the large money market centers, those banks supposedly being best able to pay the higher rate.

The CHAIRMAN. Well, it was the small banks that deposited the money in the big banks, and they got the interest. Now I notice in your statement here about the expenses, I know all you gentlemen have argued that these expenditures are justified, but here is the argument that I make: I am not passing judgment on it, and if these expenditures are made by other Government agencies, that is water on your wheel, so to speak, and an argument in your favor. But if they are not permitted for any other Government agency, I think we might as well take a good hard look at them particularly in the absence of any audits made by the Government or by any independent auditor outside of the Federal Reserve itself.

Now we have here a list of interesting expenditures by the Chicago bank. It starts off with spring card party, $606, and the annual ladies' party, $4,249; men's annual outing, $2,383; and Thanksgiving luncheon, $1,744; Christmas luncheon, $1,738. I just wonder if any other Government agency does this an annual ladies' party; the aggregate seems to be $4,126; and membership dues in the American Institute of Banking. If I had to make a guess, the 12 banks in the reports indicate they are paying from $150,000 to $200,000 to the American Bankers Association every year. No; that is too much.

Mr. BOLTON. It is about 50, wouldn't you say?

The CHAIRMAN. $50,000; yes. That is more likely, about $50,000, and, of course, the American Institute of Banking, I suspect you are paying nearer $75,000 or $100,000, and I just wonder if there is real justification for being members of the Accountants Association, and the Chicago Commerce & Industry Association, and Financial Executives, and Robert Morris and different things like that.

And you permit travel expenses that are much more than what the other Government agencies permit. Usually the permitted Government travel expenses are $16 a day and you go $24, $25 a day. And all kinds of association meetings and conferences and dinner meetings and luncheons. The reason this impresses me is because I think the 12 banks, except the New York bank, have almost gone out of the business of administering the Federal Reserve Act.

I think if you will look at the tables we have already put in this record, when they are printed, you will find that you are actually making discounts and advances to only about 10 percent of the banks in each of your districts now, and if you consider the nonmember banks, too, which you serve indirectly you are serving only about 5 percent of the banks contrasted with several times that number, I think, in years gone by.

So, I just wondered if all these expenses are justified at all, since you have contacts in a business way with so few banks. You have public relations people and that indicates that you are trying to sell something all the time.

Now, you have educational programs, and these employees that get training and education from you, do they stay with the Federal Reserve or do they go on to private businesses and commercial banks?

Mr. SCANLON. No doubt a number of them go with other businesses and banks, Mr. Patman.

The CHAIRMAN. Well, isn't the training that you give them helpful to them only if they leave the Federal Reserve System? The training that you give them relates to banking. Well, you don't do any banking. The banking you do at your discount window is practicall nil.

Mr. SCANLON. Well, I disagree with you.

The CHAIRMAN. They have no outlet there for their increased knowledge.

Mr. SCANLON. I disagree with that.

The CHAIRMAN. You do disagree?

Mr. SCANLON. Yes, sir.

The CHAIRMAN. All right.

Now, then, you have all kinds of joint meetings at the Union League Club and other places in Chicago, and the Dow ticker, why would you have a Dow Jones ticker, what service would that be to you?

Mr. SCANLON. This is the news service.

The CHAIRMAN. The news service. Why would you have a Dow Jones ticker?

Mr. SCANLON. I think all of the Reserve banks, with possibly one or two exceptions, have these, Mr. Patman. We get the latest news and market reports, this is the value it is to me personally.

The CHAIRMAN. Well, you don't deal in stocks.

Mr. SCANLON. That is right.

The CHAIRMAN. Why would you want to keep up with the market?

Mr. SCANLON. The Government securities market.

The CHAIRMAN. The Government securities market?

Mr. SCANLON. Yes, sir. The bond market.

The CHAIRMAN. Well, you don't deal in Government securities except for your member banks, do you?

Mr. SCANLON. That is right.

The CHAIRMAN. And they are very few, never over 5 or 10 percent of them in the course of the year; the rest of them get their service through other banks.

Now, continuing this list, recreational library, $1,500. Of course, I am not against libraries, I am for them, but some of these titles kind of attract my attention. Take for instance, you start off with "Poor Rockefellers" and the next is "Scandal's Child," and "Shattered Sexes," and "Prologue to Love." I wonder what that has to do with the bank.

Mr. SCANLON. Mr. Patman, I would like to make the record clear on that. The implication is that the funds of the Federal Reserve bank, those funds that would to the Treasury, were used to buy books the titles of which you and I find not particularly attractive.

The CHAIRMAN. Yes.

Mr. SCANLON. This is not so. This is a rental library operated in conjunction with a branch of the Chicago Public Library in our building.

The CHAIRMAN. Who paid this money here?

Mr. SCANLON. The bank buys the books initially and is completely reimbursed by the rentals from the employees.

The CHAIRMAN. That is the first time I heard of employees paying anything.

Mr. SCANLON. There is no net expenditure to the Federal Reserve bank for these.

The CHAIRMAN. Why these books? You take another one is "Funny Thing Happened," another is "Conscience of Love," "King's Bed," "Capitol Hill." I guess that appropriately could be written by Ed

Neilan, and "JFK Coloring Book," the last one, "To Love and Corrupt."

I just wonder why the Federal Reserve wanted to be a party even to furnishing space for a library that featured books of that kind. Of course, if they serve any purpose, it's all right, and possibly they serve a purpose that I am not acquainted with. But it seems to me that the expenditures are way off.

I notice, Mr. Clay, that your statements starts off with dinner at Hotel Muehlebach, $4,231, all kinds of catering services, bakers, rental of organ, rental of palm trees for talent show; Thanksgiving dinner, $831, and contribution to cover 25-year club expenditures for year 1962, $1,904.

Why would you contribute to a 25-year club expenses? Do you have a 20-year club and a 30-year club, too?

Mr. Clay. No, we have a 25-year club, Mr. Patman, and we think it is a very valuable thing in the morale and esprit de corps of the bank. These people have been very valuable to us over the years, have stayed with us, have worked with the bank and they continue to indoctrinate or to educate and inspire the younger people who are coming into the bank and we feel this is a very minor sort of expense to an attainment when they reach these 25 years and it becomes a very important thing to them over the years to reach that 25-year club and get into this group that is the Federal Reserve in its image in someway or another.

The Chairman. I notice you had luncheons, dinners amounting to $5,912, economic forums conducted in Kansas, managing officers all invited to attend. All this indicates you are out in the country trying to sell something.

Mr. Clay. Yes, I think we are, Mr. Patman. I think we are trying to sell a greater knowledge of the workings of the great economic system that we in America have, and we move to a place where a group of banks and bankers and their directors who are businessmen, can get in after the hour that the bank closes and meet at 4 o'clock. We have an agricultural economist, we have a financial economist, and an industrial economist. There are three different hour-long speeches with questions following, and then we talk with these people about what is being done, what is happening in the economy, what the alternatives are.

We don't try to make predictions, it is just where the economy is going. This education makes for an educated populace which any democracy or republic must have in order to so manage their affairs. We think there has been a great neglect of economic education and for a system such as ours, for the responsibility we have in that system, for it to work, there must be understanding.

Now, that understanding, I think, has grown in the last 15 years. More than ever in the history of the country an understanding of just what is going on, and of the interdependency of these various areas is important in the issuance of credit, in the financing of things, in the outlook of the people with that money to loan, to invest, to make an ongoing healthy economy in the United States, and I think that is what we spend the money for.

The Chairman. I see your point, but I can't agree that you have done a very good job when a man like Ed Neilan, the president of the

U.S. Chamber of Commerce, who is a prominent banker in Delaware, is going out over the country right now and making statements like this: that the reserves of the member banks in the 12 Federal Reserve banks are invested in Government bonds and these Government bonds pay interest, and therefore, since it is their reserves that were used to buy these bonds, the interest really belongs to them and the fact that it goes into the Treasury means that the member banks subsidize the Treasury.

You are not doing a very good job if you don't educate a man like Ed Neilan because he is telling that everywhere from the housetops, and it is not true, is it, Mr. Scanlon?

Mr. SCANLON. It is not true.

The CHAIRMAN. It is not true. That is right, isn't it, Mr. Clay?

Mr. CLAY. What is not true?

The CHAIRMAN. That you use the reserves of member banks to make investment of Government bonds or anything else?

Mr. CLAY. I am not sure that I can answer that question.

The CHAIRMAN. Certainly you can answer it. You are in the bank, you are part of the System.

Mr. CLAY. I don't think I can answer that as yes and no. It is true, Mr. Patman, that when we buy Government bonds on the open market, we do assume a liability on the other side of our balance sheet.

The CHAIRMAN. Let's make it short. You create the money to do it, don't you?

Mr. CLAY. Oh, yes; there isn't any doubt about the creation of the money to do it.

The CHAIRMAN. That is the answer, and you have already answered it. You create the money to buy these bonds, $33 billion worth, and therefore, you did not use the reserves of member banks to buy these bonds, did you? And you could not——

Mr. CLAY. We have on the other side of the balance sheet——

The CHAIRMAN. That is a different question.

Mr. CLAY. We have a Government bond on the asset side, on the liability side we have the reserves. We create it, you are right.

The CHAIRMAN. Just a minute. I am talking about the reserves of member banks, and for every dollar of reserves that you create, the banking system can make a loan of $10 or investments of $10. You do not pay interest on the reserves because then the reserves would be doing double duty.

Mr. CLAY. Certainly.

The CHAIRMAN. You keep them intact; don't you?

Mr. CLAY. I can't say we keep them intact. We certainly don't set them aside in a particular place. They are on the balance sheets.

The CHAIRMAN. And you don't give any interest on them, either?

Mr. CLAY. No.

The CHAIRMAN. And you don't invest them, do you?

Mr. CLAY. As I say, I just can't answer that with a yes or no answer, Mr. Patman. I have argued your side of it with banks many times.

The CHAIRMAN. You are presenting yourself as not being qualified for the job, and I know you are a good qualified man or you wouldn't be in the System.

Mr. CLAY. That would be for others to judge.

The CHAIRMAN. Mr. Harvey?

Mr. Harvey. Mr. Scanlon, I am interested in your comments with regard to the GAO audit. Would you care to elaborate any on the audit and would you let us know further of your views? I sort of gathered that you favored it here, and yet——

Mr. Scanlon. No, Mr. Harvey; I would have to say I do not favor it.

Mr. Harvey. You feel that it would impede the action of the Federal Reserve Board?

Mr. Scanlon. I think so. I merely made the statement that if it were merely a matter of examining the expenses of the Federal Reserve bank to see that we have been honest, I don't see who can object to this. We have nothing to hide.

On the other hand, if it goes beyond that and begins having an effect on policy, then I think this is very objectionable, and it would seem to me that it is very hard to separate the two functions. Therefore, I, on balance, would be opposed to it.

Mr. Harvey. What would your views be, Mr. Clay, in that regard?

Mr. Clay. Well, I think the fear that I would have and the only fear I would have would be whether or not the GAO would impose its business judgment over the business judgment of the bank as to whether or not these funds should be spent, whether we do get anything out of it.

I have had a lot of experience with the GAO. I handled many war contract matters with the GAO. I found them all very, very competent men. They knew what they were doing, they knew what they were after, but quite often, we found the business judgment question our only place of difficulty. I was working with a corporation that had a policy not to make any profits from war contracts. They had a reason for that policy—this was the way they were going to pick up all the advances in the aviation business during the years, and it was well worthwhile to get this—this was their profit in effect, so they had none in the normal sense. But the problem came down to the question of the imposition of the GAO judgment as to what was a legitimate business expense for the type of business that we were doing, and this dispute left us with war contracts open where we had money invested for a great many years. So that we lost money on that one thing. I think that is the thing I fear about it; I think that we have a very fine System; and I think that this is a foot in the door.

Now, I think that Congress has the absolute right at any time to impose its business judgment on our expenditures and tell us, "Don't make expenditures like that any more." I think that is an absolute right and I think it is a proper examination.

Mr. Harvey. Well, you know the GAO has 20/20 hindsight vision with regard to all of its examinations and this bothers the departments of our Federal Government. It bothers the Defense Department particularly to have these persons breathing over the shoulder and coming in and substituting their judgment and yet I have not been convinced that it really impairs their judgment over the long run or whether it affects their future actions and so forth and I wonder do you feel it would affect the future actions of the Board here to have somebody come in and say, "You did wrong the last time," or "We would have done it some other way."

Mr. CLAY. I think we would go ahead just as we have in the past, trying to repair our fences as we went along to be sure we were getting what we were trying to get out of expenditures, either better employees or better understanding of what is happening in the money and credit markets. I think we would go ahead but I think we would have to spend a great deal of time in defending those positions but I don't think that this would—I don't think this as one thing would——

Mr. HARVEY. Let me ask you this, there are many of us, I am sure, in the Congress who believe, contrary to some of the others, that the Federal Reserve Board should be an independent agency and we believe strongly in the independence of the Fed. Do you believe that such an audit would in any way affect the independence?

Mr. CLAY. Yes; I think it is only a step, one step in a direction. I do not think that one step at any time changes the complete character of the institution. I don't think that this is going to kill off the Federal Reserve in any way. I think it will be more expensive. I don't think you are going to get a better audit or better information out of it. I think you may—it could be used in a vicious manner, there is no doubt about that, as a harassing situation. But really, it doesn't upset me much one way or the other. It is another problem and, I think, an expense. But that is about where I come out.

Mr. HARVEY. Mr. Scanlon, would you care to comment on that at all with regard to the independence of the Fed?

Mr. SCANLON. I think I share Mr. Clay's views, Mr. Harvey.

Mr. HARVEY. All right. Thank you, I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Thank you, Mr. Chairman. Welcome to Mr. Clay and Mr. Scanlon, it is good to have the Middle West here this morning.

I would like to pursue the questions just asked by my colleague, Mr. Harvey. You were saying, Mr. Clay, that if Congress chooses to pass a particular law governing the expenditures of the Federal Reserve System, do you recognize its right to do so, whether the given law was one that you would have voted for if you were a Congressman?

Mr. CLAY. Oh, absolutely, to make any changes in the System and that, I think, is a proper function of Congress.

Mr. REUSS. That being so, why isn't it equally a proper function of Congress to ask its traditional congressional auditor, the Comptroller General, to insure by periodic ex post facto inspection, not that a given policy of the Fed is good or bad, but that the law of Congress is being observed as to the particular expenditure made.

Mr. CLAY. Well——

Mr. REUSS. There is nothing wrong with that?

Mr. CLAY. Well, authority and responsibility must end somewhere. You can have watchers watching the watchers or caretakers taking care of the caretakers and so forth. I think Congress has set up a caretaker, and I think that any information with regard to expenses is completely available at any time in any kind of report that the Congress wants.

Mr. REUSS. So you would favor General Accounting Office auditing provided it is confined to whether the Federal Reserve has in fact followed the laws made by Congress relating to expenditures?

Mr. CLAY. Well now, I do not believe, and I just want to get clear on this, I do not believe that all agencies of Government should necessarily have the same or the same kind of expenditures, that there is a justification for an expense in one agency of Government that would not be justified in another.

Mr. REUSS. Let me interrupt at that point to say I am not for one moment suggesting that you should be subjected to the same expenditure limitations as other agencies.

For example, it would be grotesque to engraft upon the Federal Reserve System the so-called Dworshak amendment to the foreign aid law which prohibits our foreign aid agency in this country from disseminating certain types of information about itself. I wouldn't dream of voting for such a restriction on you. But whether the restriction Congress imposes is a sensible one or a nonsensical one it has to be obeyed, doesn't it?

Mr. CLAY. Oh, certainly, certainly.

Mr. REUSS. And what better guardian can you suggest for our various agencies than the General Accounting Office? I have always believed in it.

Mr. CLAY. I would suggest the guardian as the Federal Reserve Board. That is the one I think is the better one. I think that one of the greatest criticisms of Government is that I run into—and Mr. Patman has stated earlier that you shouldn't have the bankers controlling Federal Reserve—I don't think you have the bankers controlling the Federal Reserve but one of the greatest criticisms of Government is too often the Government is sitting in a position where they do not get the news. Agencies are in an ivory tower situation and as a result are isolated from the people that know what goes on in this or that setup. They don't get the news except in an adversary procedure.

I think that the Board here knows what these problems are, and it is just an easier administration job. As I said to Mr. Harvey, I find if this is something that Congress thinks should be done, I don't think that this is going to kill the Federal Reserve.

Mr. REUSS. Your answer, however, to the question of who shall audit the Federal Reserve is, I guess, the Federal Reserve.

Mr. CLAY. I think so. I am convinced——

Mr. REUSS. But your answer to who shall audit the Department of Agriculture and the Interstate Commerce Commission is the Comptroller General?

Mr. CLAY. I don't know the problems of the Department of Agriculture or the Department of Commerce or whichever one you happened to mention, the Interstate Commerce Commission. I don't know them to the extent that—I think you could put that under certain situations but I wouldn't want to say that.

Mr. REUSS. So you are not convinced of the necessity or desirability in our governmental system of the Comptroller General at all?

Mr. CLAY. Oh, yes, I am, certainly I am. I think they have done a fine job over the years. I am convinced of the necessity of it. I think you have got to have a general place to get this sort of thing done. I think there may be exceptions to that and I think the Federal Reserve is one of those exceptions, that is the only thing.

Mr. REUSS. Fair enough, you have been very clear, and I turn now to Mr. Scanlon. I am interested in what you say, Mr. Scanlon, as my Federal Reserve bank President, on page 6 when you talk about the shortage of coins in the country:

> I do not know who is to blame, whether it is the appropriations system or something else but in the Middle West we have had a shortage of coins for years. We have had to ration coin almost constantly and have been unable to supply enough to take care of commerce and trade.

I am quoting from those two sentences.

Mr. SCANLON. That is right.

Mr. REUSS. You and I know we have both gotten letters in recent weeks from bankers in our Midwest Reserve System.

Mr. SCANLON. Many of them, Mr. Reuss.

Mr. REUSS. Very distressed, some of them, sending me copies of letters they write you, and some of them sending you copies of letters they write me. I feel concerned about it. Here on the Banking and Currency Committee we have rather conscientiously, I think, responded to all of the requests made of us by the Treasury and the mint for what they said were adequate minting facilities and distributional facilities. I don't know whether we in Congress, in this committee, and Congress generally are at fault, I don't know whether the Treasury or the people at the mint are at fault. However, I suggest this is a marvelous opportunity for you to help us and to show your independence of both the executive branch and the Congress and let the chips fall where they may. Would you turn the resources of your bank, which are very considerable in terms of intellect and manpower, to preparing for me and for this committee a study of what is wrong with our coinage system and who is to blame, and if you feel the finger should point at us, so be it.

I would welcome that. Would you do that on as expedited a basis as you can, consistent with your other obligations and provide it to this committee?

Mr. HARVEY. Would the gentleman yield?

Mr. REUSS. Yes.

Mr. HARVEY. I share the gentleman's concern over this problem of the shortage of coin, and it is one of the reasons I have requested so often and so long for the presence of Mr. Dillon, the Secretary of the Treasury, because it seems to me this is entirely a problem that he can give us the answer to, and that he is very, very much concerned with, and he bears sole responsibility for.

I have some difficulty in seeing how Mr. Scanlon here would either have the facilities with which to prepare a report. Now, he can answer that.

Mr. REUSS. I will tell you why I would like it—we will turn it over to Mr. Scanlon—I will tell you why I would like to have a study, and it will be as useful to your people as mine. We have had Mr. Dillon and the Director of the Mint here within the last year or two, I know since the gentleman has been on this committee, on this very question, and I feel now that perhaps we on this committee were remiss in not letting some others give their views.

After all, the only testimony we heard was that of the Director of the Mint and of the Secretary of the Treasury, and while we had full opportunity to explore it with them, I did not get the benefit of the thinking of those who are there on the firing line. When a bank asks for coinage, they ask Mr. Scanlon; isn't that how it works?

Mr. SCANLON. Yes, they do.

Mr. REUSS. And he has testified this morning that he is embarrassed because he is not able to tell them. What I would like to do is to get the benefit of the Fed's knowledgeability, and let them give us their views. They are in a unique independent position. If it is Congress who is at fault, they can say so; they have nothing to fear from us. If it is the Secretary of the Treasury they could not be more independent from him, and they can tell him off, so why not find out?

Mr. HARVEY. I have no objection to it, but I just share his embarrassment because, very frankly, I have received the same letters that he has, and you have, from bankers and from others about this coin shortage, and I would like myself to know.

Mr. REUSS. Would you do your best on that?

Mr. SCANLON. I would do my best, and I am very glad to give you this information, but it would, of necessity, have to be limited to our experience; that is, our inability to get the coin, and a record of the demand we have had from our member banks. I do not know what the Secretary of the Treasury's problems are with the mint or with the Congress.

Mr. REUSS. More than that, it seems to me you can make a recommendation as to a minting system which would remedy the difficulty. Either the Treasury's timetable and schedule is a valid one that is going to remove the defect as soon as possible, in which case they should be commended, and "full steam ahead" reported, or there is something wrong with that schedule, and I am conscientiously concerned that this committee be on the right track. It is our responsibility, too.

Mr. SCANLON. I know this is bothersome to you gentlemen, but in fairness to both the Congress and the Treasury, I must say we have had a great increase in demand for coin far above projections.

Mr. REUSS. A great but foreseeable increase with the increased automation of vending machines, and so on.

Mr. SCANLON. Well, perhaps. But apparently those charged with the responsibility did not foresee quite the increase we have had because we did not have the facilities, and it seems to always get back to a lack of facilities.

Mr. REUSS. But I am interested in your examination of the public records and hearings and reports to determine whether the present program of this country for remedying the coin shortage is an adequate one. If it is not, if you think what we are doing is not enough, I certainly would like to know about it so that we can start in again and see that that which needs to be done is done.

I do not bring this up to embarrass you but, very frankly, I cannot think of anybody in a better position to make such a study than the independent Federal Reserve which is on the firing line because it has to distribute the coins—or rather has to find an alibi for not distributing the coins that people want.

So I do have your assurance that you will do your best in the broadest possible way to——

Mr. SCANLON. Insofar as our experience enables us to do it I will be glad to pass it on to you.

The CHAIRMAN. And if you can do it at the time you examine your transcript that will be all right. Mr. Bolton?

Mr. BOLTON. Thank you, Mr. Chairman.

Mr. Scanlon, following some questioning by the chairman with regard to the training of employees, do you know offhand what the turnover is in your bank employees?

Mr. SCANLON. Yes, sir. It runs slightly more than 20 percent on an annual basis.

Mr. BOLTON. How does that compare with the employees of other banks in your system?

Mr. SCANLON. It is just about what the other large Chicago banks have had. Our figure might be a little higher but this is occasioned by the fact that a large proportion of our employees are young girls who do not stay with us very long.

Mr. BOLTON. What kind of a personnel system do you follow? Do you have in-plant advancement or are you forced to go outside the bank for new personnel?

Mr. SCANLON. For the most part, in-plant advancement, Mr. Bolton, but occasionally we do have to go outside.

Mr. BOLTON. Is this training program taken into account as the promotions come up?

Mr. SCANLON. This is a very vital part of our promotional process.

Mr. BOLTON. Therefore, it would be your feeling that the ABA courses, et cetera, which these people do take are a requisite in their overall educational program qualifying them for advancement?

Mr. SCANLON. Yes. I would. As a matter of fact, of our 13 senior officers, only 4 have not had these courses at one time or another.

Mr. BOLTON. This, I think, brings us to the heart of the overall problem that we are wrestling with. On another matter the chairman has pointed out very well the fact that funds which operate the Federal Reserve are actually Government funds. Now, up to date the testimony has indicated that the people who have the responsibility for the spending of the funds that operate the Federal Reserve System are the Federal Reserve Board, and the Federal Reserve Board audits their own accounts, and are satisfied with the operation, and the suggestion has been made that this is back-door financing. Basically it is his position that these are Federal funds, these are public moneys, and Congress is not living up to its responsibilities in the handling of those funds.

The suggestion has been made in a bill by the chairman that the GAO should audit the accounts.

I think a greater question is involved here, as he has also suggested; namely, that the banks should go on the appropriation process. It seems to me the two are tied together because if the Appropriations Committee is to have the responsibility for the appropriations, then conversely the GAO, as the auditing arm of the Congress, should certainly be involved in the auditing process.

Would you have any comments as to the effect on the operations of the System or on the independence of the System which going under the appropriation process would have?

Mr. SCANLON. Mr. Bolton, I think that when you make an audit and attempt to confine your activities to a review of the propriety of the expenses, it is very difficult to draw the line where this ends and influencing policy begins.

Now, I think the central banking system is a little different type of operation than other Government agencies, although I am not qualified to speak on the other Government agencies.

I believe we have examples elsewhere in the world of central banks that are not on the appropriation basis and they are not subject to audits in the sense we are talking about.

I have had many years' experience as a bank examiner, and I know this to be one of the problems in examining banks. You make an ex-post facto examination. As one of you gentlemen pointed out, it is easy to go in and criticize a loan after it has been made. But we have found it very difficult to consistently keep the examiner from getting into the management of the bank, into the formulation of policy. It is a hard thing to do; and it is only my fear of influence on policy that makes me resist the GAO. I have no other objection.

Mr. BOLTON. Well, I have understood your position as far as the GAO is concerned. But how about going through the appropriation process? Let us discuss it a little more openly.

Quite frankly, the Export-Import Bank came in for an additional authorization, and in the authorization bill this committee saw fit to include therein, and so did the House, the fact that the Export-Import Bank should go under the appropriation process, on the theory that this was the expenditure of Government funds and, furthermore, that it was involved in a field of our foreign relations which the Congress wanted to keep in very close touch with and to carry out its responsibilities.

The other body did not see it that way and, therefore, the bill has not been acted upon. I believe that is correct, is it not, Mr. Chairman, or is it in conference?

The CHAIRMAN. I do not know the exact status of the bill. We will get it and put it in the record, Mr. Bolton.

Mr. BOLTON. It is the same principle.

The CHAIRMAN. The same principle is involved.

Mr. BOLTON. Now, the question that is involved here is whether the independence of judgment and of action of the Federal Reserve System is of such import that it is that very independence which would be jeopardized by going under the appropriation process. This to me is the nub not only of the question of appropriation but also the question of audit, because if the Appropriation Committee is doing the appropriating then I can see no reason why they should not have their auditors giving them the figures they want.

On the other hand, if they do not go under the appropriation process, then the Federal Reserve System has the responsibility of having its own auditors to keep track of its own expenses and, therefore, I think a comment from you gentlemen, as to whether going under the appropriation process would, in your opinion, affect the independence of action of judgment of management of monetary system of the Federal Reserve Board and the Federal Reserve System would be affected by going under the appropriation process, is on the point, and I would like to have your comments, if I might.

Mr. CLAY. So far as I am concerned, Mr. Bolton, this is a very long step. I have mentioned short steps, and so forth. I think this is a very long step in the elimination of the independence of the Federal Reserve System.

I think when you have to look to a body such as the Appropriations Committee for your monetary expenses that it is very difficult to take an independent step which may be very unpopular with the Appropriations Committee at the particular time, even though in the eyes of the organization that Congress has said should be in control of the monetary affairs of the country, it is their best judgment that the public will be greatly served and best served by taking this unpopular step. I think this does eliminate a great deal of the flexibility of monetary policy because timing of monetary changes would not always be, I am afraid, with frail human beings at the time that might be most propitious for the economic health of the country, and so I think this is a long step in taking away the independence.

I think there would be many occasions where you would have either emergency appropriation problems or you would have shortages of ability to handle certain things.

Just one little simple example: In 1963 the number of drafts handled by the Federal Reserve Bank of Kansas City for the Commodity Credit Corporation increased by 203 percent in that year. Now, it happened because the Commodity Credit Corporation——

The CHAIRMAN. Suppose you give the aggregate figures each time. Sometimes the percentage increase does not always tell the story.

Mr. CLAY. Well, let me see, the number of certificates of interest handled numbered 5,400,000, and they were valued at $3,100 million as compared with 1.8 million items aggregating $1.4 billion in the previous year.

Now, this resulted from the consolidation of certain functions in Kansas City which we had no prior knowledge of, and which came about in a very rapid manner.

Now, we were able under the kind of system that we had to take care of that. It was difficult hiring the number of people. We would have liked to have been better prepared for it, but we were able to handle it. I think there are a lot of thinks like that.

Actually, Mr. Bolton, I read on my way over here for the first time Malcolm Bryan's statement on this subject basically which he made before the Joint Economic Committee, I believe, in 1952. On both this auditing question and on the appropriations question, I think if I had to write one today, I could not improve on that statement. I think it is a perfect statement as to what kind of problems are involved here.

Mr. BOLTON. I am not familiar with that statement, Mr. Chairman. Is it too lengthy to put in the record?

The CHAIRMAN. I think it is the statement that Mr. Bryan made, Mr. Bryan of Atlanta, Ga.

Mr. CLAY. Yes. In the hearings the statement was inserted and it was written after the hearings.

The CHAIRMAN. Without objection it will be placed in the record.

Mr. CLAY. I think it is an outstanding statement and a very reasonable statement.

The CHAIRMAN. Suppose you deliver it to Mr. Bolton and if he wants it in he will put it in.

Mr. BOLTON. Thank you very much, sir.

Mr. Scanlon, would you care to comment any further on the general question?

Mr. SCANLON. Only briefly, Mr. Bolton. I think it is hard to go to an appropriation basis without the people who are doing the appropriating having a great influence on policy. This may not come about immediately but it will occur over a period of time.

I would also endorse Mr. Bryan's statement in the 1952 hearings.

Mr. BOLTON. In effect, what you are saying then is that the man who pays the piper calls the tune.

Mr. SCANLON. I think that is a good way to put it.

Mr. BOLTON. Thank you, sir, very much.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Clay and Mr. Scanlon, I found your comments about the turnover of young ladies in your establishments pregnant with hidden meaning. [Laughter.]

I wonder, Mr. Scanlon, out of the income that has been demonstrated here to be the principal income of the Federal Reserve System, being the income off the bonds, I presume that is tied very closely to whatever interest rate existed at any one time, is that correct?

Mr. SCANLON. That is correct.

Mr. HANNA. In other words, if the interest rate goes up, then there is more money available as income of the Reserve System?

Mr. SCANLON. As a result more coming to the Treasury.

Mr. HANNA. Yes. It would be possible, would it not, with an increase of the interest rate you could have simultaneously an increase in expenses and an increase in the amount returned to the Treasury, couldn't you? This would be possible?

Mr. SCANLON. I think it is possible.

Mr. HANNA. To your recollection has this ever happened?

Mr. SCANLON. I do not believe I can answer without looking at the record, Mr. Hanna.

Mr. HANNA. Do you suppose that this would indicate that an outsider without sympathetic considerations for the high-level leadership that is in the Reserve System, do you think this might lead to the entertainment of an idea that the Federal Reserve System has a built-in interest in raising the rates and, thereby, making available more money for the System?

Mr. SCANLON. I would hope that it would not because I have never found in all the years I have been with the System that has played any part in it.

Mr. HANNA. Mr. Chairman, do we have an audit of the Export-Import Bank?

The CHAIRMAN. Yes; we get an audit every year.

Mr. HANNA. Does the GAO do that audit?

The CHAIRMAN. The GAO does it; yes.

Mr. HANNA. Yes.

It does appear to me that here again, as I recall the debate in this committee, there was great concern about back-door spending attached to the Export-Import Bank. I was one at that time who argued just exactly the argument I have been hearing here about the need for flexibility and how difficult it is to foresee the intricate problems that arise in the banking situation, and being in a position of carrying on a commitment in certain areas of activity, so that I am sympathetic to your situation and position relative to the appropriation.

But, on the other hand, I am not following quite so closely this opposition to the audit.

One other question, Mr. Chairman. Has there ever been any objection from the Export-Import Bank that the audit system there has preempted the policymaking of the Export-Import Bank?

The CHAIRMAN. Not to my knowledge. May I suggest to the gentleman that every war we have fought has been under the GAO auditing system, and I do not know of anything that changes more quickly than in a war, and we have taken care of the necessary things during the war years, and during depressions and all other agencies of Government have done this.

Mr. HANNA. If I understand the approach——

Mr. HARVEY. Would the gentleman yield there, Mr. Chairman? Didn't the Export-Import Bank object very strenuously here not too many years ago with respect to the activity in the European Coal Community, and the audit by the GAO? It seems to me there is considerable dispute over that.

The CHAIRMAN. Not to my knowledge. I do not recall it now. My recollection could be refreshed if the gentleman is correct, but I have not looked into it, and I do not remember.

Mr. HANNA. I think there are two points that are very important here, Mr. Chairman. One is to find out whether or not there is evidence that can be used to substantiate the fears that have been expressed about the mixing in of policy, No. 1.

No. 2, it might well be to our advantage to consider the scope of the audit, and it is my belief that the way in which we set this up in the statute can indicate the scope of the audit which could very well minimize, I think, the problem that you gentlemen foresee. Is this true, Mr. Clay?

Mr. CLAY. I think very definitely that you can set the scope of the audit. If it is an ex-post-facto audit and the policies of expenditure are set either by standards that the Congress has set or by the policies which are regularly furnished to the Congress by the Board, if this is an audit within that scope, it is all right.

The problem, of course, is that all freedoms are very fragile things, and in the scope of the——

Mr. HANNA. Indeed.

Mr. CLAY (continuing). The scope of the present context where you have a group of bills introduced at one time, which bills, if all of them went through, would very definitely change the whole type of structure that we have in the Federal Reserve System, then I think you begin to get terribly suspicious of any part of that program. I think that since Mr. Patman, the chairman, has not felt that the Federal Reserve has properly performed its function over the years, his desire would be to remove the type of system and the type of private and public relationship that exists; then it becomes suspect from the standpoint of those who are sitting in the Federal Reserve.

The CHAIRMAN. Will the gentleman yield briefly?

Mr. Mahon, who is in Congress now, has charge of that appropriation bill, about $50 billion a year, and all the appropriations go through the regular process. We are asking that the Federal Reserve System do the same.

Mr. HANNA. Mr. Clay, I think you can appreciate in viewing the 50 years of the Reserve System that when we, as Members of Congress, look at the commencement of the Federal Reserve at a time when the Federal debt was in the nature of $5 or $6 billion at that time when the income of the Federal Reserve was substantially from its discount window, and seeing now where the income of the Federal Reserve System is over five times what was the total national debt—in other words, the amount of holdings in bonds, as I take it now, is somewhere near $33 billion, is that right?

Mr. CLAY. That is right.

Mr. HANNA. In other words, this holding of the Federal Reserve is something over five times what the national debt was at the beginning, and out of that if you are dealing with over $300 million, I would take in your expenses over $300 million of Federal money returning to the Treasury something in the nature of $800 million, it seems to me there is a substantial difference in what the problem is today in relation to your using Federal funds to carry on your activity than it was when the act was first set up. Wouldn't you agree with that, sir?

Mr. CLAY. I think the Federal Reserve has changed, as I say, over the years. I think there has been a progressive maintenance and overhaul and I think there has been a sound progress and maintenance of it. I do not know about the relation of those figures. Certainly at one time a large percentage of the function of the Fed was the discount of paper of the member banks. That today is a very small part of the whole thing, but what we do is still banking, in my opinion. It is not the question of its not being banking.

I think there is a lot more to banking than making loans. I think a great many suburban banks exist today largely as a means of payments, that a large proportion of their accounts are of that kind.

The structure of financing has changed, and changed constantly in this country, and I think in order to serve this payments system, in order to get currency and coin where it is needed, that this is a part of the banking function.

We use the banks in the system. You could have it set up with some subtreasuries and various things like that but you still would have to have a system, and this is a part of banking, and that is why we do keep such very close touch with all the banking progress. We know what is going on.

Mr. HANNA. I do not think there is any quarrel with that, but I think that, as have seen it, I think the legitimate interest of Congress is focused on the point that since the inception of the system you are now much more deeply involved with the spending of Federal money to carry out your activity than you were when you started or it was ever anticipated that it would be true.

Mr. CLAY. I would suspect that that is true, that we are spending Federal money to a larger extent than we were at that time. I would have to think that through—I mean in proportions and everything, but I would suspect that is correct.

Mr. HANNA. Thank you. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Taft.

Mr. TAFT. Thank you, Mr. Chairman. Mr. Scanlon, I believe you are a member of the Open Market Committee, are you not?

Mr. SCANLON. That is right, Mr. Taft.

Mr. TAFT. Do you have an opinion as to what the effect on the operations of the Open Market Committee or on other bodies in this country or outside of this country the disclosure of the minutes to the committee, to this congressional committee, might be?

Mr. SCANLON. Yes, I do have. I see no objection to the disclosure of the minutes with a suitable lag of time. Now I think the lag of time varies depending upon the period you are talking about. So from my standpoint, I would tend to make the lag long enough to take care of the most critical period, timewise. I don't know what this time should be, whether it should be 5 or 3 years, but I think it should be a substantial lag, and I say this because I think to do otherwise would merely be opening the door to speculators, those who could profit by knowing what the trend of thinking of the committee might be.

Mr. TAFT. And what effect do you think such speculation or guessing might have on the economy of the United States, the money market here or internationally?

Mr. SCANLON. I think it would be disastrous.

Mr. TAFT. Specifically, what kind of things might occur?

Mr. SCANLON. I think you would then have wholesale speculation in rate changes, particularly Government securities.

Mr. TAFT. Do you think it would make the rates fluctuate more radically than they presently fluctuate?

Mr. SCANLON. Very much so.

Mr. TAFT. Would it have any effect in your mind upon the position of the dollar in the international money market?

Mr. SCANLON. I think that some of our friends in the foreign central banks have a hard time understanding how we live in a fish bowl, so to speak, now.

Mr. TAFT. You do think it would have such an effect?

Mr. SCANLON. Definitely.

Mr. TAFT. Do you think it would depress the value of the dollar on money market?

Mr. SCANLON. I didn't hear that.

Mr. TAFT. Do you think it would depress the value of the dollar in the world market?

Mr. SCANION. I think it might have that tendency.

Mr. TAFT. Thank you. Mr. Scanlon, with regard to Mr. Hanna's questioning on the possible effect of interest rate changes upon the income of the Federal Reserve banks, how quickly would this occur? What relationship would this have to the overall portfolio held by the Federal Reserve?

Mr. SCANLON. Well, I would think that would depend upon the economic situation at the time, Mr. Taft. I like to look upon the objective of the Federal Open Market Committee as being those set forth in the Employment Act of 1946.

Mr. TAFT. How large a percentage change, for instance, are you talking about in interest rates if you were thinking about changing interest rates up or down? What is the largest jump you have ever made?

Mr. SCANLON. In the discount rate?

Mr. TAFT. Yes.

Mr. SCANLON. I don't know that I can answer that without looking at the record. The last one was one-half of 1 percent.

Mr. HANNA. Will the gentleman yield?

Mr. TAFT. A half or a quarter of a percent, something of that nature. This half or a quarter of a percent would apply only to the rate on new securities purchased, would it not?

It wouldn't apply to the complete portfolio?

Mr. SCANLON. Oh, no.

Mr. TAFT. $33 billion that you already hold.

Mr. SCANLON. No.

Mr. HANNA. Would the gentleman yield at that point?

Mr. TAFT. I would be glad to.

Mr. HANNA. I think that is a point we might, with some advantage, explore. How much of the portfolio is in short-term as against long-term bills?

Mr. SCANLON. The bulk of it is short term, Mr. Hanna.

Mr. HANNA. When you are talking about short-term bills are you talking about 90-day bills?

Mr. SCANLON. Yes, less than 1 year.

Mr. HANNA. I think that is the point.

Mr. TAFT. That is what I am trying to get to, Mr. Hanna. So it would have an effect on the short term as you refinance them or bought new ones, but it wouldn't have any effect upon the present holdings of long-term securities?

Mr. SCANLON. That is right.

Mr. TAFT. Mr. Scanlon, as I recall we discussed the bill but I don't think your prepared estimate discusses the bill on the request for broadening the rediscounting powers of the Federal Reserve. Would you care to comment on that measure, making other types of paper acceptable?

Mr. SCANLON. Yes, Mr. Taft. I think that, as you are well aware, banking has changed over the period of years since the Federal Reserve Act was written. In the days when the Federal Reserve Act originated, we didn't have consumer credit paper. We didn't have the large volume of amortized real estate mortgages, this type of thing in the banks. I happen to feel there is a need to eliminate the present technical requirement for eligible paper.

I think that it would be of help not only to the large banks but to the small banks in making our lending operation a more flexible one.

Now, as you know, member banks can borrow from the Federal Reserve banks on this type of paper today, but they pay a penalty rate of one-half of 1 percent for this privilege. I see no need for this, so I would favor the proposed legislation.

Mr. TAFT. What would be generally the effect of eliminating the penalty rate on the interest rates of the country or would it have any effect on interest rates?

Mr. SCANLON. As of today I don't think there would be any effect. In other words, it would only be effective at the time member banks were forced to borrow.

Mr. TAFT. What would the effect be then?

Mr. SCANLON. The effect would be that the banks would have easier access to liquidity. They would be able to come to the Federal Reserve for their liquidity needs without having to rely on Government securities for a preferential rate. In our district we happen to have had a country bank in a heavy cattle feeding area that did not have enough Government securities. In order to take care of their cattle feeders, they had to come into the Federal Reserve and borrow money by discounting paper.

Now the technicalities of determining eligible paper were such that the bank didn't want to bother with this, and it is questionable whether their paper technically complied with the present requirements, so they borrowed paying a one-half of 1-percent premium. I don't see any reason for this.

Mr. TAFT. What effect might it have on the purchase of bonds? of Government securities?

Mr. SCANLON. By the banks?

Mr. TAFT. Yes.

Mr. SCANLON. Member banks?

Mr. TAFT. Yes.

Mr. SCANLON. I don't think this change would have any effect.

Mr. BOLTON. Would the gentleman yield there for a question?

Mr. TAFT. I would be glad to yield.

Mr. BOLTON. Mr. Scanlon, isn't one of the reasons member banks purchase bonds for their own account today is to keep this borrowing ability, to have this borrowing ability if necessary? Therefore if you expanded the eligibility paper requirement, if my first statement is right, isn't there at least grounds for question whether banks might not choose to purchase other paper as contrasted to Government bonds?

Mr. SCANLON. I think if your first statement is right, that is most likely true, Mr. Bolton. I am not certain that that first statement is entirely true. Certainly your money market banks have had funds available for loans. The investment in Government bonds has been a means of investing what we can call excess funds. Now barring an increase in demand for credit, I don't see that this would change just by this change in the law.

Mr. BOLTON. Thank you, sir. Thank you, Bob.

Mr. TAFT. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, sir. Mr. Wilson.

Mr. WILSON. Mr. Scanlon, in connection with this question about the release of the minutes of the Open Market Committee, there seems to be little opposition to releasing them provided a sufficient length of time is—has transpired. We haven't been able to come up with a time that meets everyone's approval, however. Why isn't it then that the minutes—let's see, how long have you had an Open Market Committee, a formal committee, since about 1930 or 1935?

Mr. SCANLON. 1935.

Mr. WILSON. And did this Committee, when it was written into act, take over the minutes of the previous informal committee? Do you have all those records, the Open Market Committee records?

Mr. SCANLON. I can't answer that, Mr. Wilson. I assume so.

Mr. WILSON. Is there any reason why minutes for years back beyond 5 years or 10 years couldn't be voluntarily released to the Committee for the benefit of scholars and/or people who might be able to gain some knowledge from the type of activity that took place in these committee meetings?

Mr. SCANLON. My personal judgment is that there is no objection to that.

Mr. WILSON. Could you tell me specifically, because this is a very technical subject I realize, and we are lay people in it—let's take a 6-month period—how could speculation transpire if there was a 6-month lag on releasing the minutes? What could have happened 6 months ago that could affect speculation today?

Mr. SCANLON. This is difficult to answer. Certainly in the field of our foreign swap arrangements, there are conversations and comments included in these minutes that indicate a somewhat long-range approach to the particular problem. I think you gentlemen, if you had read them, would agree that it would not be right for those particular items to be released.

Mr. WILSON. That is true. I am sure that every member of the committee would want to protect any legitimate security transaction or anything that took place that might do damage to the money market or our country's prestige or status or anything at all. I wonder if we aren't being overly protective in wanting to go back too far.

Apparently the chairman has good reason for feeling that these minutes would be helpful in their study of the Federal Reserve System, and we are trying to make an honest appraisal of it during its 50 years of being.

Mr. SCANLON. It might be that we are being too protective, but as I indicated, I think that when you ask for a time, we are all inclined to think of the worst possible situation and take the longest period of time.

Now I haven't resolved in my own mind what that time would be.

Mr. HANNA. Will the gentleman yield?

Mr. WILSON. Yes.

Mr. HANNA. I think right here would be a good place to find out does the Secretary of the Treasury have access to those minutes as part of his preparation for the negotiation of the tariff treaties, I mean immediate access?

Mr. SCANLON. Not to my knowledge, Mr. Hanna, but I can't speak with authority on that.

Mr. HANNA. I mean from your experience in banking in international matters, wouldn't there be some interrelationship between the activities carried on especially in its international basis, by this committee and our posture in relation to our tariff negotiations?

Mr. SCANLON. Oh, I think there is. I think there are very good relationships between the Board of Governors of the Federal Reserve System and the Secretary of the Treasury, and I think that that information that would be essential to the Secretary of the Treasury's negotiations on these things certainly would be available to him.

Mr. WILSON. Mr. Scanlon, you said you are a member of the Open Market Committee.

Mr. SCANLON. Yes, sir.

Mr. WILSON. It is possible that the request the chairman has made for these minutes will be brought up at your next meeting. Do you feel you are going to be in a position to support his request and urge your Committee members to release as many of the minutes as you feel is safe for the security of our country?

Mr. SCANLON. I certainly will consider it seriously when it is brought up, Mr. Wilson.

Mr. WILSON. Mr. Clay, you in justifying many expenses, the dues and expenses that Mr. Patman asked you about, you indicated that there was a great educational job that is being done by the bank and that this was one of the reasons many of these expenses were justified, the training programs and the community work that the banks are doing. Now who gave the Federal this responsibility of educating the public, and what is the spirit of the educational program?

It is just about a banking system or does it get into philosophies of government or monetary systems?

Mr. CLAY. I think it gets into all interlocking relations of an economy. I think that it works toward a better understanding of that. You asked who gave it to us. I think Congress gave it to us in giving us the power over the monetary and also to see that a payments system did work, and in all these things in order for it to work you have to have greater understanding. Now admittedly not everybody is educated. Not every banker is educated, I must say, as to just how this works. But I think progress is being made and has been made over the years. I think it is a valuable progress.

Now as far as the education of the employees, the Congress gave us an authority to run these banks to carry out these particular functions, and it is our job to run these banks in the most efficient manner that we know how.

Now to run it in an efficient manner, we need qualified employees, and in my bank the educational program has resulted in that sort of a thing. Of the 32 officers in our bank, 18 of them have had special training at some of the graduate schools. This is a 2-week summer course. They work during 2 weeks of the summer at the school for about 3 years. Of the 18 out of the 32, we have lost very few people in that area.

When you get down to the AIB courses, you say "Well, we aren't banking any more so we don't need this kind of education." The truth of the matter is we do.

Anybody that is dealing with the check collection system, for example, or anybody that is dealing with the credit system is lost if they don't know something about business law. You used to have to know about the negotiable instruments law. In 27 States out of the 50 now we have the commercial code. If the employees are not brought up to date on the changes and what happens as a result of this new legal situation with regard to instrument used, or if they don't get educated on the new designs of instruments—and commercial people are always designing something that we have never had before—if they don't keep up with that sort of thing they are working in a vacuum and they don't carry out the function that should be carried out.

Mr. WILSON. I am not one of those who disagree, Mr. Clay, that we need not educate the employees. I think this is the practice that business utilizes.

Mr. CLAY. I think if we could get them outside cheaper by not training them within then we ought to do it. But I would hate a system where we would have to fire a certain number of employees over a number of years in order to bring them up to date on what is going on.

Mr. WILSON. The education I have had came from the banking institute itself. I realize there is much more than just some of the mechanical phases of banking. You get business courses and economic courses and negotiable instruments courses and so forth that are quite valuable to the Federal Reserve employees.

I was concerned, however, about this community educational program. I am wondering if it is conceivable that some of these educators from the bank might either be too far to the left or too far to the right or how they interpret political philosophy if philosophy does become part of it, and just where the motivation comes from that sets them on their goal.

Mr. CLAY. Well, I do not agree with all the philosophies of all the economists in my particular bank, but I do believe that for us to be knowledgeable and do sound work, we must know what these philosophies are and what people are thinking and why they are thinking and what has come about. We don't know everything else there is to know about the economic system today yet. This is a developing thing and will continue to develop forever as far as I am concerned. Unless we know these things, we are working in a vacuum, don't know whether we should be moving this way or should be moving another or what effect a particular action has on the monetary control system, the supply of money and credit, whether it is needed or isn't needed. So I think that our people do a magnificient job of trying to express the various alternatives. They seldom really express a final opinion of an economic situation as to what one particular action should be taken. You may, after reading one of their articles (for instance on the wheat situation, that we have put out), be able to come to only one conclusion.

They did express all the alternatives and all the problems that are involved in going in any direction on the thing. But I think this full analysis is valuable in finding the kind of solution that will be best for the public generally.

Mr. WILSON. I think that the gentlemen who have been representing the banks have perhaps been coming in wondering just what was taking place at these hearings. This is an educational thing for all of us I am sure.

We are learning a lot from the testimony each of you have presented to us, and we are looking for your ideas on how the system can be improved.

Mr. CLAY. I have no doubt about that.

Mr. WILSON. The chairman has a dozen university commissions coming up yet. We are going to get a lot of education from them too and I think we are all appreciative of your contribution.

Mr. CLAY. And we try, we think it is important to have the respect of the professional field. Not all of them do respect the Federal Reserve, because they have a different theory of what should be done. But even so, I think there must be a general conversation running between these people in the Federal Reserve and in the "egghead" world.

Mr. WILSON. Thank you very much.

The CHAIRMAN. Mr. Kilburn, I believe you wanted to ask a question?

Mr. KILBURN. Mr. Chairman, I just wanted to see if my memory serves me correctly, Mr. Scanlon, and I am not sure that you are old enough to tell me. As I understand it, the Open Market Committee was officially set up about 1933. Before that it was kind of an informal committee, is that about right?

Mr. SCANLON. That is my understanding.

Mr. KILBURN. I remember it very well back in the 1920's when I was just starting to go to work after the First World War the Government bonds dropped down to between 80 and 85, and I don't know how many there were then, probably about a tenth of what we have got now, and I had always supposed that the Open Market Committee was primarily set up to see that that didn't occur again.

Is that your understanding of it, to protect Government bonds, the price of Government bonds?

Mr. SCANLON. No, it is not my understanding that the Federal Open Market Committee was set up to protect the price of Government bonds.

Mr. KILBURN. Maybe I expressed myself wrong.

To have a market on them that wouldn't have the bottom drop out of it the way it did in the early 1920's.

Mr. SCANLON. I think the Federal Open Market Committee's purpose is to stabilize the economy, and to the extent that Government bond prices are in that formula, it would have that effect. But I don't think the objective of the Federal Open Market Committee specifically was to support Government bonds.

Mr. KILBURN. Well, stabilize——

Mr. SCANLON. The entire economy.

Mr. KILBURN. Yes. But in my judgment at least with this tremendous debt we have and the tremendous number of Government bonds, it seems to me at least that the Open Market Committee and the Federal Reserve have done a tremendous job in a very difficult situation, so that after the Second World War we didn't have the big drop in Government bonds which would have been a catastrophe that we did have with a lot smaller amount after the First World War. And so I have every sympathy myself with the extremely delicate, hard problem that the Open Market Committee has in trying to stabilize the Government bond market. Maybe I have the wrong picture about it, but that is my memory. Thank you.

The CHAIRMAN. Yes, sir.

Mr. SCANLON. Mr. Chairman, could I briefly reply to Mr. Taft's question on the changes in discount rate.

The CHAIRMAN. Yes, sir.

Mr. SCANLON. The 1-percent change goes back to 1933, Mr. Taft. Otherwise one-half of 1 percent has been the maximum.

The CHAIRMAN. I remember that there were other changes along in 1935 and early 1936, too. What is indicated there in that book on that?

Mr. SCANLON. The maximum change at any one time was one-half of 1 percent.

The CHAIRMAN. That is right, but the truth is ——

Mr. SCANLON. There were frequent changes.

The CHAIRMAN. Over a short period of time preceding June 15, 1936, the reserve requirements of banks, the authority to increase them, was doubled, actually doubled. Of course history doesn't properly record the reasons for that. The Federal Reserve has kept quiet about it. The bankers have kept quiet about it. But I have knowledge of it. You know a lot of people argued that if you paid the so-called bonus to the 3½ million veterans of World War I, the amount due was about $3,600 million that would cause ruinous inflation. And in order to make sure that we did not have this alleged ruinous inflation, they got the Congress long in advance to give them authority to double reserve requirements of banks and they actually did double the reserve requirements. The result was that the benefit, the economic stimulus of the veterans bonus, was offset by the Fed's action, and I think it was a wrongful action of the Federal Reserve to double the reserve requirements. We were still in a depression, but by doubling the reserve requirements they offset the good that the bonus would do.

I have never exactly forgiven them for that, because I think it was against the public interest.

Now, Mr. Scanlon, how do you allocate the open market portfolio of Government bonds to each of the Federal Reserve banks You have a portfolio of $33 billion, approximately. How do you know how much your bank is entitled to and how much Mr. Clay's bank is entitled to and others?

Mr. SCANLON. The formula is based on capital and surplus.

The CHAIRMAN. Capital and surplus of the Federal.

Mr. SCANLON. Of the Federal Reserve banks.

The CHAIRMAN. Alone?

Mr. SCANLON. That is right—just the Federal Reserve banks.

The CHAIRMAN. I think there are other factors in the formula besides capital and surplus. What is your opinion about that, Mr. Clay?

Mr. CLAY. The formula is a very complicated formula and I would have to get it out. I would be glad to furnish it for the record.

The CHAIRMAN. We have it but I can't understand it. It is pure gobbledygook. Now you are the 11th President we have had here.

Mr. CLAY. It is difficult.

The CHAIRMAN. We have had 11 including you gentlemen, and not one has been able to explain, not even Mr. Hayes of the Federal Reserve Bank of New York, that operates the Open Market Committee.

Mr. CLAY. Maybe this explains very clearly that the motive of the Federal Reserve bank is certainly not profit, or they would be jealously guarding the allocation formula.

The CHAIRMAN. Someone is getting a lot of profit out of the expenditures you are making, but I don't think that any other Government agency would make. Of course it is not for profit, no, but the excess earnings go over into the Treasury.

Now, Mr. Scanlon, you take a certain oath as President of the Federal Reserve Bank of Chicago. Do you take a constitutional oath or an oath of any kind?

Mr. SCANLON. Yes, sir.

The CHAIRMAN. Do you take one oath or two?

Mr. SCANLON. I take an oath as a member of the Federal Open Market Committee.

The CHAIRMAN. Well that is a different question. I asked you if you took an oath as President of the Federal Reserve Bank of Chicago?

Mr. SCANLON. No.

The CHAIRMAN. You do not. Now you take an oath as a member of the Open Market Committee. Will you put that oath and any other required oath in the record at this point please?

Mr. Scanlon. I will be glad to.

(The documents referred to follow:)

PA-54a

OATH OF OFFICE

Prescribed by Section 1757, Revised Statutes of the United States

FEDERAL OPEN MARKET COMMITTEE

I, --, do
(Name in full, printed or typed)

solemnly swear (or affirm) that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God.

(Signature)

Subscribed and sworn to before me this ---------- day of ------------------

A.D. 19 ---- at --------------------------,-------------------------------
(City or place) (State)

[SEAL]

NOTE.—If the oath is taken before a notary public the date of expiration of his commission should be shown.

Position (member or alternate)--

Date of entrance on duty--

(Oath required of Governors of the Federal Reserve Board:)

CIVIL OFFICER APPOINTMENT AFFIDAVITS

(As defined in 5 U.S.C. 21a and 21b)

I, -------------------------------------- ------------------------------
(Name in full) (State)

do solemnly swear (or affirm) that

A. OATH OF OFFICE

I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely without any mental reservation or purpose of evasion; that I will well and faithfully discharge the duties of the office on which I am about to enter, so help me God.

B. AFFIDAVIT AS TO SUBVERSIVE ACTIVITY AND AFFILIATION

I am not a Communist or Fascist. I do not advocate nor am I knowingly a member of any organization that advocates the overthrow of the constitutional form of the Government of the United States, or which seeks by force or violence to deny other persons their rights under the Constitution of the United States. I do further swear (or affirm) that I will not so advocate, nor will I knowingly become a member of such organization during the period that I am an employee of the Federal Government or any agency thereof.

C. AFFIDAVIT AS TO STRIKING AGAINST THE FEDERAL GOVERNMENT

I am not participating in any strike against the Government of the United States or any agency thereof, and I will not so participate while an employee of the Government of the United States or any agency thereof. I do not and will not assert the right to strike against the Government of the United States or any agency thereof while an employee of the Government of the United States or any agency thereof. I do further swear (or affirm) that I am not knowingly a member of an organization of Government employees that asserts the right to strike against the Government of the United States or any agency thereof and I will not, while an employee of the Government of the United States or any agency thereof, knowingly become a member of such an organization.

D. AFFIDAVIT AS TO PURCHASE AND SALE OF OFFICE

I have not, nor has anyone acting in my behalf, given, transferred, promised or paid any consideration for or in expectation or hope of receiving assistance in securing such appointment.

(Type name of appointee)	(Signature of appointee)

Subscribed and sworn before me this ---------- day of----------, A. D. 19---,

at --
(City) (State)

(Signature of officer)

[SEAL]

(Title)

(Department or agency)	(Bureau or division)	(Place of employment)

(Position to which appointed)	(Date of entrance on duty)

NOTE.—The oath of office must be administered by a person specified in 5 U.S.C. 18, or by a person designated to administer oaths under section 206, act of June 26, 1943, 5 U.S.C. 16a. If by a notary public, the date of expiration of his commission should be shown.

The CHAIRMAN. Were you ever a director of the Federal Reserve bank?

Mr. SCANLON. No. It is impossible under the law.

The CHAIRMAN. Of course. I said were you ever?

Mr. SCANLON. No.

The CHAIRMAN. In the past you could have been. You have copies of the oath directors take in your banks.

Mr. SCANLON. Yes.

The CHAIRMAN. The nine directors, six selected by the banks and three by the Board.

Mr. SCANLON. Right.

The CHAIRMAN. Will you put a copy of that oath in the record at this point please?

Mr. SCANLON. I have the oaths here. I will be glad to submit them for the record.

(The oaths taken by the directors of the Federal Reserve may be found on p. 743.)

The CHAIRMAN. Do you have it there now?

Mr. SCANLON. Yes.

The CHAIRMAN. Hold it there. I want you to read it if we have time.

Now the Commodity Credit Corporation fluctuations that the gentleman talks about, Mr. Clay, that is easily done in your elastic system to take care of it, and those changes were abrupt I know, but we have, like in defense, we have abrupt changes too that go much beyond what you have outlined, and the Appropriation Committees have always anticipated these things and given the different groups or agencies the power and authority to do what was necessary, and I think you gentlemen are anticipating or fearing something that has never happened in any other Government agency.

I don't believe that that point is a good one.

Mr. CLAY. Mr. Patman.

The CHAIRMAN. Yes, sir.

Mr. CLAY. May I make some remark on that?

The CHAIRMAN. Yes, sir.

Mr. CLAY. I think that one of the problems here is that you would try to anticipate so many things that your total appropriation would go higher.

I think there is a tendency on the part of a great many Government agencies, at least I have had agencies come in and say if we don't spend this money for our airport allocation within the next 3 months, or get it committed in certain ways, we are liable to lose it and never get one again.

Now, this just doesn't happen in the Federal Reserve System under the present setup.

The CHAIRMAN. Well, it couldn't happen when Uncle Sam throws you a purse of a billion dollars every year and says spend all you want and turn the rest of it back.

Mr. CLAY. I don't believe Uncle Sam has said spend all you want to, not to me.

The CHAIRMAN. I mean in effect he says that.

Mr. CLAY. No, I think he says spend that which is necessary.

The CHAIRMAN. That you believe is necessary?

Mr. CLAY. That is necessary for the carrying out of the functions of the bank.

The CHAIRMAN. That is right. I accept that change. But you spend what you want to. Uncle Sam turns over $1 billion to you. Then you take that billion dollars and spend from $150 to $200 million a year and turn the rest of it over to the Treasury, and it could have been a lot more than $150 or $200 million if you wanted it to be because you have almost unlimited authority to spend that money without any audits of any kind.

Now about the silver, Mr. Scanlon, don't you think the coin machines enter into it in a big way? The coin machines have a way of getting a large quantity of coins together of certain types, and don't you think the coin collectors enter into it by buying these coins by the bag and then taking their time and finding out if there is any valuable coin in the bag?

Mr. SCANLON. I certainly do, Mr. Patman.

The CHAIRMAN. Don't you think that is a real deterrent to the velocity of the coins today?

Mr. SCANLON. I am sure that it is. It is hard to pinpoint but I am sure that it is a deterrent.

The CHAIRMAN. They buy these by the bags. They keep them until they want to look through them and then they look through them time and time again to make sure they haven't overlooked one or two valuable coins. That has stopped the velocity of the coins to some extent. And of course you use more coins because in State, county, and city taxes they have a lot of small change to be used and other ways that you mentioned.

The eligible paper that was mentioned here, what type of eligible paper is the most prominent now that you have the power to consider eligible paper without charging the borrower the one-half of 1 percent extra?

Mr. SCANLON. I don't know that I can answer that with just one type of paper.

The CHAIRMAN. That is all right.

Mr. SCANLON. It depends upon the type of bank.

The CHAIRMAN. Yes, sir.

Mr. SCANLON. When you get out into the country bank you find that as farm operations have increased and the farmer has a greater investment in highly mechanized equipment, he doesn't buy a combine and draw a note for 90 days or 6 months any more. It takes him 2 or 3 years to pay this off.

The CHAIRMAN. And that type of security—in other words, it used to be 9 months agricultural.

Mr. SCANLON. Yes; that is right.

The CHAIRMAN. You want to extend them to 2 or 3 years, a reasonable amortization period.

Mr. SCANLON. I don't want to extend them. I merely want to make it possible for that country bank to come in and borrow against those notes without paying a penalty rate, if its borrowing needs are appropriate.

The CHAIRMAN. You talked about farming, something that has always been eligible paper, small business, farming and things like that. What other kinds of paper would you make eligible today that are not considered eligible without the payment of the one-half of 1 percent extra?

Mr. SCANLON. Consumer credit paper.

The CHAIRMAN. Consumer credit paper. It is not considered eligible paper today?

Mr. SCANLON. No.

The CHAIRMAN. And what other kind?

Mr. SCANLON. Well, there are a good many loans of large business that are held by our banks.

The CHAIRMAN. You mean participations?

Mr. SCANLON. Well, participations or notes that are drawn for 1 year.

The CHAIRMAN. That is a point that I wouldn't agree with you on. On the first two, OK, very fine. But I am against enlarging the opportunities to lend to the extent that it takes away the banker's interest in the local community.

I think that has hurt our local communities a whole lot. I don't think the national chain stores could have possibly succeeded in this country if the local merchants had had adequate credit, because the local man can whip the chains to death any time if he has enough credit. They have so many advantages—personality, personal appearance, social, kinship, many things in the local community. The local man can beat the national chain if he has adequate financing. But they haven't had it.

That is because the banks have been encouraged to get into this other paper, stay away from the local man. It used to be when they had to have eligible paper to get reserves the bankers were anxious to see this little man.

They wanted to get his paper, because they could put it up and get high-powered dollars for it, upon which the banking system could make loans extending 10 to 1 for this high-powered dollar, and he was welcome in the banks and naturally would be.

The small businessman, the farmer, all of them were. But when it is made more attractive to make loans elsewhere and to go to a distance, and have participations and certificates of interest, why I am apprehensive, Mr. Scanlon, that that has caused the banker to forget the local community to some extent, not to look after the local people, and to put his money elsewhere where it is just a little bit safer maybe, where the banker could sleep a little bit better at night.

You can't blame him for that, but at the same time it is accommodating not the local community but the people outside of the area where he was charged to do business. What is your comment on that?

Mr. SCANLON. I think my objectives are the same as yours, Mr. Patman. I would be anxious to have the local bank help the local merchant.

My experience has been that this is what he has tried to do.

The CHAIRMAN. Of course, in some communities they have and in others they haven't, depending upon the place, I am sure.

I think you are entirely mistaken about the Open Market Committee meeting minutes being made available to the Secretary of the Treasury. I am sure that is not correct. I think they have a rule that they won't let anybody see those minutes.

Mr. SCANLON. I didn't say that they were made available to the Secretary of the Treasury.

The CHAIRMAN. I understood you to say that.

Mr. SCANLON. No, sir; I didn't mean to say that.

The CHAIRMAN. I misunderstood you then. I will not pursue that point. I think your statement is good about a little lapse of time, but I don't figure those minutes would be made available to the public just because they came to this committee.

I don't believe they would. And of course if we believed in the public interest, certain parts should be made public, I think the committee would vote to make them public. But I think the committee would be very cautious about it. The question before your Open Market Committee is not the question of whether or not you will let us have 2 or 3 years, but just one question. That is, we ask you to turn over the minutes for 4 years, 1960, 1961, 1962, and 1963, and of course without restrictions or restraint. There is no other question to be answered. It is not to say I will let you have the 1960, that is not it, or 1961 or 1962. It is all of them or not. That is the question the committee has posed, by vote of the committee incidentally, to the Open Market Committee.

Now the AIB program you are carrying out, the program to help people in the bank to get a better education along the lines of the work that they are doing, I suspect if you added up all that is being done by the Federal Reserve banks in that direction, you would find that you have a pretty good Federal aid program going on right now.

That is Federal aid to education, isn't it? It is Government money, helping to get an education. Isn't that Federal aid to education?

Mr. SCANLON. That is not the basis on which I approach it, Mr. Patman.

The CHAIRMAN. How do you feel about it, Mr. Clay?

Mr. CLAY. I don't think it is at all. I think that what we are doing, when we put that money in that particular education, is buying for $1 a man that can do a better job of carrying out our function as it has been assigned by the Congress or as we think it has been assigned by the Congress to carry out. And I think we are buying it on a cheaper basis than we can buy it some other way in keeping these people, their abilities, and their——

The CHAIRMAN. That is not exactly the question I asked you. I said since you are using Federal funds and you are aiding the person in his education, isn't that Federal aid to education?

Mr. CLAY. No; I don't think that that is Federal aid to education as I understand it Mr. Patman, because Federal aid to education I think is entirely——

The CHAIRMAN. Now then, since you have your retraining program, you know the Area Redevelopment Administration has a retraining program, and I think a good one. I have an idea they could retrain 10 men for the same price that you are paying to retrain 1. I don't know whether that is exactly correct or not, but I am sure the ratio would be great. Here you are taking Federal funds that could be used with ARA or any other agency and retrain and get a lot more out of it probably than what you are getting out of it. I am apprehensive that these retraining programs that you have are retraining not for the Federal Reserve but for the commercial banking system or outside industry, because the amount of actual banking business you do is so insignificant, it is practically nil. There wouldn't be any encouragement for a fellow to stay on after he got that type of education the way I view it.

Mr. SCANLON. Mr. Patman, I think I am a living example of that. I stayed on. I have been with the bank for many, many years, and I participated in these training programs of the American Institute of Banking, etc.

The CHAIRMAN. You are one that stayed on but how many left?

Mr. SCANLON. I don't have the exact figures.

The CHAIRMAN. You don't know how many did leave?

Mr. SCANLON. I know the majority of our officers went through these programs and they are still with us.

Mr. CLAY. Mr. Patman, the turnover in my bank is very little in the group that has been educated by the bank. The turnover is in the machine operators.

The CHAIRMAN. That is the young girls just out of school?

Mr. CLAY. The young girls, and they leave for various reasons.

The CHAIRMAN. I am acquainted with that.

Mr. CLAY. We lose very few of these other people.

The CHAIRMAN. Yes, sir.

Mr. CLAY. In fact you go to my subdepartment heads and so forth, almost all of them have gotten some additional knowledge in their jobs.

The CHAIRMAN. That has been my observation.

Mr. TAFT. Mr. Chairman, I wonder if you would yield for a moment?

The CHAIRMAN. Yes, sir.

Mr. TAFT. I wonder if it is the chairman's position that all training programs of Federal Government employees in various departments throughout the Federal Government should be discontinued?

The CHAIRMAN. No.

Mr. TAFT. Just this one?

The CHAIRMAN. Well, I would love to have it audited and I would love to have an accounting made to the Congress and to the public. I wouldn't want it hidden like this has been. This has been hidden. We had an awful time getting this. You know in 1957 I got a lot of this information, and I thought we would get it this time. But we began to find out that we ran up against a dead end street. We couldn't find anything. We got the audits and the audits didn't have it. And of course the answer to that was that the Fed directed the scope of the audit and the Fed told them not to put it in, if the directors approved anything in that submission. And of course the nine directors approved anything the bank wanted and so it wasn't put in the audit report at all. And so the Federal Reserve Board didn't get it.

They tried to help us get it but they couldn't get it. They had never seen it. Congress had never seen it. So we finally sent special investigators to three of the banks to find out what the score was.

We even got the worksheets of the auditors and we couldn't find it. It was so effectively hidden. So all I want to do is to bring it out in the light of day and let us see what you are doing.

If it is justified, the Appropriations Committee would grant it just like they do to the State Department now that has a school to teach languages and so forth to people who are going overseas. You couldn't get along very well without that. If you can justify cases like that, I am sure you would be granted the permission from the Congress. But the point I object to is that you are taking public money that the taxpayers paid in, and without any restraints or restrictions except the board of directors saying what you can do, and then having no publicity about it, you spend the money in the way in which you have, which I don't consider is the way that agencies of the Government should spend money, without the Congress of the United States having at least knowledge of what is going on. The Federal Reserve banks are not only doing the worst kind of backdoor spending, but they are keeping it hidden, and people can't see it.

That is not the way public money should be spent.

Now, if you are going to have that kind of independence that you gentlemen insist on having, you are talking about a dictatorship in my book.

Mr. HARVEY. Would the gentleman yield?

The CHAIRMAN. Yes.

Mr. HARVEY. Is the chairman as I understand it now opposed to back-door spending? I would remind the chairman that we have a housing bill coming up with some $7 billion of back-door spending.

The CHAIRMAN. I am just appealing to you fellows who have always complained about it. Are you going to support back-door spending for the Federal Reserve and then be against back-door spending for housing?

Mr. HARVEY. If the gentleman will yield I think this to me since I have sat here and listened to this, it seems to me a little bit ridiculous that the Federal Reserve bank should use the area redevelopment program to train persons in their program——

The CHAIRMAN. Wait, not in their program.

Mr. HARVEY. I thought that is what the gentleman said.

The CHAIRMAN. Oh, no. I am glad the gentleman brought it up because I am telling him something about ARA he didn't know. Suppose for instance there is a shortage of truckdrivers some place, they need a lot of truckdrivers. Well, ARA moves in and they have a retraining course there for truckdrivers, and they furnish all the truckdrivers pretty soon that are needed in that area. The same way with many other things. So the ARA is not retraining them for themselves. They are training them to create permanent jobs, the only agency in our Government that is devoted to and charged with the duty of spending Government money to create permanent jobs, and that is what——

Mr. TAFT. Mr. Chairman, if the gentleman will yield, I take exception to that. There are many, many other Government programs that do far more retraining and are far more devoted to that purpose.

The CHAIRMAN. I was talking about what they are specifically charged with.

Mr. HARVEY. The others are the rule rather than the exception.

Mr. TAFT. Exactly.

Mr. HARVEY. It is a rare Government agency that doesn't train.

The CHAIRMAN. We are getting off on sidelines now. A good fox dog will stay on the trail.

We are not talking about ARA here now as a major subject. We are talking about the Federal Reserve and these expenditures and things like that, so we will take care of the ARA when the ARA comes up.

Mr. CLAY. Mr. Patman.

The CHAIRMAN. Yes, sir.

Mr. CLAY. If I may try to be a good fox dog and stay on the trail, I would like to assure you that if I can get the kind of training needed some place else, whether it be the ARA, and without expense to the bank, I will get it. As a matter of fact, we had this proposition come up within the last couple of years with the problem of finding people that could do programing and that kind of work. We did spend a little money, in fact, it is in your list there, $45 or $50 for a luncheon in which we brought in the vocational training people in Kansas City and showed them the need in the area for the training of this type of personnel. We were training them in the bank, and losing them just as fast as we could train them, because they could get more money outside the bank. Now we are getting them pretty well out of the public schools. We are going to try to be a good fox dog.

The CHAIRMAN. I am not against all training programs and I am sure that you gentlemen would be able to convince the Appropriations Committee that you needed money for certain things and it would be granted just like it is granted to other agencies. But what I object to is your arguing for an independent Federal Reserve to the point that you want to get off to yourselves, secede from the Government like you did in 1951, and run the show, pay no attention to Congress, pay no attention to the President. I think it is just too far.

That is the reason that I had criticism on it.

Now the question came up about the Open Market Committee. My recollection is that each bank could engage in open market operations under the 1933 act, is that not right?

Mr. SCANLON. That is my understanding.

Mr. CLAY. I understand they did.

The CHAIRMAN. They could. Each bank could engage in open market operations, but that was not a central bank. It was 12 banks, 12 regions, and they couldn't control things very well that way, so they organized this unofficial Open Market Committee composed of the 12 banks, but they had no legal authority. They were just doing it. And of course the very first opportunity they had, they wanted to legalize it; 1933 was the first time they did, and in 1933 they made the Governor of each bank, the 12 of them, the Open Market Committee. Well, of course that put all the monetary business in the hands of people who had been selected by the private banks and it looked ridiculous. I think the banks got afraid of that themselves.

In 1935 they changed it, and when this committee here passed the bill in 1935, we didn't allow any representatives of private banks on that Board. We didn't allow anybody on that Board who had any connection with private banks, being elected by them or anything else. We said the Federal Reserve Board would be the Open Market Committee, and we went to the House and most of the Republicans voted against the bill at that time because they honestly believed that the bankers should be represented on the board. When it went on to the Senate they put these five Presidents, who were selected by their own directors, back on the Board. Then of course the bill passed almost unanimously without a rollcall.

Back over here in the House the Republicans voted for it and in the Senate they did the same thing. But you see this thing has been a fight ever since the Federal Reserve Act started, because Mr. Woodrow Wilson was against the central bank, and having 12 autonomous banks was entirely different from a central bank.

You never had a central bank in this country until 1935 really. Of course 1933 was a long step in that direction, but 1935 was the time that the central bank became effective.

Now I want to ask Mr. Clay something here. I don't want you to leave here, Mr. Clay, until we get this thing reconciled about the reserves, because it put you in my book in a bad position with all the bankers of the United States. You said you wouldn't say that reserves of the member banks are not used to invest in Government securities. Now you will not say that they are used to invest in Government securities, would you?

Mr. CLAY. I just cannot answer that question yes or no, Mr. Patman, hard as I try I couldn't. If I had to answer yes or no I would say——

The CHAIRMAN. You had better go to one of these schools that you have.

Mr. CLAY. If I had to, I think that I would probably say yes.

The CHAIRMAN. Two of the greatest misconceptions in banking in the United States of America are, No. 1, that the member banks own the Federal Reserve banks. I think we have proven many times that that was untrue.

Mr. CLAY. I don't think that there is much of anybody that thinks that.

Mr. SCANLON. I agree, Mr. Chairman.

Mr. CLAY. And I know that the public thinks of us entirely as a Government organization.

The CHAIRMAN. A few years ago it was different, wasn't it?

Mr. CLAY. It may have been. It hasn't been since I have been in the System.

The CHAIRMAN. All right. Now the next one is the bankers claiming that you use their reserves to make money and they lose money on it. Now of course the Federal Reserve Board every year practically for 25 years has said it is absolutely not true. I have had Mr. Martin up here, I had Mr. Eccles up here before Mr. Martin.

I would say "Is it true or false that the reserves of member banks in the Federal Reserve banks are used to invest in Government bonds or used to invest in anything." They would say it was false every time. I know what they have got to say. I know what you have to say, if you are orthodox, if you are in line with all the other bankers, I mean the sophisticated type banker, the fellow who has the knowledge of it. I think you ought to review that, Mr. Clay, and when you look over your transcript you ought to state your views on it.

Mr. CLAY. I think that I can write a paper on either side of the question.

The CHAIRMAN. You can't I think.

Mr. CLAY. I don't consider myself orthodox in the normal sense on that.

The CHAIRMAN. You can't on the legal side, because the legal side is you can't make reserves do double duty, No. 1. That is clear, isn't it?

Mr. CLAY. Mr. Patman, the point clearly is we can operate without the reserves. We do create the reserves. There is no doubt about that.

The CHAIRMAN. Sure you do.

Mr. CLAY. Certainly.

The CHAIRMAN. And I went to the New York Federal Reserve Bank a while back, and I said. "Now I want you to show me the reserves that you have. You have about $5 or $6 million in reserves here in this bank."

This vice president said, "Oh, Mr. Congressman, we don't actually have any reserves like we don't have any dollar bills or thousand dollar bills."

Mr. CLAY. We have a liability.

The CHAIRMAN. You don't have a stockpile of anything. That is all fiction. There are no reserves up there in fact except a bookkeeping transaction.

Mr. CLAY. Yes.

The CHAIRMAN. Just a bookkeeping transaction.

Mr. CLAY. A flick of the pen.

(The following information was subsequently submitted for the record:)

SUPPLEMENTAL STATEMENT BY MR. CLAY

In response to the chairman's request that I review and state my views on the question of whether the Reserve banks invest the reserves of the member banks, which reserves are on deposit with the Federal Reserve banks and appear as liabilities on the Federal Reserve banks' balance sheets, I submit the following brief statement:

Congress has given the Federal Reserve banks the power to issue Federal Reserve notes and to create certain classes of deposit liabilities, including member bank reserves, so long as the outstanding note and deposit liabilities of the Reserve banks are backed by gold certificates to a minimum of 25 percent. The ability of the Federal Reserve to purchase securities on the open market stems from this congressional authority.

When the Federal Open Market Committee buys Government securities from a dealer on the open market, a check on a Federal Reserve bank is issued to the seller of the securities. The dealer deposits the check in his account at a member commercial bank. The member commercial bank, in turn, deposits the check with a Federal Reserve bank, where it receives credit for the check through an increase in the amount of the member bank's reserves on the books of the Federal Reserve bank. Thus, the Federal Reserve bank creates the funds to purchase the securities. The check becomes a liability of the Federal Reserve bank at the moment it is written, and the check ends up classified as a member bank reserve deposit liability—a sum of money owed the member bank.

As the chairman has stated, you cannot find that reserve deposit set aside in one of the vaults or anywhere else at the Federal Reserve bank; and if you look to the asset side of the Federal Reserve bank's balance sheet, you will not find member bank reserves or an exactly corresponding amount set out as a separate item. But, since the liability and asset sides must balance, the amount is necessarily reflected on the asset side. The truth is that the member bank reserve deposits are offset by a mix of the various balancing entries on the asset side.

There are those who, looking at this entire picture, feel that they can answer the question of whether the Reserve banks invest reserves of member banks with a "yes" or "no." I have no quarrel with them; but I cannot.

In terms of economic analysis and monetary policy, it must be recognized that the Federal Reserve banks create the funds with which the Government securities are purchased. In my opinion, however, consideration must be given not only to the economic analysis involved but to the accounting aspects of the matter as well. This leads me to the conclusion that there is a very close relationship between the securities held on the asset side of the balance sheet and the member bank reserve liability.

No matter which answer you may give, it cannot be implied as a result that the reserve deposits of member banks subsidize the Federal Reserve banks or the U.S. Treasury. The requirement of keeping reserve deposits is, rather, a condition precedent to the authority to engage in banking, and under the fractional reserve system, the existence of the reserve deposit is the basis for the asset expansion of the commercial bank on which the profits of the bank are based.

The CHAIRMAN. Yes. There are no actual reserves there at all, none. Certainly you are not going to let the banks use that as reserves to expand the money supply $10 to every $1, and then pay them interest on it too, and then use it to invest in Government securities or anything else. So I hope you will look that over, sir.

Now is there anything else any other member wants to ask?

Mr. HARVEY. I would like just to say, Mr. Chairman, first of all that talking about hunting foxes I might say we have been up and down this trail so many times here with so many presidents of these Federal Reserve banks that I think we have heard just about the same story over and over and over and over again, and I don't know what is to be gained by it, but that is in the chairman's discretion, I recognize that. The subject came up a short time ago when Mr. Reuss was here, however, about the shortage of coins.

I thought I had sat through this once before and heard this same story before also, and so I called the Public Works Committee on which I serve, or had one of the young ladies here call the Public Works Committee, and I find that as a matter of fact, and Mr. Scanlon, I will direct this to you because I am sure you would want to know this too as well, that last February 20, 1963, Secretary of the Treasury Dillon directed a communication to the Speaker of the House urging the House to authorize a new mint in the city of Philadelphia, Pa., and pointing out that the domestic coins produced had increased from some almost $500 million in 1950 to more than $3½ million in 1962; there was a tremendous increase in coins and yet there was still a tremendous shortage.

Then he pointed out in his message to Congress the use of coins in vending machines as a reason for the shortage, and so forth. This bill was referred to the Public Works Committee, Mr. Chairman, and that the Public Works Committee thereupon considered the authorization bill and reported it out and passed the authorization bill, that it was then reported to the Senate, and that the Senate passed the authorization bill for this new mint in Philadelphia, and that it became Public Law 88-102 on August 20, 1963, authorizing this new mint in Philadelphia.

We just called a few minutes ago the mint to find out what progress had been made and they tell us that they are clearing the land up in Philadelphia at the present time, that they still don't have the appropriation which is in the supplemental appropriations bill which was not acted on last year, but that they are testifying before the Subcommittee on Appropriations of Monday of next week on that particular thing and are going ahead regardless of it.

So I think that you can tell the bankers who communicate with you as I will and as I know Mr. Reuss will also, that steps are being taken. Although certainly in his message of a year ago Mr. Dillon made very clear that the problem was then very acute and that the mint was then working around the clock, three, 8-hour shifts, 24 hours a day, that this was a real danger and hazard, because of the fact that equipment could break down, that you could run into long delays which would produce even more acute shortages than we have at the present time.

Mr. SCANLON. I understand that Mr. Dillon is seeking an appropriation to work overtime on a full round-the-clock basis now, and in addition to that, is still seeking approval of the appropriation to proceed with drawing the plans for this new mint.

Mr. HARVEY. I think that is correct.

The CHAIRMAN. I think they are working 24 hours a day and they have been for some time.

That has been my information.

Mr. HARVEY. Last but not least——

The CHAIRMAN. I don't know of anybody objecting to this.

Mr. HARVEY. I don't think so either.

Mr. SCANLON. I think we are all in agreement on this.

Mr. HARVEY. Mr. Chairman, since it has been brought up, Mr. Reuss has requested this of Mr. Scanlon.

The CHAIRMAN. That is right, and I am glad to have the information. I am sure the Appropriations Committee hasn't been negligent in it.

Mr. HARVEY. I would like to thank both of these gentlemen for their very fine and forthright statements on this matter and particularly Mr. Scanlon who also serves as president of the Federal Reserve Bank of Chicago which covers the area that I represent.

I would say that your very fine representation has preceded you here today. Several persons in my district have spoken to me very favorably about your activity as president. They haven't all been bankers either incidentally. We certainly welcome you here today and I know on both sides of the aisle we thank you very much for your statement.

The CHAIRMAN. Yes, sir; I share the view of Mr. Harvey.

Mr. SCANLON. I thank the chairman and Mr. Harvey.

The CHAIRMAN. We certainly appreciate your testimony.

Mr. HARVEY. I have nothing further.

The CHAIRMAN. We will certainly carefully consider everything you have said. Whether we agree with you or not we will give careful consideration to it. We have as our witness Friday—this is something you gentlemen might be interested in—we are going into the question of how the expenditures that you are making compare with the expenditures that other Government agencies can make and be legal, and we will have Mr. Ramsey, who is Associate General Counsel of the General Accounting Office to testify here Friday morning at 10 o'clock on that point.

Tomorrow we will finish the Federal Reserve bank presidents by having Mr. Irons, who is president of the Federal Reserve Bank of Dallas, Tex.

Again I want to thank you for the entire committee and for myself for your appearance here and thank you for your cooperation not only today but in the past.

I am highly pleased with the cooperation which the Federal Reserve System has given our committee, the Federal Reserve Board, the Chairman of the Board, the members and also the presidents of the banks. You have been very cooperative.

Thank you very much.

Mr. SCANLON. Mr. Chairman, we appreciate the fine treatment we have been accorded here.

The CHAIRMAN. Thank you, sir.

Mr. CLAY. Mr. Chairman, I would like to say one thing because the question was never addressed to me, and since I am probably going to be called on to vote on the matter very soon, I think I should tell you what I think about it at this time.

Mr. CHAIRMAN. That is the Open Market Committee minutes.

Mr. CLAY. This is the question of the Open Market Committee minutes.

The CHAIRMAN. I wish you would.

Mr. CLAY. My feeling is that you should have the Open Market Committee minutes. The ones you referred to I have a great deal of doubt about. I have a great deal of doubt about letting you have those because I think the nearer you come to the time of a particular action, and if you have ability to go in and study and interpret those recent minutes, the nearer you can come to predicting exactly what the Federal Reserve is going to do in the next move, which may make the power of the Federal Reserve in really carrying out its function much less.

Now where that time is, whether it is 3 or 5 years, I just don't know but I would want to hold it back as far as 3 years, and I am afraid, Mr. Patman, that when the subject comes up that is the way I am going to vote and I just thought I should tell you.

The CHAIRMAN. Certainly. Thank you, sir. I was hoping you would say 3 to 6 months instead of 3 to 6 years.

Mr. CLAY. I think that there can be damage to carrying out our function if we make it that short.

The CHAIRMAN. The same argument you are making could be used in wartime against having any printed testimony about what is going on concerning appropriations to carry on the war. They would say our enemy is likely to get a hold of it.

Mr. CLAY. I don't think this is related to the appropriations question.

The CHAIRMAN. Thank you very much, gentlemen. We will stand in recess until 9:30 in the morning.

(Whereupon, at 11:50 a.m., the hearing was recessed, to reconvene at 9:30 a.m., Thursday, February 6, 1964.)

THE FEDERAL RESERVE SYSTEM AFTER 50 YEARS

THURSDAY, FEBRUARY 6, 1964

House of Representatives,
Subcommittee on Domestic Finance of the
Committee on Banking and Currency,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 1301, Longworth House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Vanik, Pepper, Minish, Weltner, Hanna, Kilburn, Widnall, Harvey, and Brock.

The Chairman. The committee will please come to order.

Mr. Irons, we will insert your statement in the record at this point and ask you to summarize briefly for us, if you please, and then we will ask you questions.

After your statement we will insert in the record the information we received from the Federal Reserve Bank of Dallas concerning the banks earnings. We are doing this in the interest of getting through. We have another witness if we will be able to get to him, the General Accounting Office witness, and the House meets at 12 so we want to make it possible to get through with both of you if we can. We don't want to deny you any opportunity to present anything that you desire to present.

So, you may proceed in your own way and summarize your statement, if you please, bringing out the major points.

(The statement and other information records referred to follow:)

Statement of Watrous H. Irons, President, Federal Reserve Bank of Dallas

Mr. Chairman and members of the subcommittee, for your information, I have been an employee and officer of the Federal Reserve Bank of Dallas since July 1, 1945, and president of the bank since February 15, 1954. Prior to that time I had been employed in the field of education and in Government service.

I appreciate very much the invitation of the subcommittee permitting me to submit this statement and to discuss with the subcommittee matters of mutual interest relating to the Federal Reserve System. Although as persons of independent judgment we may differ in our approach to the achievement of some of the objectives which we seek from our Federal Reserve System, I believe that the ultimate objectives of those of us involved in the operations of the System and those of you sitting as members of this subcommittee are the same.

In a broad sense, I think the Federal Reserve System should be so constituted and structured, and should have such authorities and powers as are necessary to enable it to operate in such a manner as to make the optimum contribution to the economic well-being of the American people that can be made by monetary and credit means. This is, in effect, consistent with the objectives of the Employment Act of 1946, as I understand them. This statement also points out, as I believe it should, that monetary and credit policy alone cannot assure the objectives sought; they can only contribute in some degree toward that end.

Moving from this broad, general responsibility to more specific objectives, it is the responsibility of the System—

(*a*) To conceive and administer credit policy, which in relation to the prevailing economic conditions at any given time, will provide reserves to the banking system consistent with requirements for optimum sustainable economic growth;

(*b*) To maintain highly qualified and experienced economic research groups within the staffs of the Board of Governors and the Federal Reserve banks;

(*c*) To provide an elastic currency system, including currency, coin, and checks, to meet the seasonal and cyclical money and credit requirements of our economy;

(*d*) To serve as fiscal agent of the Treasury in helping it to carry out its debt management program and other fiscal responsibilities;

(*e*) To maintain an effective member bank examination and supervisory program;

(*f*) To serve as a center of financial leadership and a source of economic information in the several Reserve districts; and

(*g*) To consolidate the several thousand independent banking units in our country into a balanced, coordinated commercial banking system, capable of carrying out effectively the policies and services initiated by the Federal Reserve System.

Obviously, an institution such as the Federal Reserve System, endowed deliberatly by the Congress with quasi-public, quasi-private characteristics, should be studied carefully from time to time to determine whether it is discharging its responsibilities efficiently and to the satisfaction of its creator—the Congress of the United States.

Fortunately, this has been the case with respect to the Federal Reserve System. On numerous occasions, congressional bodies have appropriately investigated the Federal Reserve System—its structure, its policies, its administration, its operations, and its expenditures. Also, on occasions, legislative proposals have been advanced by Members of the Congress to modify in one respect or another the characteristics of the Federal Reserve System—structurally, operationally, and in its policymaking authority.

The present hearings, in which we are participating today, advance several legislative proposals which are very fundamental and which reach to the roots of our central banking system. In my judgment, these legislative proposals, if enacted, would represent significant moves in the direction of breaking down the quasi-public, quasi-private character of the System, lessening the independence of the Federal Reserve System within Government, and weakening the regional strength and contributions of the System.

My reaction to the provisions of H.R. 9631, which is a bill to increase to 12 the number of members of the Federal Reserve Board and for other purposes, is unfavorable for the following reasons:

(*a*) The most desirable number of members of the Federal Reserve Board undoubtedly can be subject to reasonable differences of opinion. How many members is the "best" number may be difficult to prove. The Board should be large enough to permit an effective discharge of its assignments and responsibilities. Also, it should be large enough to avoid an undue concentration of power and authority in a relatively few members. Moreover, it should be large enough not to be hampered it its operations by the inevitable absentees that will occur from time to time. On the other hand, it should not be so large as to become unwieldy in its operations or to lessen the prestige and challenge of membership. Dilution of responsibility by expansion of membership is a real danger. In my judgment, the present membership of seven Governors is a desirable compromise between a larger and a smaller Board. Furthermore, experience has proved that the Board of seven members has operated effectively.

(*b*) It would be a serious mistake to include the Secretary of the Treasury on the Board as a member and as Chairman of the Board. In the first place, it is probably beyond the capabilities of one man to serve effectively as Secretary of the Treasury and Chairman of the Federal Reserve Board; the responsibilities and requirements of each position are simply too great, with the consequence that one or the other would almost inevitably be neglected. Secondly, placing the Secretary of the Treasury in the position of the Chairman of the Federal Reserve Board would be a step in the direction of lessening the 'independence" of the Federal Reserve Board. Thirdly, the conflict-of-interest possibilities that might arise as a result of the debt management responsibilities of the Secretary of the Treasury, and the credit policy responsibilities of the Chairman of the Federal Reserve Board, is a strong reason for not consolidating the two functions in the hands of one person. The world's largest borrower should not at the same time exercise control over the power to create money and credit. Fourthly, the proposal would place the central bank too directly under the influence and power of the executive branch of Government, a danger that history has proved too often; moreover, it would appear to be, at least in some degree, a step in the direction of an abdication of congressional authority in this field.

(*c*) The term of office of members of the Board, which under the proopsed legislation is limited to 4 years, is too short. Moreover, the restriction as to reappointments is so severe as vortually preclude service beyond the original 4-year term. Under this proposal, there would be little continuity of service on the Board, but instead a high rate of turnover. The problem of obtaining highly competent men as members of the Board for such a short term of office would be much more difficult. Geographic and vocational qualifications of membership on the Board should be eliminated and members should be appointed to represent the public interest. Finally, making tenure of appointive members subject to removal by the President might tend to place control of the Board in the hands of the President. This, in my judgment, would be a mistake.

(*d*) The proposed elimination of the Federal Open Market Committee and the transfer of its powers, duties, and functions to the Federal Reserve Board, would represent a significant change in the System's structure.

This proposal would virtually eliminate the regional participation in the formulation of credit policy. Moreover, it would weaken the prestige and the position of the Reserve banks. I believe it would make it more difficult to obtain competent men to serve as directors of the Reserve banks. In addition, it would tend in time to deprive the Board of Governors of firsthand information for the Reserve bank presidents and, through them, from the directors of the Reserve banks regarding economic and financial developments and trends in the various parts of the country.

The existing provisions of law on this point represent an excellent workable compromise, which draws both the Board of Governors and the regional Reserve banks into the area of credit policy formulation.

(*e*) Provisions of the proposed legislation relating to the Federal Advisory Council involve changes in the size and composition of the body and its manner of appointment. In my judgment, a committee of this type, consisting of 52 members, would be so unwieldy as to be of little practical value. Also, I would question the desirability of placing the Comptroller of the Currency and the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation on the Committee. Finally, appointment of the Committee by the President, rather than by the directors of the Reserve banks is another step tending to weaken the position of the Reserve banks and the responsibilities of their directors.

(*f*) The proposed legislation directs the Comptroller General to make an annual audit of the Board, the Reserve banks, and their branches. I think this proposal is both unnecessary and undesirable. It would represent an encroachment upon the authority of the Board to detremine and supervise the internal management policies and practices of the Federal Reserve System. It would tend to lessen the authority of the directors of the Reserve banks. The resident auditor at each Reserve bank and his staff maintain a continuing audit of operations of the bank and its branches. Reports of these audits are submitted to the chairman of the board of directors of the bank and to the Board of Governors.

In addition, the Board of Governors' staff of examiners conducts a thorough examination each year of each Reserve bank and its branches, with reports submitted to the Board of Governors and the chairman of the board of directors of each Reserve bank. I believe the audit coverage of the Reserve banks is thorough and comprehensive and highly effective.

H.R. 3783 provides for the retirement of Federal Reserve bank stock and its replacement by a certificate of membership. While it may be admitted that a Federal Reserve bank, because of its nature and powers, could operate without capital stock, it does not follow, in my judgment, that the stock should be retired.

It is recognized that Federal Reserve bank stock is a very limited type of stock, in the sense that it has none of the equity or proprietary characteristics normally attributed to stock and, consequently, does not imply control over policies and operations of the Reserve banks. Actually, by law such stock carries a 6-percent dividend and a voting right for the election of directors of the Federal Reserve banks. The stock is a symbol of the quasi-private character of Reserve banks, although member bank stockholders recognize the limitations of the stock. At times symbolism may be very important.

The stock is an attractive investment for member banks and is one factor in holding and attracting membership in the System. I believe if the stock were retired it would be one more step in the direction of lessening interest in membership. It is also possible that its retirement might have a disturbing effect in the public mind; some observers might feel such a move is a step toward nationalization of the banking system, or a lessening of the regional strength of the System, or possibly a lessening of the independence of the System within Government. In my judgment, there is no important advantage in the proposal, but possible disadvantages of significance.

In H.R. 9685 it is propsed to pay into the Treasury as miscellaneous receipts interest received by Federal Reserve banks on obligations of the United States and to subject the Board of Governors and the Reserve banks to appropriations by the Congress for their expenses.

With respect to the disposition of earnings, it is recognized that earnings of the Federal Reserve banks should flow to the Treasury, but after payment of the banks' operating expenditures, dividends to member bank stockholders, and adjustment to maintain the surplus accounts of the banks at a level equal to the subscribed capital of the banks.

In my judgment, the present practice represents a sound businesslike approach to the problem of disposition of earnings.

Through the close supervision of expenditure policies by the board of directors of the banks and the Board of Governors, I believe that waste and improper expenditures are held to a minimum. Closer budgeting of expenditures is likely to prevail under the present procedure than would be the case under an appropriation approach where allowances for unpredictable factors might be necessary.

It is possible that the System could operate on an appropriation basis, but the element of risk to the performance of major System services is greater than should be accepted.

In the final analysis, any net gain which might accrue to the Treasury as a result of these proposals would be relatively small when related to the possible disadvantages which might follow. Moreover, there is no reason to expect a more efficient operation of the Reserve banks under the proposed approach. Consequently, I would urge that such a change as is proposed should not be undertaken.

DALLAS

Employee relations

Year 1962 contribution to the Federal Reserve Club, the employees' organization that sponsors social and recreational activities; members pay dues of $6 a year	$2,850.00
16th annual dinner, at Baker Hotel, honoring members of the staff who have completed 25 years or more of continuous service; 80 attended—43 staff members, 36 retired members, and the President of the bank	832.45
3 centerpieces for above dinner	40.00
100 cigars	21.70
Traveling expenses of two employees to attend the annual convention of the American Institute of Banking in Atlanta, May 27 to June 2, 1962; they had distinguished themselves in AIB work	241.91 246.06
Printing of 1,220 copies of Items for January 1962; this publication is the employees' monthly magazine	424.74
Engravings for January 1962 issue of Items	167.68
Engravings for July 1962 issue of Items	54.82
Printing of July 1962 issue of Items	429.61
Printing of January 1963 issue of Items	456.66
Engravings for January 1963 issue of Items	207.44
Engravings for June 1963 issue of Items	102.19
Printing of June 1963 issue of Items	455.76

Dallas

Training and education

Date	Amount	
Nov. 5, 1962	$370.00	Registration, diploma, tuition, and subsistence for 1 employee enrolled at the Stonier Graduate School of Banking, June 10–21, 1963.
Nov. 19, 1962	360.00	Same as above, except no diploma fee.
Jan. 2, 1962	350.00	Tuition for executive development course at Agricultural and Mechanical College of Texas, Jan. 28 to Feb. 16, 1962.
May 9, 1962	300.00	Tuition and subsistence for 1 employee enrolled at the Southwestern Graduate School of Banking, Southern Methodist University, July 15–28, 1962.
Do	300.00	Do.
Apr. 23, 1962	250.00	Tuition and subsistence for 1 employee enrolled at the NABAC School for Bank Audit and Control, University of Wisconsin.
Apr. 16, 1962	233.50	Tuition and subsistence for 1 employee enrolled at the Graduate School of Banking, University of Wisconsin, Aug. 12–25, 1962.
Do	233.50	Do.
Feb. 6, 1962	327.50	Refunds of the cost of tuition and textbooks to 19 employees who successfully completed courses in the American Institute of Banking during the fall term of 1961.
June 26, 1962	197.50	Same as above, except 9 employees during spring term of 1962.

Reserve bank-sponsored dinners, luncheons, etc.

Joint boards of directors dinner at Hotel Adolphus, Nov. 7, 1962; 190 dinners; attended by directors of head office and branches, vice presidents in charge of branches, senior and junior offices and economists of the head office, Dallas and Fort Worth bankers, and leading businessmen of Dallas	$1,704.25
Flowers for above dinner	95.00
Reception at Baker Hotel before above dinner	79.00
250 plates, at $2.50, in connection with Louisiana Farm Clinic held in Concordia Parish, May 15, 1962	625.00
Similar to above; 250 lunches in Bienville Parish, May 14, 1962	382.50
67 dinners on Mar. 12, 1962, and 67 dinners and social hour on Mar. 13, 1962, at Baker Hotel, in connection with central banking seminar for college teachers of money and banking	939.33
95 breakfasts at Statler Hilton Hotel, Mar. 9, 1962, in honor of Secretary of the Treasury; attended by senior officers of the head office, Federal advisory councilman and several head office directors, former directors, and former senior officers, Dallas and Fort Worth bankers, and a few leading businessmen of Dallas	309.95
27 dinners at Baker Hotel, Dec. 27, 1962, in connection with annual staff conference of examination department	216.95
Social hour and 11 dinners at the Chaparral Club, Mar. 14, 1963, in honor of special manager of the foreign account of the Federal open market committee; 7 Dallas businessmen were in the group	145.88
Social hour and 14 dinners at Baker Hotel, Apr. 24, 1962, in connection with meeting of Federal Reserve System Subcommittee on Collections; 11 representatives of other Federal Reserve banks were in the group	143.15
Luncheons and coffee served in the bank's dining room to the central banking seminar on Mar. 12–14, 1962	465.11

Membership dues, etc.

American Institute of Banking	$2,000
American Bankers Association	1,250
Texas Bankers Association	500
NABAC, the Association for Bank Audit, Control and Operation	482
American Management Association	350
Robert Morris Associates	300
National Industrial Conference Board, Inc	300
Committee for Economic Development	250
Dallas Chamber of Commerce	240
Better Business Bureau of Dallas	200
New Mexico Bankers Association	50
Dallas Personnel Association	50
Dallas Junior Chamber of Commerce (3, at $15)	45

NOTE.—Each amount covers dues for a 1-year period.

Registration fees for conventions, conferences, etc.

For 2 to attend 23d Annual Midwinter Conference, Louisiana Bankers Association, Baton Rouge, Jan. 29, 1962	$50
For 3 to attend 78th Annual Convention, Texas Bankers Association, Galveston, May 6–8, 1962	60
For 2 to attend 62d Annual Convention, Louisiana Bankers Association, New Orleans, May 6–8, 1962	40
For 2 to attend New Mexico Bankers Association 51st Annual Convention, Albuquerque, June 7–9, 1962	100
For 4 to attend Texas Bankers Association Conference, University of Texas, Austin, Aug. 21–24, 1962	240
For 2 to attend 38th Annual Convention, NABAC, Bal Harbour, Fla., Oct. 21–24, 1962	70
For 5 to attend Texas Bankers Association Annual Convention, Houston, May 19–21, 1963	100
For 2 to attend Robert Morris Associates Annual Fall Conference in Detroit, Mich., Sept. 15–18, 1963	100

Traveling expenses to conventions, conferences, meetings, etc.

Federal Open Market Committee meeting in Washington, D.C., annual meeting of Bank for International Settlements in Basle, Switzerland, and consultations with central bankers in Frankfurt, Germany; Zurich, Switzerland; Rome, Italy; Paris, France; London, England; Amsterdam, the Netherlands; and Brussels, Belgium, May 27 to June 26, 1962	$2,067.79
ABA 43d Midwinter Trust Conference in New York City, Feb. 4–10, 1962; meals and lodging averaged over $29 a day for the 4 full days	379.55
Same as above, except average was over $25	358.30
Same as above, except Feb. 4–7, 1962, and average was almost $29 a day for the 2 full days	327.75
Convention of National Association of Supervisors of State Banks in Bretton Woods, N.H., Sept. 16–21, 1962	356.35
38th Annual Convention of NABAC in Bal Harbour, Fla., Oct. 21–25, 1962	287.98
Do	251.03
Annual convention of Arizona Bankers Association in Phoenix, Oct. 31 to Nov. 3, 1962; meals and lodging averaged almost $25 a day for the 2 full days	224.09
American Economic Association meeting in Pittsburgh, Pa., Dec. 26–29, 1962	226.95
Do	223.18
ABA national personnel conference in Chicago, Ill., May 12–14, 1963	181.67
New Mexico Bankers Association meeting in Santa Fe, June 6–9, 1963	132.92
Do	133.02

Expense statement		
Date	Amount	
		Federal Reserve System meetings, etc., where meals and lodging averaged considerably more than $16 a day:
Jan. 11, 1962	$236.26	Washington, D.C., $25.73 for 1 day.
Mar. 7, 1962	231.51	Washington, D.C., $25.43 for 1 day.
Mar. 28, 1962	267.19	Washington, D.C., $26.48 a day for 2 days.
Apr. 16, 1962	337.85	Washington, D.C., $27.70 a day for 5 days.
Apr. 19, 1962	323.50	Washington, D.C., $27, 85 a day for 3 days.
May 30, 1962	236.38	Washington, D.C., $26.44 for 1 day.
June 13, 1962	237.07	Washington, D.C., $26.41 for 1 day.
June 7, 1962	236.59	Washington, D.C., $26.11 for 1 day.
June 22, 1962	246.48	Washington, D.C., $25.14 for 1 day.
July 2, 1962	325.55	Washington, D.C., $25.51 a day for 2 days.
Aug. 27, 1962	245.03	Washington, D.C., $25.54 for 1 day.
Aug. 28, 1962	292.69	Washington, D.C., $27.53 for 1 day.
Sept. 25, 1962	309.78	Washington, D.C., almost $29 a day for 3 days.
Oct. 29, 1962	233.21	Washington, D.C., $28.98 for 1 day.
Oct. 26, 1962	230.63	Washington, D.C., $24.89 for 1 day.
Dec. 20, 1962	272.68	Washington, D.C., almost $28 a day for 2 days.
Jan. 18, 1963	325.00	Washington, D.C., $29.75 a day for 3 days.
Feb. 1, 1963	252.19	Washington, D.C., $29.99 for 1 day.
Mar. 15, 1963	447.88	Washington, D.C., $26 a day for 8 days.
June 11, 1963	350.80	Washington, D.C., $26.55 a day for 4 days.
May 21, 1962	355.80	New York City, $25.50 a day for 4 days.
Aug. 6, 1962	320.95	New York City, $24.60 a day for 3 days.
May 21, 1963	621.19	New York City, over $29 a day for 10 days.
May 16, 1963	294.52	New York City, $27.60 for 1 day.

Public information

Printing of 3,080 copies of "An Economic Fact Book"	$3,586.20
Cost of printing and binding the monthly publication Business Review; costs include the bank's printshop charges and payments for linotype, binding, engraving; the following are typical monthly costs:	
8,000 copies of January 1962 issue	1,042.14
6,500 copies of April 1962 issue	705.19
6,500 copies of July 1962 issue	596.75
6,500 copies of October 1962 issue	587.77
9,000 copies of January 1963 issue	1,189.09
7,100 copies of April 1963 issue	743.25
7,100 copies of June 1963 issue	991.74

Statement of condition of the Federal Reserve Bank of Dallas, at the close of business, Dec. 31, 1963

[In thousands of dollars]

Assets:	
Gold certificate account	515,500
Redemption fund for Federal Reserve notes	44,628
Total gold certificate reserves	560,128
Federal Reserve notes of other banks	22,625
Other cash	8,253
Discounts land advances:	
Secured by U.S. Government securities	----------
Other	1,824
Acceptances:	
Bought outright	----------
Held under repurchase agreement	----------
U.S. Government securities:	
Bought outright	1,285,851
Held under repurchase agreement	----------
Total loans and securities	1,287,675
Cash items in process of collection	307,096
Bank premises	11,895
Other assets:	
Denominated in foreign currencies	8,699
All other	9,406
Total assets	2,215,777
Liabilities:	
Federal Reserve notes	978,952
Deposits:	
Member bank reserves	844,300
U.S. Treasurer—General account	50,523
Foreign	9,120
Other	4,255
Total deposits	908,198
Deferred availability cash items	240,311
Other liabilities	3,162
Total liabilities	2,130,623

Statement of condition of the Federal Reserve Bank of Dallas, at the close of business, Dec. 31, 1963—Continued

[In thousands of dollars]

Capital Accounts:	
Capital paid in	28,385
Surplus	56,769
Other capital accounts	----------
Total liabilities and capital accounts	2,215,777
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined (percent)	29.7
Contingent liability on acceptances purchased for foreign correspondents	5,238

Federal Reserve note statement of Federal Reserve Bank of Dallas, at the close of business Dec. 31, 1963

[In thousands of dollars]

Federal Reserve notes:	
Issued to Federal Reserve bank by Federal Reserve agent and outstanding	1,054,338
Less held by issuing bank, and forwarded for redemption	75,386
Federal Reserve notes, net [1]	978,952
Collateral held by Federal Reserve agent for notes issued to bank:	
Gold certificate account	190,000
Eligible paper	----------
U.S. Government securities	900,000
Total collateral	1,090,000

[1] Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve banks other than the issuing bank.

Federal Reserve Bank of Dallas—Current earnings

[In thousands of dollars]

	Discounted bills	Purchased bills	U.S. securities	Municipal warrants	Deficient reserve penalties	Net service charges received	Miscel- laneous	Total earnings
1914–15	242		1				2	245
1916	205	11	65	1		19	25	326
1917	209	139	159	7	13	53	42	622
1918	1, 497	176	152	8	56	28	171	2, 090
1919	2, 444	113	229		82		194	3, 062
1920	4, 045	73	271		159		357	4, 905
1921	3, 830	8	171		124		106	4, 240
1922	1, 609	198	195		50		33	2, 086
1923	1, 170	826	269		62		29	2, 356
1924	531	631	782		53		162	2, 158
1925	253	523	940		28		71	1, 814
1926	526	463	986		35		117	2, 127
1927	255	430	950		21		86	1, 742
1928	670	681	686		14		70	2, 120
1929	1, 301	616	452		23		103	2, 496
1930	441	230	873		18		23	1, 585
1931	408	142	613		20		30	1, 214
1932	458	71	734		23		22	1, 307

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Dallas—Current earnings

[In thousands of dollars]

	Discounts and advances	Discounted bills	Purchased bills	Industrial loans	Commitments to make industrial loans	Acceptances purchased	U.S. securities	All other	Total earnings
1933		143	20				1, 063	24	1, 251
1934		8	16	8			1, 450	40	1, 522
1935		7	1	97	3		1, 382	17	1, 507
1936		7	1	93	5		1, 459	10	1, 575
1937		10	1	70	4		1, 528	12	1, 623
1938		5		48	1		1, 267	9	1, 330
1939		4		33			1, 423	7	1, 466
1940		5		22			1, 624	12	1, 663
1941		3		12			1, 548	13	1, 577
1942		3		8			2, 010	11	2, 032
1943		2		1			2, 798	12	2, 813
1944		14					3, 901	9	3, 925
1945		5			1		5, 531	10	5, 546
1946		44			1		5, 991	8	6, 044
1947		44					6, 750	10	6, 804
1948	116						13, 522	13	13, 651
1949	86						13, 506	13	13, 605
1950	33						12, 382	11	12, 426
1951	48			1			18, 583	10	18, 642

NOTE.—Details may not add to total because of rounding.

Federal Reserve Bank of Dallas—Current earnings

[In thousands of dollars]

	Discounts and advances	Industrial loans	Commitments to make industrial loans	Acceptances	U.S. Government securities	Foreign currencies	All other	Total current earnings
1952	387				20, 380		7	20, 774
1953	575				22, 427		9	23, 010
1954	131				17, 116		4	17, 252
1955	467				15, 881		10	16, 358
1956	830				22, 700		13	23, 543
1957	791				28, 793		14	29, 598
1958	169				28, 718		16	28, 903
1959	1, 282				34, 008		16	35, 307
1960	1, 211				43, 467		55	44, 733
1961	63				37, 950		19	38, 032
1962	269				42, 037	196	18	42, 520

NOTE.—Details may not add to totals because of rounding.

Federal Reserve Bank of Dallas—Profit and loss account, 1914–25

	1914–15	1916	1917	1918	1919	1920
Current net earnings	$75, 388	$183, 074	$396, 145	$1, 595, 860	$2, 150, 603	$3, 437, 558
Additions to current net earnings:						
Withdrawn from reserve for—						
Federal Reserve Board expenses						16, 167
Probable losses						
Depreciation on U.S. bonds						
All other						43
Total additions						16, 210
Deductions from current net earnings:						
Bank premises—depreciation		7, 500	7, 500	61, 736		
Furniture and equipment		9, 528	35, 171	52, 758	70, 718	82, 883
Reserve for probable losses						130, 963
Reserve for Federal Reserve Board expenses					16, 167	
Reserve for depreciation, U.S. bonds				240, 663		
All other			1, 407	528	21, 854	11, 691
Total deductions		17, 028	44, 078	355, 685	108, 739	225, 537
Net deductions from current net earnings		17, 028	44, 078	355, 685	108, 739	209, 327
Net earnings	75, 388	166, 046	352, 067	1, 240, 175	2, 041, 864	3, 228, 231
Distribution of net earnings:						
Dividends paid	65, 523	134, 008	188, 234	261, 503	196, 335	225, 424
Transferred to surplus account				1, 184, 408	1, 845, 529	3, 002, 807
Franchise tax paid U.S. Government						
Balance to profit and loss	9, 865	32, 038	163, 833	−205, 736		

	1921	1922	1923	1924	1925
Current net earnings	$2, 538, 635	$570, 384	$965, 208	$826, 302	$590, 282
Additions to current net earnings:					
Withdrawn from reserve for—					
Federal Reserve Board expenses					
Probable losses		80, 984			
Depreciation on U.S. bonds		231, 523	795	21, 176	
All other	884	[1] 107, 113	21, 659	26, 063	3, 451
Total additions	884	419, 620	22, 454	47, 239	3, 451
Deductions from current net earnings:					
Bank premises—depreciation	131, 240	161, 018	42, 242	79, 119	41, 296
Furniture and equipment	163, 833	32, 710	12, 062	9, 385	15, 450
Reserve for probable losses	561, 500	439, 000	590, 000	500, 000	250, 000
Reserve for Federal Reserve Board expenses					
Reserve for depreciation, U.S. bonds	49, 295				
All other	20, 087	3, 151	11, 076	20, 013	8, 852
Total deductions	925, 955	635, 879	655, 380	608, 517	315, 598
Net deductions from current net earnings	925, 071	216, 259	632, 926	561, 278	312, 147
Net earnings	1, 613, 564	354, 125	332, 282	265, 024	278, 135
Distribution of net earnings:					
Dividends paid	252, 211	251, 915	251, 429	249, 789	255, 239
Transferred to surplus account	1, 361, 353	102, 210	80, 853	15, 235	22, 896
Franchise tax paid U.S. Government					
Balance to profit and loss					

[1] Includes $55,000, representing excess of sale price over net book value of old bank building sold during the year.

Federal Reserve Bank of Dallas—Profit and loss account, 1926–35

	1926	1927	1928	1929	1930
Current net earnings	$902, 993	$414, 082	$779, 644	$1, 027, 809	$171, 806
Additions to current net earnings:					
Profit on U.S. Government securities sold					97, 921
Other additions	5, 919	166, 270	5, 491	254, 844	3, 555
Total additions	5, 919	166, 270	5, 491	254, 844	101, 476
Deductions from current net earnings:					
Special depreciation allowances on bank premises		2, 574			
Reserve for losses	50, 000				
Reserve for self-insurance				500, 000	
Building for Board of Governors					
All other deductions	1, 701	9, 569	71, 680	12, 262	685
Total deductions	51, 701	12, 143	71, 680	512, 262	685
Net deductions from current net earnings	45, 782	+154, 127	66, 189	257, 418	+100, 791
Net earnings	857, 211	568, 209	713, 455	770, 391	272, 597
Dividends paid	257, 502	256, 310	258, 544	266, 613	262, 510
Franchise tax paid U.S. Government			291, 610	259, 361	9, 078
Paid U.S. Treasurer (sec. 13b)					
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	599, 709	311, 899	163, 301	244, 417	1, 009

	1931	1932	1933	1934	1935
Current net earnings	−$102, 588	$110, 954	−$23, 927	$283, 091	$199, 173
Additions to current net earnings:					
Profit on U.S. Government securities sold	372, 772	53, 882	21, 934	253, 275	172, 443
Other additions	450	60	12, 073	28, 829	11, 567
Total additions	373, 222	53, 942	34, 007	282, 104	184, 010
Deductions from current net earnings:					
Special depreciation allowances on bank premises					90, 000
Reserve for losses	150, 000		450, 050	80, 440	
Reserve for self-insurance				150, 000	
Building for Board of Governors					26, 143
All other deductions	8, 652	981	8, 077	2, 886	183
Total deductions	158, 652	981	458, 127	233, 326	116, 326
Net deductions from current net earnings	+214, 570	+52, 961	424, 120	+48, 778	+67, 684
Net earnings	111, 982	163, 915	−448, 047	331, 869	266, 857
Dividends paid	254, 878	237, 970	227, 888	237, 924	237, 615
Franchise tax paid U.S. Government			[1]		
Paid U.S. Treasurer (sec. 13b)					23, 428
Transferred to surplus (sec. 13b)					
Transferred to surplus (sec. 7)	[2] −142, 896	[2] −74, 055	[2] −675, 935	93, 945	5, 814

[1] Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

[2] Deficit in earnings after payment of dividends, charged to surplus account.

Federal Reserve Bank of Dallas—Profit and loss account, 1936–45

	1936	1937	1938	1939	1940
Current net earnings	$292, 170	$414, 635	$138, 510	$266, 735	$401, 026
Additions to current net earnings:					
Profits on sales of U.S. Government securities	896, 350	94, 275	324, 310	169, 192	449, 203
All other	4, 073	18, 273	15, 736	8, 514	52, 951
Total additions	900, 423	112, 548	340, 046	177, 706	502, 154
Deductions from current net earnings:					
Reserves for contingencies	500, 000				
Losses and reserves for losses on industrial advances (net)			27, 500	14, 000	16, 000
Special reserves and chargeoffs on bank premises	192, 464	70, 004		78, 000	
Chargeoffs and special depreciation on bank premises					543, 738
Prior service contributions to retirement system	109, 308	109, 309	218, 616		
Retirement system (interest base adjustment)					
Retirement system (interest base and increased benefits adjustments)					
Assessment for building for Board of Governors	58, 743	41, 878			
All other	124	445	180	240	271
Total deductions	860, 639	221, 635	246, 296	92, 240	560, 009
Net additions or deductions (—)	39, 784	—109, 087	93, 750	85, 466	—57, 855
Net earnings	331, 954	305, 548	232, 260	352, 201	343, 171
Paid U.S. Treasury (sec. 13b)	25, 036	25, 036		617	
Dividends paid	228, 445	231, 988	236, 294	241, 185	247, 577
Transferred to surplus (sec. 13b)	10, 601	7, 688	—4, 034		—3, 434
Transferred to surplus (sec. 7)	67, 872	40, 836		110, 399	99, 028
Surplus (sec. 7) Jan. 1	3, 783, 162	3, 851, 034	3, 891, 870	3, 891, 870	3, 974, 462
Additions, as above	67, 872	40, 836		110, 399	99, 028
Transferred to reserves for contingencies				—27, 807	—99, 000
Transferred from reserves for contingencies					
Surplus (sec. 7) Dec. 31	3, 851, 034	3, 891, 870	3, 891, 870	3, 974, 462	3, 974, 490

	1941	1942	1943	1944	1945
Current net earnings	$212, 284	$453, 920	$900, 947	$1, 853, 517	$3, 424, 284
Additions to current net earnings:					
Profits on sales of U.S. Government securities	51, 077	128, 841	1, 387, 780	135, 188	141, 061
All other	3, 549	2, 483	1, 928	1, 567	11, 321
Total additions	54, 626	131, 324	1, 389, 708	136, 755	152, 382
Deductions from current net earnings:					
Reserves for contingencies					
Losses and reserves for losses on industrial advances (net)	7, 794	[1] 65, 294			
Special reserves and chargeoffs on bank premises					
Chargeoffs and special depreciation on bank premises					
Prior service contributions to retirement system					
Retirement system (interest base adjustment)		208, 523			
Retirement system (interest base and increased benefits adjustments)			468, 031		
Assessment for building for Board of Governors					
All other	385	164	660	345	41, 215
Total deductions	8, 179	143, 393	468, 691	345	41, 215
Net additions or deductions (—)	46, 447	—12, 069	921, 017	136, 410	111, 167
Net earnings	258, 731	441, 851	1, 821, 964	1, 989, 927	3, 535, 451
Paid U.S. Treasury (sec. 13b)		25, 036	738	513	730
Dividends paid	257, 158	265, 769	271, 378	295, 889	344, 375
Transferred to surplus (sec. 13b)		44, 515			
Transferred to surplus (sec. 7)	1, 573	106, 531	1, 549, 848	1, 693, 525	3, 190, 346
Surplus (sec. 7) Jan. 1	3, 974, 490	3, 976, 063	4, 082, 593	4, 831, 441	6, 024, 966
Additions, as above	1, 573	106, 531	1, 549, 848	1, 693, 525	3, 190, 346
Transferred to reserves for contingencies			—801, 000	—500, 000	
Transferred from reserves for contingencies					1, 454, 331
Surplus (sec. 7) Dec. 31	3, 976, 063	4, 082, 594	4, 831, 441	6, 024, 966	10, 669, 643

[1] Net recoveries.

Federal Reserve Bank of Dallas—Profit and loss account, 1946–55

	1946	1947	1948	1949	1950
Current net earnings	$3, 541, 674	$3, 669, 057	$10, 435, 129	$10, 142, 387	$8, 701, 889
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	77, 998	115, 634	279, 104	1, 395, 483	1, 654, 007
All other	97	571	405	72	386
Total additions	78, 095	116, 205	279, 509	1, 395, 555	1, 654, 393
Deductions from current net earnings:					
Reserves for contingencies	15, 839	17, 140			19, 904
Retirement system (salary computation adjustment)	101, 493				
Retirement system (adjustment for revised benefits)				114, 429	
Losses on U.S. Government securities sold (net)					
All other	575	1, 115	1, 440	790	523
Total deductions	117, 907	18, 255	1, 440	115, 219	20, 427
Net additions or deductions (−)	−39, 812	97, 950	278, 069	1, 280, 336	1, 633, 966
Net earnings before payments to U.S. Treasury	3, 501, 862	3, 767, 007	10, 713, 198	11, 422, 723	10, 335, 855
Transferred to reserves for contingencies			1, 820, 182	1, 738, 520	
Paid to U.S. Treasury (sec. 13b)	866	83			
Paid U.S. Treasury (interest on Federal Reserve notes)		3, 005, 545	7, 589, 538	8, 272, 076	8, 808, 321
Net earnings after reserves and payments to U.S. Treasury	3, 500, 996	761, 379	1, 303, 478	1, 412, 127	1, 527, 534
Dividends paid	393, 903	427, 300	460, 093	492, 888	548, 793
Transferred to surplus (sec. 7)	3, 107, 093	334, 079	843, 385	919, 239	978, 741
Surplus (sec. 7) Jan. 1	10, 669, 643	13, 776, 736	14, 110, 815	14, 954, 200	15, 873, 439
Surplus (sec. 7) Dec. 31	13, 776, 736	14, 110, 815	14, 954, 200	15, 873, 439	16, 852, 180

	1951	1952	1953	1954	1955
Current net earnings	$14, 293, 939	$15, 964, 385	$17, 872, 152	$12, 299, 621	$11, 301, 159
Additions to current net earnings:					
Profits on sales of U.S. Government securities (net)	----------	92, 042	89, 628	21, 920	----------
All other	337	67	4	545	2, 631
Total additions	337	92, 109	89, 632	22, 465	2, 631
Deductions from current net earnings:					
Reserves for contingencies	24, 160	25, 531	28, 834	21, 921	18, 945
Retirement system (salary computation adjustment)	----------	----------	----------	----------	----------
Retirement system (adjustment for revised benefits)	----------	----------	99, 799	----------	----------
Losses on U.S. Government securities sold (net)	70, 894	----------	----------	----------	46
All other	331	4, 190	1, 314	2, 177	342
Total deductions	95, 385	29, 721	129, 947	24, 098	19, 333
Net additions or deductions (−)	−95, 048	62, 388	−40, 315	−1, 633	−16, 702
Net earnings before payments to U.S. Treasury	14, 198, 891	16, 026, 773	17, 831, 837	12, 297, 988	11, 284, 457
Transferred to reserves for contingencies	----------	----------	----------	----------	----------
Paid to U.S. Treasury (sec. 13b)	----------	----------	----------	----------	----------
Paid U.S. Treasury (interest on Federal Reserve notes)	12, 220, 821	8, 146, 709	14, 291, 018	9, 632, 252	6, 491, 494
Net earnings after reserves and payments to U.S. Treasury	1, 978, 070	7, 880, 064	3, 540, 819	2, 665, 736	4, 792, 963
Dividends paid	620, 109	709, 449	775, 661	826, 455	931, 086
Transferred to surplus (sec. 7)	1, 357, 961	7, 170, 615	2, 765, 158	1, 839, 281	3, 861, 877
Surplus (sec. 7) Jan. 1	16, 852, 180	18, 210, 141	25, 380, 756	28, 145, 914	29, 985, 195
Surplus (sec. 7) Dec. 31	18, 210, 141	25, 380, 756	28, 145, 914	29, 985, 195	33, 847, 072

Federal Reserve Bank of Dallas—Profit and loss account, 1956–63

	1956	1957	1958	1959
Current net earnings	$17, 930, 135	$23, 305, 244	$22, 274, 740	$28, 305, 976
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	11, 537	6, 941	6, 490	7, 509
Reimbursement for fiscal agency expenses incurred in prior years		84, 379		
Transferred from reserves for contingencies (net)				5, 002, 666
All other	37	50, 971	63, 295	857
Total additions	11, 574	142, 290	69, 785	5, 011, 032
Deductions from current net earnings:				
Reserves for contingencies	17, 892	15, 707	16, 870	
Retirement system (adjustment for revised benefits)		388, 652		
All other	641	14, 734	855	4, 409
Total deductions	18, 533	419, 093	17, 725	4, 409
Net additions or deductions (−)	−6, 959	−276, 803	52, 060	5, 006, 624
Net earnings before payments to U.S. Treasury	17, 923, 176	23, 028, 441	22, 326, 800	33, 312, 599
Paid U.S. Treasury (interest on Federal Reserve notes)	13, 223, 260	18, 545, 292	18, 620, 110	30, 796, 437
Dividends paid	1, 039, 339	1, 119, 715	1, 196, 810	1, 307, 562
Transferred to surplus (sec. 7)	3, 660, 577	3, 363, 435	2, 509, 879	1, 208, 601
Surplus (sec. 7) Jan. 1	33, 847, 072	37, 507, 649	40, 871, 083	43, 436, 299
Transferred from surplus (sec. 13b)			55, 337	
Surplus (sec. 7) Dec. 31	37, 507, 649	40, 871, 083	43, 436, 299	44, 644, 900

	1960	1961	1962	1963
Current net earnings	$36, 952, 272	$29, 664, 209	$33, 973, 067	$37, 167, 513
Additions to current net earnings:				
Profits on sales of U.S. Government securities (net)	97, 523	140, 482	80, 701	11, 845
Reimbursement for fiscal agency expenses incurred in prior years	-----	-----	-----	-----
Transferred from reserves for contingencies (net)	513, 705	-----	-----	-----
All other	687	94	129, 938	24, 089
Total additions	611, 915	140, 576	210, 640	35, 934
Deductions from current net earnings:				
Reserves for contingencies	-----	-----	-----	-----
Retirement system (adjustment for revised benefits)	-----	-----	-----	-----
All other	1, 714	1, 979	82, 713	24, 808
Total deductions	1, 714	1, 979	82, 713	24, 808
Net additions or deductions (−)	610, 201	138, 597	127, 927	11, 126
Net earnings before payments to U.S. Treasury	37, 562, 473	29, 802, 806	34, 100, 994	37, 178, 639
Paid U.S. Treasury (interest on Federal Reserve notes)	33, 818, 920	25, 547, 016	28, 872, 781	32, 204, 404
Dividends paid	1, 380, 653	1, 454, 690	1, 573, 113	1, 668, 435
Transferred to surplus (sec. 7)	2, 362, 900	2, 801, 100	3, 655, 100	3, 305, 800
Surplus (sec. 7) Jan. 1	44, 644, 900	47, 007, 800	49, 808, 900	53, 464, 000
Transferred from surplus (sec. 13b)	-----	-----	-----	-----
Surplus (sec. 7) Dec. 31	47, 007, 800	49, 808, 900	53, 464, 000	56, 769, 800

STATEMENT OF WATROUS H. IRONS, PRESIDENT, FEDERAL RESERVE BANK OF DALLAS

Mr. IRONS. Mr. Chairman, may I say that I appreciate the privilege of being here with this group and I would like to have permission to have my First Vice President from the Dallas Bank, Mr. Philip E. Coldwell——

The CHAIRMAN. Will you please identify him for the record?

Mr. IRONS. ——to sit with me and perhaps advise me once in a while. I understand that the statement has been submitted to each of you so instead of reading it verbatim I will try to highlight a few of the sections of my statement.

The CHAIRMAN. We have read the statement so that will be satisfactory, sir.

Mr. IRONS. First, with this statement, to have tried to give my impression of the overall objective and responsibility of the Federal Reserve System and then to point up some of the specific, more specific, responsibilities of the System.

In a broad sense I think the Federal Reserve System should be so constituted in structure and should have such authorities and powers as will enable it to operate in a way to make the optimum contribution to our economic well-being, that can be made by monetary and credit means.

That is consistent with the objectives of the Employment Act of 1946. At the same time I believe that it should be emphasized and reemphasized, that as important as the System in its operations may be, I am convinced that monetary and credit policies alone can't assure the objectives sought. They can only make a contribution in some degree, and I would like to caution against expecting too much from monetary and credit powers.

I have listed some responsibilities, and I won't read those now, and then I have stated my reactions to the provisions of the three bills.

Again, as I say, you have the statement. I am sorry that I must express an unfavorable reaction to the proposed legislation. The reasons I have indicated here in the statement, but I think that on matters such as this there can be objective differences of opinion, sincere differences of opinion reflecting the judgments of the people who have independent thoughts on these matters.

Unless you would like, Mr. Chairman, I won't read my specific comments on that.

The CHAIRMAN. All right, it is a part of the record already.

Mr. IRONS. It is in the record, and I will turn it over to you, sir.

The CHAIRMAN. All right, sir. Thank you, sir.

I will first ask some questions and then I will yield to the members of the committee.

No. 1, Mr. Irons, you have to have earnings from some source to maintain your organization. You spend about how much a year?

Mr. IRONS. The expenditures for the Federal Reserve Bank of Dallas in 1963 were approximately $10 million.

The CHAIRMAN. $10 million. How much of that did you earn at the Dallas bank and the branches, through the discount window and other operations?

Mr. IRONS. The amount of our earnings that came from discounts would be relatively small, of course, because——

The CHAIRMAN. How much would that be, about how much?

Mr. IRONS. Our statement of condition shows earnings from discounts and advances of $585,957.

The CHAIRMAN. $585,000?

Mr. IRONS. Yes, sir.

The CHAIRMAN. $585,000. Now you spent $10 million. Where did you get this other money?

Mr. IRONS. The other earnings were obtained very largely, of course, from U.S. Government securities.

The CHAIRMAN. That is open market securities in New York?

Mr. IRONS. The earnings from our participation.

The CHAIRMAN. You never see those securities, you don't have anything to do with their purchase, do you?

Mr. IRONS. We—I never see them; no, sir.

The CHAIRMAN. You never know when they are sold or anything else. You just get your part of the interest.

Mr. IRONS. Well, each day we know what amount of Government securities are allocated to our bank and what we hold.

The CHAIRMAN. In other words, they keep your books there in New York and notify you at the end of the day?

Mr. IRONS. We keep the record in Dallas of that. But may I make one point, please, sir?

The CHAIRMAN. Yes, sir.

Mr. IRONS. With regard to the holdings of Government securities, we don't see them, and we don't technically handle them, but we do have as much a part as any other Federal Reserve bank in the policy underlying the purchase or sale of the Government securities.

The CHAIRMAN. I understand that; yes, sir.

Mr. IRONS. So on that point we are no different from any other Federal Reserve bank, including New York.

The CHAIRMAN. But you say on your statement you have so much in Government bonds. What you mean is you have an interest in the stockpile of Government bonds in New York.

Mr. IRONS. Yes.

The CHAIRMAN. That is your interest. You never know exactly what it is, do you?

Mr. IRONS. Yes; we know each day I believe what it is.

The CHAIRMAN. At the end of each day?

Mr. IRONS. At the end of each day; yes, sir.

The CHAIRMAN. I believe you give your figures in round numbers about the numbers that you have.

What kind of a formula do you use in the Federal Reserve System Open Market Committee to indicate the amount each of the 12 banks is entitled to?

Mr. IRONS. The allocation of Government securities to the 12 banks.

The CHAIRMAN. Yes, sir.

Mr. IRONS. Well——

The CHAIRMAN. Just give us a simple way of determining it.

Mr. IRONS. I will try to give you the basis as I understand it as simply as I can.

The CHAIRMAN. Fine.

Mr. IRONS. There have been different methods used in allocating these over past years. I will just speak about the present.

The CHAIRMAN. All right, sir.

Mr. IRONS. As I see it, we are attempting to allocate or reallocate U.S. Government securities in such a way as to maintain the reserve ratio of each Federal Reserve bank at approximately the average reserve ratio for the System as a whole.

Now, let me spell it out, if I may.

The CHAIRMAN. All right.

Mr. IRONS. Let's take, for instance, the Dallas bank, and let's suppose our reserve ratio is a function of our holdings of deposits and Federal Reserve notes—our deposits and note liabilities. Now, if the Dallas bank has, let's say, $2 billion of deposits and note liabilities, and, let's say, we have $600 million of gold certificates, the reserve ratio at that moment might be 29 percent.

Now, we move over to the System's reserve ratio which might be 30 percent. In an attempt to keep the reserve ratios of the individual banks at approximately the System level we would then apply that System rate to the deposit and note liabilities of each of the banks and come out with a ratio that is readjusted each week and month.

The CHAIRMAN. It would be about 29½.

Mr. IRONS. Well, somewhere near 30, yes. If that is the System's average.

The CHAIRMAN. If the System's is 30 and you are 29, would you split the difference or would you have some precise way of determining it?

Mr. IRONS. Well, it is just an arithmetic average of it. The reserve ratio for the System.

The CHAIRMAN. All right, sir. Fine.

You are in charge of the retirement account, aren't you for the employees of the Federal Reserve System?

Mr. IRONS. I am a member of the board of trustees.

The CHAIRMAN. Board of trustees?

Mr. IRONS. I am an ex officio member of the board of trustees of the retirement system and I serve on certain committees and I am on the investment committee.

The CHAIRMAN. Well, you are chairman of the investment committee, isn't that correct?

Mr. IRONS. That is correct.

The CHAIRMAN. Do you have a report of your fund there with you?

Mr. IRONS. I can give you some figures on it; yes, sir.

The CHAIRMAN. I don't want the figures, I want the report, if you please.

Mr. IRONS. The report?

The CHAIRMAN. Yes, sir. The last annual report you have.

Mr. IRONS. Of the retirement system?

The CHAIRMAN. Yes, sir. How many employees do you have, about 20,000 in the Federal Reserve System?

Mr. IRONS. There are about 20,000 in the retirement system.

The CHAIRMAN. Do you have a different system for the officers as distinguished from the regular employees?

Mr. IRONS. No, sir.

The CHAIRMAN. You have all the same?

Mr. IRONS. I believe so. I think they are all in the same retirement system; yes, sir.

The CHAIRMAN. And I notice that that fund is earning about 4.21. percent.

Mr. IRONS. Yes, sir.

The CHAIRMAN. As of last year. Wouldn't that really give you an opportunity there to reduce the amount of the assessments on the Federal Reserve and the employees or increase the benefits, one or the other?

Mr. IRONS. Consideration and study is being given to that situation and has been for some months now.

The CHAIRMAN. Yours is really based on a 3-percent retirement, isn't it?

Mr. IRONS. Ours is based on a 3-percent return, and we are earning more than 3 percent and it is the judgment of the investment committee that we will continue to earn more than the 3 percent, and so consideration has been given now, for some months to the possibility of changing that 3-percent base.

The CHAIRMAN. I notice that the employees put in about $2,069,000 at the end of February 1963 with the Government putting in through the Federal Reserve $9,468,000. Is that about the same ratio that civil service employees have now?

Mr. IRONS. Let me spell out what the employees and the Federal Reserve banks put in and I will try to tie in the civil service, if I may.

The CHAIRMAN. I don't want to go into that much detail if I can help it. If you would answer generally we can shorten it. And then if you want to elaborate on it when you look over the transcript you may do so.

Mr. IRONS. Well, the employees put in less than civil service.

The CHAIRMAN. The employees?

Mr. IRONS. I believe our employees put in less than civil service. The Reserve banks put in more than civil service as a contribution for their part of the fund.

The CHAIRMAN. How can you justify that? You are all Federal employees.

Mr. IRONS. One point should be made with respect to civil service, if my understanding is correct: our fund is completely funded and I understand that is not the case with the civil service retirement program.

The CHAIRMAN. I am going to ask that a comparison be made of the civil service employees and your group and see how much we would have to do for the civil service employees to give them the same benefits that your organization is getting.

Would that be a considerable sum or small sum?

Mr. IRONS. I think that in some respects civil service fares better than our people do. It is always hard to compare retirement programs because each is a package, and the package is different.

But, for instance, comparing our retirement system with civil service, if a person retires at 60 in our System, he is penalized on an actuarial rate basis which really means he gets about 65 to 70 percent of his retirement. But in civil service, a man can, I believe, retire at

55, and give up only 1 percentage point a year, and could get 95 percent. It is things of that sort that make it very difficult to compare one package with another.

The CHAIRMAN. Mr. Irons, you are the 12th Federal Reserve bank President we have had here to testify. Of course, we would have had you a week ago but you were ill and we postponed it for your convenience.

Mr. IRONS. Thank you.

The CHAIRMAN. Which we were glad to do. But the expense accounts of all 12 banks show that they have made donations to the American Bankers Association, American Institute of Banking, State bankers associations and organizations like that, and here in your expense account are donations to the New Mexico Bankers and Dallas Personnel Association, Dallas Junior Chamber of Commerce, I don't see where you would enter into that, Dallas Chamber of Commerce, $240. Committee of Economic Development, and Robert Morris, Texas Bankers, $500, American Bankers, $1,250. I suspect the Federal Reserve is contributing through all 12 banks about $50,000 a year to the American Bankers Association alone.

How do you justify picking out one group. Now, the Federal Reserve System is supposed to represent the whole nation, every segment of our economy, not only the bankers, but labor and agriculture, and business of different types and different institutions, but it seems like you just cater to the bankers. You only join the bankers association. I don't see any donations to farmers associations, maybe you have some but I assume they would be insignificant, and you don't contribute to labor. And you have never had a labor man on the Federal Reserve Board in 50 years, not one time, and I have looked over the A and B and C directors of the 12 Federal Reserve banks, and I have never seen 1 director who was a labor man. So it looks like you certainly are not too favorable to labor, and you are very favorable to the bankers, and since the bankers stand to be benefited the most from the operations of the Fed, how do you justify picking out just one segment of our economy and catering to them alone?

Mr. IRONS. Well, I wouldn't consider that our expenditures to these associations such as you mention are in the nature of a donation. They are membership dues from which we get a return. I would say we associate more closely with bankers because we are doing business with bankers. We are doing business with bankers, we are working with them, we have similar problems with them. We have the problem of supervising our banks and regulating them and it is helpful in knowing and working with these people.

The CHAIRMAN. But here you are contributing to the people you supervise.

Mr. IRONS. Sir?

The CHAIRMAN. Here you are making contributions to the people you supervise.

Mr. IRONS. We are simply taking a membership in the association.

The CHAIRMAN. That is right. And it occurs to me that you are doing very little business down there in Dallas. How many rediscount applications did you approve last year?

Mr. IRONS. We have not had many rediscount applications in the past year or for some time.

The CHAIRMAN. In fact, I don't understand what you fellows are doing to earn your money. Now, we are spending a lot of money on the Federal Reserve.

Mr. IRONS. Well, I would like very much to comment on how I think we are earning our money, if I might do so.

Now, as far as the volume of loans and discounts, during the 1963 year, at the head office in Dallas we accommodated 24 banks.

The CHAIRMAN. Twenty-four banks, how many banks——

Mr. IRONS. Six of them—pardon me.

The CHAIRMAN. How many banks are members?

Mr. IRONS. 661 member banks in our district.

The CHAIRMAN. And you accommodated 24.

Mr. IRONS. We accommodated 24 at the head office and we made 161 advances and the amount was some $1,700 million.

The CHAIRMAN. How many banks did you accommodate at the branches?

Mr. IRONS. At the branch of El Paso we accommodated five banks.

The CHAIRMAN. Five banks in the whole year?

Mr. IRONS. At Houston, 12.

The CHAIRMAN. Houston, 12.

Mr. IRONS. San Antonio, 9, and so a total for the year of 50 banks making 360 advances, and the aggregate amount is $2.169 billion.

The CHAIRMAN. Now discounts and advances is the business you are supposed to be in, and to me it looks like you just have gone out of that business, you are not doing any such business. In 1914, 1915, and 1916, you showed a profit, so you must have made the banks pay for their check clearings then, didn't you?

Mr. IRONS. For about 2 or 3 years until 1918.

The CHAIRMAN. Two or three years until you got enough Government bonds to where the interest on them would take care of it?

Mr. IRONS. No. May I make a statement, though, with regard to your comment about our being out of business, and not having anything because we don't have discounts. I think you are taking there one department which, for a number of years, has been an inactive department for the simple reason that the Federal Reserve Open Market Committee has put the funds in the market and they have been available to member banks and member banks haven't needed to borrow from the Federal Reserve.

The CHAIRMAN. That is right. That is done from New York, isn't it?

Mr. IRONS. The technical operation is, but the direction is from the Open Market Committee.

The CHAIRMAN. Let's be practical about it. They do the work up there and notify you about the condition at the end of the day.

Mr. IRONS. That is right.

The CHAIRMAN. In other words, they have 12 sets of books there and they do all the bookkeeping right there and notify you how you should mark your books at the end of the day. In 1916 you had earnings of $53,000 from "net service charges."

Mr. IRONS. Yes.

The CHAIRMAN. Who paid that, the banks?

Mr. IRONS. I assume that that is a service charge that the commercial banks paid, possibly for——

The CHAIRMAN. In the beginning of the System?

Mr. IRONS. In the beginning of the System for the clearings.

The CHAIRMAN. That is my point. In the beginning the banks were supposed to pay for the check clearing. Now, the major part of your business is the check clearings.

Mr. IRONS. The major portion.

The CHAIRMAN. It takes the major portion of your employees?

Mr. IRONS. That is right.

The CHAIRMAN. That is part of what the Federal Reserve was supposed to do and the act contemplated that but the banks were intended to pay for it and you are paying it now and taking it out of your funds.

Mr. IRONS. I checked back on the correspondence at that time in 1916, 1917, and 1918 and I think one of the reasons why the charge was eliminated and then was not reinstated was to try to get more banks to clear through the Federal Reserve. In the early years of the System the commercial banks were not in a great rush to get into the Federal Reserve—to clear through the Federal Reserve System.

The CHAIRMAN. I think it is evident, Mr. Irons, when you put on public relations campaigns like you do and spend money all over the State having different meetings of all kinds of bankers, and showing them the benefit of the System and everything when you are only accommodating 24 out of 650, in a year, you are almost out of business, Mr. Irons. You are almost out of business.

Mr. IRONS. No, sir; I can't agree with that.

The CHAIRMAN. I mean so far as enforcing the Federal Reserve Act is concerned.

I will yield to Mr. Reuss.

Mr. REUSS. Thank you, Mr. Chairman.

I would like to ask Mr. Irons about the bank examination program which you and other Federal Reserve banks conduct.

The Comptroller of the Currency conducts the primary examination of the national banks, does he not?

Mr. IRONS. Yes, sir.

Mr. REUSS. And the State banking authorities do likewise for their own State banks?

Mr. IRONS. That is right.

Mr. REUSS. And, if I am not mistaken, the section of the Federal Reserve Act which gives you authority to make your examinations is section 21, subsection 5, which says:

> In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal Reserve bank may, with the approval of the Federal Reserve agent or the Board of Governors of the Federal Reserve System, provide for special examination of member banks within its district.

That is your operative section, is it not?

Mr. IRONS. We have a division of examination which operates jointly with the banking commission of the State in examining State member banks of our district.

Mr. REUSS. Are you saying the section that I read is not the relevant section, but that there is another one?

Mr. IRONS. No; I think the section you read states that we may examine member banks.

Mr. REUSS. Yes.

Mr. IRONS. Well, we under that——

Mr. REUSS. That is the section of the law on which you base your authority, is it not?

Mr. IRONS. I believe it is, I can't be sure without looking at it but it sounds as though it would be.

(The following information was subsequently submitted for the record:)

In addition to the fifth paragraph of section 21 of the Federal Reserve Act (12 U.S.C. 483), referred to by Representative Reuss, there are two other provisions of the Federal Reserve Act that authorize the Federal Reserve System to examine member banks.

The seventh paragraph of section 9 of the act (12 U.S.C. 325) reads as follows:

"As a condition of membership such banks shall likewise be subject to examinations made by direction of the Board of Governors of the Federal Reserve System or of the Federal Reserve bank by examiners selected or approved by the Board of Governors of the Federal Reserve System."

The term "such banks" in this paragraph refers to State banks that are members of the Federal Reserve System.

Section 11(a) of the Federal Reserve Act (12 U.S.C. 248(a)) authorizes the Board of Governors of the Federal Reserve System "to examine at its discretion the accounts, books and affairs * * * of each member bank. * * *" Unlike the seventh paragraph of section 9, quoted above, this provision applies to both national member banks and State member banks.

Mr. REUSS. If you find any legal authority other than the section I have just read you can add it when you correct your testimony. I think this is the section, and I notice it says "may" rather than "shall." The whole sense of the section seems to be in terms of a supplementary examination, which leads me to my question, How concerned are you with the minute details of bank examination, of the kind made of the national bank by the Comptroller of the Currency and the State bank by the State bank examiner.

Mr. IRONS. You mean how is our bank aware, interested, or how I personally——

Mr. REUSS. What do your examiners do? Do they just duplicate the work of the Comptroller and of the State people? If they do, I would suggest that it is unnecessary. But if they do something different, what do they do?

Mr. IRONS. It is not a duplication. As far as the national banks are concerned, as you know, they are examined by the Comptroller. We may step in and examine them. To my knowledge, in our district we have not examined a national bank in my period of experience in the district. We have taken the Comptrollers' reports, made our analysis from them but not examined them.

Mr. REUSS. If I may interrupt, that sounds to me like good sense. Why should the Federal Government do it twice? If we can't have a Comptroller who does his job, let's get a new Comptroller.

Mr. IRONS. That is right. We examine our State member banks, generally jointly with the State banking commissioner, so we are both in there at the same time and not upsetting the bank for two separate examinations. We make our own investigation and the State commissioner does also.

Mr. REUSS. You go around at the same time?

Mr. IRONS. Sir?

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Mr. REUSS. Your examiner from the Dallas Fed goes around with the——

Mr. IRONS. With the State commissioner and we try to combine them, to make them joint examinations in order to economize on manpower and so on.

Now, the type of examination isn't——

Mr. REUSS. May I interrupt, before you get into the type of examination. Why doesn't the same logic apply to State examinations as applies to national bank examinations?

If you can trust the Comptroller of the Currency to examine national banks, why can't you trust the State examiners to examine State banks, and simply look at their worksheets afterward?

Mr. IRONS. Well, my opinion on that would be that there may be wide differences in the standards, quality, and so forth, in one State as against another, and in the case of the Comptroller you are dealing with one agency whose standards are perfectly apparent to everyone. In the case of State commissions, we are dealing with various commissions, and they may not all be of the same standard. So we go and do it generally.

Mr. REUSS. True. As to those States which have slovenly bank examination standards and don't do a good job, I think you have to go around. But are you saying that all the States in the Dallas area have inadequate standards?

Mr. IRONS. No.

Mr. REUSS. Then why don't you save some money by not examining those State banks where you find that the State standards are adequate?

Mr. IRONS. Well, I would be reluctant not to examine our State member banks at least once a year. I think it would be a mistake not to do it. There may be exceptions, but I would prefer to have the examination.

Mr. REUSS. I find it odd to be preaching the doctrine of States rights to the Texas Fed, but I just wonder why. If the State has an adequate bank examining system——

Mr. IRONS. And some of them do.

Mr. REUSS. And many of them do. Where they do, and I am sure some of the States in your area do, I can't see any more reason for duplicating the centralized examination there than in the case of national banks. But you have recorded your view, and I have recorded mine, and I won't pursue it.

Mr. IRONS. Fair enough.

Mr. REUSS. In listing the functions of the Federal Reserve System, you mention "to consolidate the several thousand independent banking units in our country into a balanced coordinated commercial banking system capable of carrying out effectively the policies and services initiated by the Federal Reserve System."

Well, in fact, the Fed really doesn't do much consolidating, does it? You don't consolidate the national banks. That is done by congressional law and by the Comptroller of the Currency.

As to State banks, I don't see where you do much consolidating. Membership is voluntary. Such consolidating, as there is, is done by the Federal Deposit Insurance Corporation.

Mr. IRONS. Well, I think it is true in the case of the national banks. They are under the direction of the Comptroller of the Currency but at the same time the Federal Reserve System has relations with national banks and so on and I think that it is a responsibility of the System to try—I don't know if "coordinate" is the right word or "consolidate"—but to try to draw together into a truly functioning system these various types of banks that are in our banking system, National, State member, and nonmember State and so on, and to try to draw them together into a system package that can most effectively carry out some of these specific responsibilities which I mentioned of currency and coin and check clearance and a satisfactory check collection system and various other points that I mention here. I don't think we are limited in this sense, to coordinating the State member banks, and I don't think that we are excluded from any relations with the national banks merely because they are under the Comptroller of the Currency nor, on the other side, from the nonmember banks. We do have relations with them.

Mr. REUSS. A State bank that gets tired of the Fed can leave the System.

Mr. IRONS. Sir?

Mr. REUSS. Can it not?

Mr. IRONS. A State bank can withdraw from the System?

Mr. REUSS. Yes.

Mr. IRONS. Yes, sir.

Mr. REUSS. And that renders nugatory the most important power the Fed has to control the credit of the economy, because the nonmember State bank may be subject to Reserve requirements vastly different from member banks; may it not?

Mr. IRONS. Oh, yes. The nonmember State bank reserve requirements will probably be different in most cases than a member bank reserve requirements, that is correct.

Mr. REUSS. And thus they could frustrate monetary policy. That is to say, when the Fed was restricting credit to six times reserves, this could be undermined by banks in various States extending credit in a much greater multiple. And, conversely, if it were the other way, States with more niggardly credit control laws could foster deflation.

Mr. IRONS. I don't think that would work in practice that way, sir, because right now the member banks of the Federal Reserve System account for about 85 percent of the resources and the deposits of the commercial banking system. Banks pulling out of the Federal Reserve System will be the small banks, not the large ones, and any pull-out of small banks would not, in my judgment, have a very significant effect upon the character of or the carrying out of credit policy, because they are too small.

But it takes numbers out of the System, that is true. I think we probably have something less than half of the banks in the Federal Reserve System in the United States, well under half. They would account, however, for 85 percent of the resources. So the System can work with 85 percent of the resources in this matter of credit influence and development directly and then there is an indirect tie, even with those outside of the System. I think we get fairly effective control. I would like to have more in but I don't think it is a matter of life and death that we have all of the smaller banks in.

Mr. REUSS. One more question: tell me about the check collection function of the Dallas Federal Reserve Bank. Particularly, what cities in your region have their own local check clearinghouses?

Mr. IRONS. All of the major cities, Dallas, San Antonio, Fort Worth, El Paso, Houston, Austin, and other cities have their own local clearinghouses.

Mr. REUSS. And those local clearinghouses accomplish the clearing functions for banks within that city or metropolitan area?

Mr. IRONS. And then settle up through the Fed.

Mr. REUSS. Right.

Mr. IRONS. Yes.

Mr. REUSS. Is it fair to say that those clearinghouses do at the local level what the Fed does at its regional level. Is it about the same process?

Mr. IRONS. I think it is substantially the same, and the Fed also makes the settlement on the local totals, as you know, yes.

Mr. REUSS. Are the expenses of these various local clearinghouses—Dallas, Houston, and so forth—paid for by the local banks?

Mr. IRONS. Yes.

Mr. REUSS. By the banks who are members of that clearinghouse association?

Mr. IRONS. The members of the clearinghouse; yes.

Mr. REUSS. The taxpayers don't pay for that?

Mr. IRONS. Not that I know of.

Mr. REUSS. But the taxpayers do, of course, pay for the clearinghouse function of the Federal Reserve bank itself?

Mr. IRONS. Indirectly as a result of reduced earnings and less to the Treasury.

Mr. REUSS. That is right.

Mr. IRONS. There is a difference in my mind as to the taxpayer's part.

Mr. REUSS. Well, the taxpayers are the patient citizens who wait, figuratively at least, at the Treasury for your check to come in. And if the check is less than it otherwise would be, they pay for it.

Mr. IRONS. Ultimately the Treasury gets less than it would have gotten under different circumstances. That is correct, isn't it?

Mr. REUSS. Yes.

Mr. IRONS. Now, in the clearinghouse, the main thing we seek in the clearings, Mr. Reuss, and I think you would agree, that checks are better as an instrument of exchange, the faster they are paid. The longer a check stays out in circulation, the more chance there will be that it might not finally get paid. So, our objective in connection with the clearing function really is to try, and this was one of the purposes of the Federal Reserve Act, I believe, to try to develop a highly efficient improved collection system. Before the Federal Reserve checks would go all around the country and come back.

Now, that is what we are trying to do even when we encourage banks to clear through the Fed if you can do it quicker this way.

Now, commercial banks through some arrangements of their own can clear checks quicker than we can do it and I would say to the commercial bank use that route by which you can clear the check the quickest, but in most cases I think we can get a very quick collection experience for them, so that it is with the thought of trying to give or to develop a money and credit system that is highly efficient, and it is a very efficient system.

Mr. REUSS. Thank you. My time has expired.

The CHAIRMAN. Thank you. Mr. Widnall? All right, Mr. Pepper.

Mr. PEPPER. Thank you, Mr. Chaiman.

Mr. Irons, I was noticing in section 4 of the Federal Reserve Act relative to the appointment of the directors of the several Federal Reserve banks of the country——

Mr. IRONS. Yes, sir.

Mr. PEPPER (continuing). Noticing that each Federal Reserve bank is supposed to have nine directors. Three are chosen from and by the stockholding member banks in each Federal Reserve bank. Three are class B directors and the statute reads as follows: "Class B shall consist of three members who at the time of their election shall be actively engaged in their districts in commerce, agriculture, or some other industrial pursuit," then class C directors are named by the Board of Governors of the Federal Reserve Board.

That is corect, is it?

Mr. IRONS. Yes, sir; I believe it is.

Mr. PEPPER. Do you have in class B——

Mr. IRONS. In class B.

Mr. PEPPER. In class B, on your board of directors which under the law is a group which are neither bankers in any sense of the word, they are not officers and directors of a bank.

The CHAIRMAN. But they can be stockholders.

Mr. IRONS. Yes.

Mr. PEPPER. But they cannot be an officer, director, or employee. Do you have any man who is identified with labor in any of your class B directors?

Mr. IRONS. No, sir.

Mr. PEPPER. Have you ever had?

Mr. IRONS. When you say identified with labor, you mean that as a major vocational occupation?

Mr. PEPPER. That is right. Or member of any labor organization connected with labor in the sense that we refer to organized labor in the country?

Mr. IRONS. No, sir. On our board we have not had.

Mr. PEPPER. How long have you known the character of the class B members of your board?

Mr. IRONS. I have known the class B, I have been with the bank since July 1, 1945, and I——

Mr. PEPPER. You have been there nearly 20 years.

Mr. IRONS. Nearly.

Mr. PEPPER. Has there been a labor man, a member of that class B board of directors in that nearly 20-year period that you know?

Mr. IRONS. No; nor in the class C group, either.

Mr. PEPPER. Nor in class C, either.

Do you know of any Federal Reserve bank in the United States which has as a member of its board of directors any man who is identified with labor in the sense that we refer to labor today in this country?

Mr. IRONS. I honestly frankly don't know. I can't say. I just don't know. I am not——

Mr. PEPPER. You don't know.

Mr. IRONS. I don't know enough about the directors of other Reserve banks.

Mr. PEPPER. Would you say that the function of the Federal Reserve System and particularly the Open Market Committee vitally affects the working people of this country?

Mr. IRONS. It affects all the people of this country.

Mr. PEPPER. And by working people now I am talking about the nonfarm working people of the country.

Mr. IRONS. I would say it affects all the people of the country.

Mr. PEPPER. Do you consider that the nonfarm working people of this country are an important element of our population and citizenship?

Mr. IRONS. I don't make any evaluation or grading of them. I have nothing to say to that.

Mr. KILBURN. Would the gentleman yield just briefly?

Mr. PEPPER. Yes.

Mr. KILBURN. This though just occurred to me, I think some of the unions own banks, they can vote, they can belong to the Federal Reserve as any other bank.

Mr. PEPPER. Thank you very much.

Do you consider that the purchasing power of the people of this country is important to the economy of the Nation?

Mr. IRONS. Certainly it is.

Mr. PEPPER. Well now, is one of the functions of the Open Market Committee in the Federal Reserve System to provide full employment under the full Employment Act, I mean an opportunity for full employment for those ready, willing, and able to work, and a high level of purchasing power and a generally high standard of living for the nonfarm working people of this country.

Mr. IRONS. I would say for the people of this country, all the people of this country, and that the Federal Reserve System should contribute as much as it can. I don't think it can answer the whole problem but it should make as I said in my statement such contributions to objectives of the Employment Act of 1946 as it is possible for it to do.

Now, I would like to make this point, please, sir, if I may, which ties into what you are saying. I can't justify why a person directly tied with labor has or hasn't been connected with the Dallas bank. I think the directors of the Federal Reserve banks don't regard themselves as being associated or tied to a representation of any particular group. I would certainly hope that none of them do and I don't believe our directors do.

Our directors are public servants in the same way as anyone else rendering a service for the good of the American people.

Now, I don't like to—it is in the act and I recognize that, that class A directors should be bankers, who will represent—I have forgotten the wording but, in effect, represent banking. I don't like the way it is written. I would think it would be much better if we could get the thought and persist and hammer at the thought that a director of a Federal Reserve bank is a public servant whether he is associated with labor, banking, retail selling or whatever it is and I would like to see it move that way.

Mr. PEPPER. Thank you, Mr. Irons, for your opinion.

Would you think if the Congress of the United States were made up exclusively of people who are bankers would you think that they fairly represented the opinion of the people of this country and the interest of the people of this country?

Mr. IRONS. Well, the people of this country elect the Congress, and I guess whoever is elected is representative of the wishes of the people of this country.

Mr. PEPPER. Suppose the law, Mr. Irons, provided that the Members of Congress shall be selected from the bankers of this country except one class and they shall be elected by the group that is from the bankers from this country.

Would you think that would be a fair representation of the people of this country?

Mr. IRONS. No, I think it would be bad to tie it to any particular group.

Mr. PEPPER. If the chairman will allow me, let's take the statute, class A, I am reading now from section 4, subparagraph 10, class directors. This is one-third of the group that makes up your board of directors which elect you. Let's see to whom you are primarily responsible, whether the people who elected you are fairly reflective of the political, economic, and business interests of your Federal Reserve district.

Mr. IRONS. No, sir, I am not——

Mr. PEPPER. Excuse me just a moment, I will give you a chance to answer if you will let me ask you the question.

Mr. IRONS. Yes, sir.

Mr. PEPPER. I am going to read the statute dealing with class A directors, "Class A shall consist of three members who shall be chosen by and be representative of the stockholding banks." Those three directors are bankers, aren't they?

Mr. IRONS. Yes; I don't like that phrase, I disagree with it.

Mr. PEPPER. Excuse me, just a minute. Those three directors are bankers.

Mr. IRONS. Yes, sir.

Mr. PEPPER. Those are one-third of the vote that elects you.

Now, class B, and I will read the statute. "Class B shall consist of three members who at the time of their election shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit." I wonder if that language is such as to lead to the belief that that didn't include an officer of a labor union or a man who is identified with labor or is a nonagricultural worker in the commerce of this country? You say in the 20 years you have been there there never has been a man in that category on the board; so it may well be that Congress should look to the definition of these class B directors to see whether it would be proper to broaden this language so that it might be understood that a man who was connected with labor could sit with a man who comes from commerce. We all pretty well understand what commerce is, that is usually the proprietors or managers of business enterprises and we know what agriculture is. Do you have any members who are members of any farm organizations on your board in class B?

Mr. IRONS. Not at the head office board, not now.

Mr. PEPPER. So even the farmer is not represented on your board. Who are the class B members of your board and what do they do?

Mr. IRONS. The three class B members from our board at this time are in this annual report; one is D. A. Hulcy, chairman of the board of the Lone Star Gas Co.

Mr. PEPPER. That is the gas company?

Mr. IRONS. Yes, natural gas.

Mr. J. B. Perry, Jr., is president and general manager of Perry Bros. Stores which is a chain of comparatively small stores.

Mr. PEPPER. All right, that is a retail business.

Mr. IRONS. And H. B. Zachry, who is the president of the H. B. Zachry Co. of San Antonio which is a construction company engaged in heavy construction work.

Mr. PEPPER. So you don't have any member of either a farm organization or a labor organization as a director of your bank in class B?

Mr. IRONS. No, sir.

Mr. PEPPER. Have you had one in your knowledge of that?

Mr. IRONS. I don't believe we have had anyone who has been a representative of a farm association.

Mr. PEPPER. Now, one other question. Class C directors are appointed by the Federal Reserve Board.

Mr. IRONS. Yes, sir.

Mr. PEPPER. Now, they are not to be bankers, I believe, is that correct?

Mr. IRONS. That is correct.

Mr. PEPPER. Do you know who they are? Who are the three class C directors of your board?

Mr. IRONS. One, the chairman of our board who is one of the class C directors is Robert O. Anderson who is in the oil business.

Mr. PEPPER. He is in oil.

Mr. IRONS. And other pursuits in New Mexico. The deputy chairman of our board is Carl J. Thomsen, who is the senior vice president of the Texas Instruments Co. in Dallas.

Mr. PEPPER. That is a manufacturing company.

Mr. IRONS. Manufacturing electronics and all that sort of thing.

Mr. PEPPER. All right. Manufacturer.

Mr. IRONS. And third is Max Levine, who is president of Foley Brothers Department Store in Houston, Tex.

Mr. PEPPER. So you have one oilman, one gasman, two retail men, and one fellow who is a manufacturer other than the bankers, that make up the personnel of your board which determines the policy of your bank and elects you and the Vice President who are the principal executive officers of the bank?

Mr. IRONS. They elect us subject to approval by the Board of Governors.

Mr. PEPPER. One construction man. I did not mention him.

Mr. IRONS. Yes.

Mr. PEPPER. All right.

I do not remember, and I have not looked at the statute here, are the members of the Federal Reserve Board bankers?

Mr. IRONS. Members of the Board of Governors in Washington?

Mr. PEPPER. Yes.

Mr. IRONS. No. I believe the only member of the Federal Reserve Board who has had extensive banking experience is Governor Mills; isn't that correct? I believe so.

Mr. PEPPER. Just one more question. You stated in your statement here about reserves that one of the functions of the Federal Reserve Banking System was to create adequate reserves. Would you, just for the record and for a man who is not experienced in this field, explain how you create these reserves and just what they are. Does your bank have any reserves and, if so, with whom and what are they composed of, I mean your Federal Reserve Bank.

Mr. IRONS. Let me speak to your first question about the creation of reserves, if I may.

Mr. PEPPER. Yes.

Mr. IRONS. The Federal Reserve banks have the power to create these reserves, and it can be done in this way:

In the Federal Reserve bank open market operation we purchase, let us say, $50 million worth of Government securities. That $50 million of Government securities will be purchased through the trading desk at New York through the dealers in New York, and paid for with checks drawn on the Federal Reserve bank of New York.

Those checks will be collected and come back around through the collection process. The commercial banks will come to the Fed and say, "We want to cash this check. We will take the credit to our account with you."

That credits the reserve account of that particular commercial bank. Now, that commercial bank then has some unused reserves which can be expanded by loans, and so forth, which, running through the banking system as a whole, will probably be five to six times the amount originally added to the bank's reserve account.

Mr. PEPPER. Thank you. I have exceeded my time.

Mr. IRONS. Is that satisfactory?

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Mr. Irons, are you a member of the Open Market Committee?

Mr. IRONS. Yes, sir; I am at the moment, this year.

Mr. MINISH. What is your feeling about the Committee turning over to this committee the minutes for the Open Market Committee for the years 1960, 1961, 1962, 1963?

Mr. IRONS. Well, I will give you my personal view. Now, I am on the Open Market Committee, and I know this question has been brought up and we will be discusing it, and I do not think you want me to indicate my vote in advance of the discussions we will have in arriving at a decision.

But I think that there are good reasons to permit the Banking and Currency Committee to have access to the minutes of the Open Market Committee and, possibly, over a longer period of time you might go beyond that and make them available to the public.

The thing that bothers me—and I have not been able to think through to my satisfaction—is how to maintain the necessary degree of confidentiality for certain sensitive statements and items in those minutes.

Now, they may be relatively few, but they could be quite important, and I think that is the issue that has to be cleared up rather than just the question of whether you ought to have them. That is one reason for the time lag that some suggest. I know different people have different views as to how long it would be. Different people pick different numbers from 1 to 10, but I would think after a year the chances of speculative use or something of that sort would be relatively slight. But that does not answer the question of the highly sensitive sort of thing which may be damaging to our international relations if it comes out after a year or 2 years or whatnot, and that might require some revision or something else.

But it is something that I hope we can get decided and settled to the satisfaction of everybody.

Mr. MINISH. You would say then that the years 1960, 1961, and 1962 there should not be any problem?

Mr. IRONS. As far as anyone using it for speculation, but I am not saying that 1961 and 1962 might not have some sensitive material from the standpoint of international relations, and so I do not think we can give a definitive answer.

Mr. MINISH. Thank you. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Thank you, Mr. Chairman.

Each Federal Reserve bank has nine members on the Board?

Mr. IRONS. Yes, sir.

Mr. WIDNALL. Three are bankers, three are industrialists elected by the banks, and then there are three other industrialists, so-called public members?

Mr. IRONS. They happen to be at this time industrialists. They do not have to be, though.

Mr. WIDNALL. Isn't it true that there are only three out of the nine who are actually bankers, and the other six are potential borrowers?

Mr. IRONS. Yes.

Mr. WIDNALL. So that two-thirds of the Board membership is comprised of those who are either borrowers or potential borrowers, and they, therefore, have an interest in low-interest rates, have they not?

Mr. IRONS. Sir?

Mr. WIDNALL. They would have an interest in low-interest rates rather than high-interest rates.

Mr. IRONS. Well, if they follow their selfish interests they might, yes, sir; but they will not do that.

It has been my experience that even though they may be borrowers, when they are working in the Federal Reserve System, their attention, their whole direction, is to the public service and not their personal advantages.

Mr. WIDNALL. So that you feel actually the board is very much weighted toward a nonrepresentation of just a segment of the economy. What I have in mind is this, following the line of questioning by Mr. Pepper——

Mr. IRONS. Yes.

Mr. WIDNALL (continuing). Putting in representation just for the labor unions, who would just represent the labor unions. As I understand the present composition of the board, there is nobody on there just to represent one segment of the economy.

Mr. IRONS. That is very correct, and I think it is highly desirable.

Mr. PEPPER. Will the gentleman yield?

Mr. WIDNALL. Yes.

Mr. PEPPER. I am sure as fairminded and as interested in all the people as my able friend from New Jersey is, he would not refuse to say that the members of labor unions are any the less capable of being objective and wanting to serve the whole economy than bankers are. But points of view, having a variety of opinions would probably, my suggestion was, be of benefit to the board.

Mr. WIDNALL. Mr. Pepper, of course, we do not claim any nonobjectivity on the part of the membership. But isn't this true, and I would like to ask you, particularly you, Mr. Minish, labor unions claim to be tax-free mutual benefit organizations.

The CHAIRMAN. Not individual laborers.

Mr. WIDNALL. Labor unions. They claim to be tax-free mutual benefit organizations. They are not engaged in industrial pursuits.

Mr. MINISH. Insofar as manufacturing and selling.

Mr. WIDNALL. But they claim to be a tax-free mutual benefit organization. How can they be engaged in industrial pursuits if they make that claim?

The CHAIRMAN. If anyone insists that there not be a labor union, why not have someone who represents labor, the working man, and not necessarily a member of the labor union. I do not consider that material.

Mr. PEPPER. May I make a reply before he gives an authoritative answer, with greater knowledge? I would suppose that people who are helping turn out an industrial product are engaged in an industrial pursuit.

Mr. WIDNALL. I think this would certainly have to be something that should be interpreted for the future, because I do not quite see how they would qualify under the existing definition of industrial pursuits.

Mr. MINISH. Well, they represent millions of workers who are in industrial pursuits.

Mr. WIDNALL. That is true.

Mr. HANNA. Will the gentleman yield?

Mr. WIDNALL. Here is something that always confuses me, too, the statement being made that the labor unions really are the only ones who represent the working men. There are millions and millions of working men and women in America who do not belong to the labor unions.

Mr. MINISH. Thirty percent of the work force are members of organized labor.

Mr. WIDNALL. That is true. But 70 percent do not, isn't that true?

Mr. MINISH. That might be true, it may be true.

Mr. PEPPER. Excuse me, will the gentleman yield for a question? From what this gentleman said I did not hear of any working people, whether belonging to labor unions or not—all these people were proprietors who are members of the board, the head of an oil company, the head of a gas company, or a big retail chain, or something like that. I did not see anybody who is in the employee class, whether they come from the ranks of organized labor or not, or from the ranks of the farmers of this country. I did not hear of a single farmer who runs a ranch or a farm who is a member of that class B on your board of directors.

Mr. IRONS. We have had directors from the farms.

Mr. WIDNALL. They are working management, as I understand it, and all of these people came up through different backgrounds. I am not sure whether you were here or not when we questioned the various members of the Federal Reserve Board, the top board itself, as to their background, and one, I know, had a complete agricultural background before he became a member of the Federal Reserve Board, and they were from many fields, and they were not heads of proprietary interests before they went on to the Board, and I think this is in the record.

Mr. PEPPER. If the gentleman will yield, if there was 1 man on the Board on the Open Market Committee, there are 12, and according to our present knowledge, with the contribution of our able friend from New Jersey, there is 1 agricultural man out of the 12, and that is, of course, talking about the Open Market Committee.

Assuming he is an agricultural man, but I do not hear of a single farmer or a single employee or a single person indentified with labor on that board.

Mr. IRONS. We have had folks engaged in agriculture on our board in Dallas. We had one on our El Paso branch, and be moved on, and became deputy chairman of our board, at Dallas, one of the C directors who was an agriculturalist out in New Mexico, the New Mexico area of our district.

Also, it has been a policy of our bank for some time,, I would say for the last 6 or 8 years, for our directors to appoint at least one person on our branch boards who is tied in right closely to agriculture.

The CHAIRMAN. Will you yield there? You appoint all of the branch directors, do you not?

Mr. IRONS. No, sir. We have seven directors at each of our branches, and the Board of Governors appoints three, and we——

The CHAIRMAN. Your board.

Mr. IRONS. Our board appoints four.

The CHAIRMAN. Do you have the majority?

Mr. IRONS. Yes; four and three, and we have pretty consistently had representatives of agriculture on the branch boards. Governor Shepardson was formerly chairman of our Houston branch.

Mr. WIDNALL. Mr. Irons, at the beginning of your statement here today you very sketchily gave your own background. You said you had been employed in the field of education. Now, in what type of employment?

Mr. IRONS. As a professor. I started in high school and ended up on the graduate faculty of the University of Texas teaching money and banking from 1937 to 1945, and I came to the Dallas Federal Reserve Bank from that connection.

Mr. WIDNALL. You said you were in Government service. What Government service?

Mr. IRONS. During the war years I was with the Office of Price Administration as a regional economist from the early part of 1942 until the latter part of 1944. I was on leave from the University of Texas at that time. I was on the faculty at the University of Texas.

Mr. WIDNALL. How did you come to go to the Federal Reserve Bank of Dallas?

Mr. IRONS. Well, briefly, right after the end of the war there were some shifts in other official positions at the bank. The director of research was moving back to the University of Texas, where he was a professor, and they urged me to go up to the bank on a 1-year leave of absence, which I did, with the understanding that either the bank or I could call it off at the end of the year, and I went up to the bank for a year and I have been there since.

Mr. WIDNALL. Just one other question. Mr. Reuss earlier cited section 21, paragraph 5, as the only directive to the Federal Reserve bank to examine banks.

In section 4, paragraph 8, page 9, of the Federal Reserve Act it says:

Each Federal Reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for speculative carrying out or trading in securities, real estate or commodities or for any other purpose inconsistent with the maintenance of sound credit conditions. In determining whether to grant or refuse advances, rediscounts, or other credit accommodations, the Federal Reserve bank shall give consideration to such information.

Don't you consider that a real directive?

Mr. IRONS. Yes, I do.

Mr. WIDNALL. To the Fed?

Mr. IRONS. Yes; yes, indeed.

Mr. WIDNALL. That is all.

The CHAIRMAN. Mr. Hanna?

Mr. HANNA. How many, Mr. Irons, new banks have been formed in Texas in the last 5 years?

Mr. IRONS. There have been a great many new banks in the last few years. I cannot give you that figure offhand. I do not believe we have it.

Mr. HANNA. Would it be as many as 25?

Mr. IRONS. It would be more than that.

Mr. HANNA. More than that?

Mr. IRONS. Yes.

Mr. HANNA. How many have joined the Federal Reserve System during this period of time?

Mr. IRONS. Well, in the last year or two we have gained about 30 banks, newly chartered national banks coming into the Federal Reserve System.

Mr. HANNA. Does that represent a substantial majority of those that have been formed?

Mr. IRONS. Well, yes; because most of the new banks in our part of the country have been national banks, and a national bank, of course, is required to be a member, so automatically they come in as a new national bank.

Now, the State banks are not required to be members, and State banks have not been coming into the System.

Mr. HANNA. Those that have had to come in have had to come in. Those that have had the choice have chosen not to come in, for the most part?

Mr. IRONS. Generally speaking, yes, that is correct.

Mr. HANNA. Keeping in mind the section just referred to by Mr. Widnall, have you noticed any deterioration of the portfolio of the banks in your system in recent months and years?

Mr. IRONS. We have tried to keep a close check on that in the last couple of years, particularly close, and we have noticed—and the word is commonly used, but I guess it is not such a good word—deterioration. When you go in and look for deterioration, they say "no, there is no deterioration," and so on.

There have been certain things going on, for instance, in the mortgage field, in the extension of terms and not reducing the rate. Also there has been a tendency toward more full mortgages. In other words, a fuller coverage as a result of the funds available, and the interest rates that prevail. Banks in paying 4 percent for savings—

generally speaking, if they are paying the maximum on their savings deposits—will try to get as high a yield as they can, and they will be stretching for longer maturities—for instance, they hold municipals, and may have extended the maturity term somewhat of those municipals, of some of them, in order to get a higher return over the spread. I think there has been some of that going on. I do not believe that it has reached a serious proportion or anything of that sort.

Mr. HANNA. Would you be able to identify the banks in which that has actually happened?

Mr. IRONS. You mean here?

Mr. HANNA. No. I mean, I am not asking you what banks they are, but I am asking you could you identify the banks in which that was happening.

Mr. IRONS. Yes, I think we know what is going on with the banks and we have talked with some of them.

Mr. HANNA. What would your powers allow you to do about a thing like this, the present powers?

Mr. IRONS. Our powers are of an influencing type, persuasive type, moral suasion, and getting together with the bank. We cannot stop it and cannot tell the bank every loan it can make or every investment it can make, but we can point out if it is getting to a serious point and has to be checked.

We examine, we rate the banks, we watch their paper, we put them in different categories from the top-rated banks to what we call our problem banks down in group 4, the lower group, and we work with our problem banks more closely. We require that they give us a report every month, and we will make an extra examination now and then, and that sort of thing.

Mr. HANNA. Are you doing that in the cases——

Mr. IRONS. Problem banks, yes.

Mr. HANNA. Is it having a salutary effect?

Mr. IRONS. Yes.

Mr. HANNA. Would you say whatever deterioration has been has been substantially improved since you have taken the steps?

Mr. IRONS. Speaking of problem banks now only, I would say that by a close followup, and so on, we have made some progress with some banks.

Now, there are some banks that you cannot make progress with, that the banks should not be there in the first place, there is no business.

Mr. HANNA. Let me ask you this question. What would be the effect upon your function as a component of a Federal Reserve System if a suggestion was followed that the stock, supposed stock holdings of your member banks were to be liquidated? Would this in any way affect your function?

Mr. IRONS. The Federal Reserve bank could operate, I think we would have to admit, without this stock type of ownership. I think it would be a great mistake to eliminate the stock. I think——

Mr. HANNA. For what reason?

Mr. IRONS. Well, one reason is that it reflects and is characteristic of what I consider to be the basic character of the Federal Reserve System, a combination of a quasi-public, quasi-private group of institutions.

In my mind, there are three elements to the Federal Reserve System. The Board of Governors, the public element, fully public element; the Federal Reserve banks, the quasi-public, quasi-private element, and then I think we have to include the commercial banking system, which carries out the detail, which is the private element.

Now, in between the private and the public somewhere in between there, in my judgment, lie the Federal Reserve banks, and I would not like to see that relationship broken—I think it would be a mistake to break down that concept, that has prevailed throughout the life of the System.

I am willing to admit that we could operate without the stock. You may say the stock is only a symbol, but a symbol can be awfully important at times, like a flag is only a symbol. A country, I suppose, could get along without a flag, but we would not like to do it. We may have had an incident triggered by a flag not too long ago. So there is that symbolism there.

Then another factor that I think enters into the picture, I think is some degree, elimination of the stock would make membership in the Federal Reserve System less attractive to the small banks, and I think it would be one more factor to lessen the attractiveness of membership in the Federal Reserve System because of the stockownership, and so on. I would not say it is the only factor, but I think it is one. There are other factors that may be more important.

Mr. HANNA. You annually pay a dividend on that stock?

Mr. IRONS. Sir?

Mr. HANNA. Do you annually pay a dividend on that stock?

Mr. IRONS. A dividend of 6 percent fixed in the Federal Reserve Act, and we pay it annually, yes.

Mr. HANNA. And that is paid out of the income of the Federal Reserve System which is substantially income from the Government bills held by the System?

Mr. IRONS. They come out of the earnings of the system; yes, sir.

Mr. HANNA. That is all.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. Mr. Irons, I am interested in your opinion when you elaborate in your opinion about an audit by the Comptroller General. In your statement you say:

> It would represent an encroachment upon the authority of the Board to determine and supervise the internal-management policies and practices of the Federal Reserve System.

Why do you feel that way since other Government agencies are audited by GAO?

Mr. IRONS Yes.

Mr. HARVEY. Why should the Federal Reserve System, in your opinion, differ?

Mr. IRONS. Because, whether specifically stated or implied, I feel that the Board of Governors is the top dominant agency in the Federal Reserve System that has and should have responsibility for the internal housekeeping and management of the Federal Reserve banks.

Now, we have our internal audit staff, a resident audit staff, at the bank which is performing the audit regularly, and then the Board of Governors has its examiners, and then policy with regard to examination at the moment is centered in the Board of Governors, it seems to me. I think that is where it ought to be.

I would dislike seeing another agency brought in in a way whose operations might in a way lessen the authority and the responsibility of the Board of Governors to perform this function which, I agree with you, is tremendously important.

Mr. HARVEY. How would it though impede or impair the functions of the Board of Governors, for example, or you, for that matter, as an individual President?

Mr. IRONS. I think there is a difference, for instance, here in the kind of audit. An audit, if it were just merely a verification of items, and in no way, to no extent, a policy audit, would be one thing, and I would say that that audit group, if it came in, it would represent merely another audit group and would be somewhat repetitious and unnecessary.

But if the audit goes beyond that and becomes a policy audit, in substance, then I think it would begin to encroach on the authority of the Board of Governors because I think that is where the policy comes in.

Even at the present time, under the present scheme of things, if auditors turn up items about which they want to raise questions, they raise the questions, and then it becomes a matter of determination, it seems to me, on the part of the Board of Governors whether the policy as it exists is right and good, and the policy determination comes from the Board—the banks are operating within that policy framework, and our auditors and examiners are working within that policy framework.

If we introduced another group of auditors in it, it would either be within that framework, the same as our own are, in which case it would be duplicative or they would get over into the policy determination which, I think, would encroach on the Board.

Mr. HARVEY. Mr. Chairman, I wonder if I coud direct a question to you for just a minute?

The CHAIRMAN. Certainly.

Mr. HARVEY. Inasmuch as we had a notice that a representative of GAO would appear tomorrow at 10 o'clock, and then I understood Mr. Albert, the majority leader, to say on the floor yesterday we were going into session tomorrow morning at 10 o'clock on the civil rights bill——

The CHAIRMAN. After Mr. Irons gets through we will have the GAO man this morning, if it is all right. His testimony will not be long, and in that way it will solve that question.

Mr. HARVEY. I have no further questions.

The CHAIRMAN. Mr. Brock?

Mr. BROCK. In light of that I will defer questions.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Could I ask one question? There has been quite a bit of questioning this morning with respect to the type of background of the Board of Directors of the Federal Reserve Board.

Mr. IRONS. Yes, sir.

Mr. WIDNALL. Are you familiar with the selection of the people for those same positions in central banks overseas, the Bank of England, for example?

Mr. IRONS. Well, in the Bank of England, I have a vague recollection there that on their Board, the Court of the Bank of England, there are 16 members. Four of the members of the Court—which is their Board—are officials of the Bank of England, they are fulltime Directors—I believe it is four; and then others are outside of banking and include industrialists, and so on, but I cannot go beyond that with you. That is available as to how they are selected. I may have it among these various papers I have. I will look and see.

Mr. WIDNALL. Would you have any information that you could submit for the record in which you could show how those Boards are constituted in other countries? I think it would be very valuable in our study.

Mr. IRONS. We will be very glad to look into it and try to give you for the record whatever we can get, yes, sir; for the principal foreign central banks.

Mr. WIDNALL. Mr. Chairman, Would this be all right?

The CHAIRMAN. Certainly, without objection it will be inserted at this point. I think it would be good information.

(The information referred to follows:)

EXECUTIVE MANAGEMENT AND POLICY STRUCTURE OF SELECTED FOREIGN CENTRAL BANKS

Belgium	Italy	Switzerland
Canada	Japan	United Kingdom
France	Netherlands	
Germany	Sweden	

BELGIUM

1. Executive officers

The Governor is appointed by the Crown for a 5-year term. One member of the Board of Directors (see below) is appointed as Deputy Governor, also by the Crown. The Governor presides over the two important organs of the Bank—the Board of Directors and the Council of Regency—as well as over the General Council and the general meeting of shareholders.

2. Policy organs

1. *Board of Directors.*—This body, responsible for management of the Bank, consists of the Governor and between three and six (at present there are four) Directors, appointed by the Crown for 6-year terms from among candidates proposed by the Council of Regency. (See below.) Members of the Board of Directors may not serve in the legislature, nor on the board of any commercial company with the exception of certain financial institutions which are subject to Government supervision or control.

2. *Council of Regency.*—The Council, which is the policymaking organ of the National Bank of Belgium, consists of the Governor, the Board of Directors, and 10 regents, elected for 3-year terms by the general meeting of shareholders. Regents are elected in the following manner:

(*a*) Two from among candidates named by labor organizations;

(*b*) Three from candidates proposed by organizations representing industry, trade, and agriculture;

(*c*) Two from managing bodies of public (official) financial institutions; and

(*d*) Three from candidates proposed by the Ministry of Finance.

CANADA

1. Executive officers

The Government and Deputy Governor are appointed, with approval of the Government, from among the Board of Directors (see below), for 7-year terms. The Governor and Deputy Governor must be men of "proven financial experience," but they may not be officers or employees or shareholders of any bank or financial institution.

2. Policy organs

BOARD OF DIRECTORS.—This body consists of the Governor, Deputy Governor, 11 Directors—as voting members—and the Deputy Minister of Finance as a nonvoting member. The Directors are nominated for 3-year terms by the Ministry of Finance, with the approval of the Governor General in Council of Canada. The Directors "shall be selected from diversified occupations," except that no officer or employee of a chartered bank shall be eligible. Directors who are shareholders of a chartered bank must divest themselves of holdings within 3 months of appointment.

FRANCE

1. Executive officers

The Governor and two Deputy Governors are appointed by Government decree for indefinite terms. The Governor holds very wide powers and the system of management of the Bank has been highly centralized since its foundation. The three Governors do not constitute a board; there is no board of directors standing between the General Council (see below) and the administration of the Bank.

2. Policy organs

GENERAL COUNCIL.—This body consists of 17 members: Governor (1), Deputy Governors (2), councilors (12), and censors (2); the censors are nonvoting members. The 12 councilors are chosen as follows:

(*a*) Four councilors, who are ex officio members, are the heads of the principal Government financial institutions;

(*b*) One councilor is elected by the Bank's staff;

(*c*) Seven councilors, appointed by the Minister of Finance on proposals by competent ministers, represent the following interests:

Two Industry and commerce in Metropolitan France;

Four Agriculture, labor, French oversea territories, French interests abroad (noncolonial);

One General economic interests.

The councilors, other than the four ex officio members, are appointed for 4-year terms; they may be reappointed.

GERMANY

1. Executive officers

The President and Vice President are appointed by the Government.

2. Policy organs

1. *Directorate.*—This body consists of the President and Vice President and no more than eight additional members (appointed by the Government) who must possess "special professional qualifications." The Directorate is the main administrative organ of the Bank; it implements decisions taken by the Council.

2. *Central Bank Council.*—This body consists of the Directorate (as above), and the presidents of the landeszentralbanken (the regional or state central banks).

ITALY

1. Executive officers

The Governor is appointed and dismissed by the Superior Council of the Bank with the approval of the Government. He is assisted in the administration of the Bank by a General Manager and a Vice General Manager, similarly appointed.

2. Policy organs

Superior Council.—This body (referred to as the Board of Directors in some sources) consists of the Governor and 12 Directors elected by the shareholders (commercial and savings banks and certain other financial institutions) for renewable 3-year terms. No specific qualifications are mentioned, but the Directors may not belong to credit institutions, engage in trade, carry out stock exchange transactions and, in general, participate actively in business interests.

JAPAN

1. Executive officers

The Governor and Vice Governor are appointed by the Cabinet for 5-year terms.

2. Policy organs

1. *Board of Directors.*—This body, also called the Assembly of Officers, consists of the Governor, the Vice Governor, and three or more Directors. There are now seven Directors, who are appointed for 4-year terms by the Minister of Finance from among persons recommended by the Governor. No qualifications are specified in the case of Directors.

2. *Policy Board.*—This body, the "supreme policymaking organ of the Bank of Japan," consists of seven members, as follows:

(*a*) The Governor;

(*b*) Representative of the Ministry of Finance;

(*c*) Representative of the Economic Planning Agency;

(*d*) Two members having "superior experience and knowledge" of financial business: one in a local bank, the other in a large city bank;

The members under (*d*), above, are appointed by the Cabinet, with the consent of both Houses of Parliament, for 4-year terms.

NETHERLANDS

1. Executive officers

The President is appointed by the Crown for a renewable 7-year term. Reappoinment is in practice customary.

2. Policy organs

The principal organs of the Netherlands Bank are the Governing Board, the Board of Commissaries, the Royal Commissioner, and the Bank Council. In practice and as sole shareholder, the Government appoints all members of these bodies, but specific occupational qualifications are mentioned only in the case of certain members of the Bank Council.

1. *Governing Board.*—This body consists of the President, the Secretary, and from three to five Executive Directors appointed by the Crown for 7-year terms (on the basis of nominations by a joint meeting of the Governing Board and the Board of Commissaries).

2. *Board of Commissaries.*—This body consists of 12 members appointed for 4-year terms.

3. *Royal Commissioner.*—He is appointed for an unlimited period by the Government (in practice, by the Minister of Finance); he exercises formal supervision over the Bank's activities.

4. *Bank Council.*—Consists of 17 members: The Royal Commissioner, 4 members appointed by and from the Board of Commissaries, and 12 members appointed by the Crown to represent industry, trade and transport, agriculture, labor, and experts in the field of money and banking. These Crown-appointed members are chosen from lists drawn up as follows:

(*a*) Four candidates from lists submitted by the central association of employers;

(*b*) Two candidates from lists submitted by the central organization of farmers;

(*c*) Three by the central organization of the trade unions;

(*d*) Three by the Netherlands Association of Bankers, the Stock Exchange Committee, and the Association for the Study of Economics, respectively.

SWEDEN

1. Executive officers

The Governor and Deputy Governor are elected by the Board of Directors from among its seven members.

2. Policy organs

The management and direction of the Bank of Sweden reflects its unusual legal status: its legal provisions are contained in the Swedish Constitution, and the Bank is governed exclusively by the Swedish Parliament. The Bank is subject to formal control by the Parliament (Riksdag), through the Banking Committee.

1. *Board of Directors.*—This body consists of seven members serving 3-year terms. The Chairman is appointed by the Government; the other 6 Directors are chosen by a group of 48 electors in equal numbers from both Houses of

Parliament. The Board appoints the Governor (who must be from among those elected by the Parliament) and the Deputy Governor. The Board of Directors is the policymaking body in the Bank of Sweden.

2. *Board of Management.*—This administrative organ consists of the Governor and Deputy Governor, two Directors and several Managers.

SWITZERLAND

1. Executive officers

The President and Vice President are chosen by the Government from among the three-man Directorate (see below) who serve a term of 6 years.

2. Policy organs

The complicated legal structure of the Swiss National Bank is reflected in a number of bodies charged with supervision and control. There are three principal bodies: The Directorate, the Bank's highest managing and executive body; the Bank Council which exercises general supervision; and the Bank Committee which is responsible for more detailed supervision and control.

1. *Directorate.*—This board is composed of three members chosen by the Government for 6-year terms; two members are designated President and Vice President. The Directorate also includes some deputy members and various other officials.

2. *Bank Council.*—This body consists of 40 members; 15 are elected by the general meeting of shareholders and 25 (including the Chairman and Vice Chairman) are appointed by the Federal Government. The law stipulates that members of the Bank Council must be representative of various sections of the country, account being taken of the major banking, commercial, and industrial centers. The law also provides that the members chosen by the Federal Government must not include more than five members of the Federal Parliament and five members of cantonal governments.

3. *Bank Committee.*—This body consists of the Chairman and Vice Chairman of the Bank Council and eight other members of the Council. The various parts of the country must be represented on the Committee; as a rule no canton may be represented by more than one member.

UNITED KINGDOM

1. Executive officers

The Governor and Deputy Governor are appointed by the Crown, upon recommendation of the Prime Minister, for renewable 5-year terms.

2. Policy organs

Court of Directors.—Consists of the Governor and Deputy Governor and 16 Directors appointed by the Crown for 4-year terms. No more than four Directors at any time may be employed by the Bank of England. No formal or representative qualifications are specified but, according to one source, "the objective is a Court composed of men of affairs of wide experience, including some members who are expert in central banking. It has become customary that no Director shall be on the board of one of the large banks and that at least one Director shall be close to the trade unions." [1]

The CHAIRMAN. Now, I asked you for the latest annual report a while ago, Mr. Irons, and you gave it as of the 28th. Is that the last one you have?

Mr. IRONS. Gave you what?

The CHAIRMAN. The 28th annual report.

Mr. IRONS. I think that is for 1962, is it not? I picked it up as I left the office, and I am not sure whether I got the last one.

The CHAIRMAN. It is for February 28, 1962.

Mr. IRONS. Then the next one, there is one——

The CHAIRMAN. You have another one, in fact I know you have because I have got it here.

Mr. IRONS. I just picked up one.

[1] Bank for International Settlements, "Eight European Central Banks" (London: George Allen & Unwin, Ltd., 1963), p. 99.

The CHAIRMAN. It is the 29th, the latest one.

Mr. IRONS. Would you like one for the latest year?

The CHAIRMAN. No; we have it. Thank you, sir. I will forgo asking any more questions, but if it is necessary I will communicate with you by letter if I have any questions on this.

Mr. IRONS. I would be delighted to respond.

The CHAIRMAN. On these Federal Reserve directors, I do not think it is entirely clear from the way I understand. Now, there are 9 directors of each of the 12 Federal Reserve banks.

Mr. IRONS. Yes, sir.

The CHAIRMAN. And there are class A directors who, of course, are bankers?

Mr. IRONS. Yes, sir.

Mr. CHAIRMAN. And class B, they are commerce and industry?

Mr. IRONS. And agriculture.

The CHAIRMAN. And they may be stockholders of banks?

Mr. IRONS. Yes.

The CHAIRMAN. There is nothing to prohibit it?

Mr. IRONS. No, sir.

The CHAIRMAN. And then class C are the ones selected by the Federal Reserve Board.

Mr. IRONS. That is right.

The CHAIRMAN. Now, you are conferred with about the selection of the class C directors by the Chairman of the Federal Reserve Board, are you not, Mr. Irons?

Mr. IRONS. The class C directors?

The CHAIRMAN. Yes.

Mr. IRONS. Maybe—yes.

The CHAIRMAN. Now then, one time when this question came up, Mr. Martin took the position that the A's were, of course, bankers and the B's were representing the borrowers and the C's, of course, were named by the Board, and I discussed this business of the B's with him, and he said that they could not be stockholders of banks, and I asked him to interrogate them by questionnaire, every one of them, and get an answer from them, and get the report and put it in the record, which was done, and a majority of them were stockholders of banks; and, of course, after all, the bankers select them, and they do it by ballot process, do they not, Mr. Irons?

Mr. IRONS. Yes; by ballot.

The CHAIRMAN. Yes; by ballot, small banks, large numbers of them, they select one A and one B.

Mr. IRONS. That is right.

The CHAIRMAN. And the middle-sized ones another pair, and the big banks another. That is the way the six are selected.

Mr. IRONS. Yes, sir.

The CHAIRMAN. And normally we would expect them to select people who were favorable to them. We could not expect anything else. In fact, more often than not there is only one name on the ballot; isn't that right, Mr. Irons?

Mr. IRONS. We have had contested elections.

The CHAIRMAN. What is that?

Mr. IRONS. We have had contested elections or more than one name on the ballot.

The CHAIRMAN. But it is seldom.

Mr. IRONS. In our district not so very often; that is right.

The CHAIRMAN. Yours is kind of a Russian election; just one name, either for him or against?

Mr. IRONS. Well, I would not know.

The CHAIRMAN. I happen to know something about it, and they have one name on the ballot. I do not say every time, but most of the times they do.

Now, these nine directors, then six of them are selected by the private banks and, naturally, they would expect them to be loyal to the people who selected them, that is what we would normally say, as a human being is made up, that is usually what is done.

Mr. IRONS. That may be what we would expect, but I do not think it happens.

The CHAIRMAN. Well, the bankers surround this public institution in a very unusual way. You not only select six of the nine directors that serve the banks, but you have, each of the 12 Federal Reserve banks, you have a member of the advisory board, too; don't you?

Mr. IRONS. Yes.

The CHAIRMAN. That confers by law with the Federal Reserve Board?

Mr. IRONS. That is right.

The CHAIRMAN. At least four times a year?

Mr. IRONS. Yes.

The CHAIRMAN. And the Federal Reserve Board has got to pay some attention to them, at least give them some consideration.

Mr. IRONS. Yes, sir.

The CHAIRMAN. So the banks not only select two-thirds of the directors, but they have this bankers' advisory board, and the other groups who are just as important in our economy as the bankers, such as the workers, the people on the farms and the ranches, they are practically not represented at all. They certainly do not have any group from each region that they can confer with the Board. The bankers only have that, and there has never been a person connected with the working men on any Board of the Federal Reserve System that I have been able to find, and I have had them go through that. There has never been one on the Federal Reserve Board, there has never been one on the Open Market Committee, there has never been one in any of the 12 Presidents of the Federal Reserve banks, and there has never been one director of the 12 Federal Reserve banks, not one. They have never been represented.

It is topheavy with bankers, Mr. Irons. I do not object to bankers. Normally they are good citizens, bankers are fine citizens, and they work in the interest of the country. But when a person's business interests are directly involved, he is more or less prone and more or less expected to take advantage of the situation and do everything that is honest and honorable to make sure his situation is taken care of in a fair way from his viewpoint.

And this is going a little far when you have top-heavy representation by bankers. The Federal Reserve Open Market Committee, perhaps the most important committee on earth, consists legally of 12 members, but illegally of 19 members, and they are the ones who serve every 3 weeks, and you know they do, they serve in the Open Market

Committee room at the Federal Reserve Board down here, not far from the Capitol, about a mile, and they have these meetings every 3 weeks, and things go on there that nobody knows except you gentlemen. Of course, there are from 30 to 60 people in that room, and the people inside the banking world are well acquainted with what goes on, I assume, at least a large number of them are. But the Congress does not know, the President does not know.

Mr. IRONS. I would say the banking interests do not know either. I do not believe anyone knows what goes on in those Open Market Committee meetings, except in the room.

The CHAIRMAN. That goes to show that we have an invisible Government that is kind of set off, operating our money system.

Mr. IRONS. Everyone in that room of the 30 to 60 people, if I might just interject this, everyone in that room has been cleared as top secret or whatever the clearing is.

The CHAIRMAN. Yes.

Mr. IRONS. They recognize and understand their responsibility, and so on, and I do not believe it comes back, Mr. Patman.

The CHAIRMAN. I understand. These fellows elect you, these six banker representatives, they are selected from the banks, and you are elected for 5 years. You are going to have to be elected again pretty soon.

Mr. IRONS. No, sir.

The CHAIRMAN. And whenever you are, you naturally are going to get along with these six banker representatives.

Mr. IRONS. No.

The CHAIRMAN. Out of nine, because you want to be reappointed, I assume.

Mr. IRONS. I wish you would believe me that never enters my mind.

The CHAIRMAN. I am not impugning your motives, I am not questioning your honor or integrity. It has nothing to do with particular individuals—it is just the way the situation is set up. I am just stating that we, as politicians, are elected by the people, and we are going to get along with the people. We are not going to hit them on the nose if we can help it. We are going to cater to them in an honest, honorable way just like you would be expected to; and, of course, it would be very unusual in my experience for a bank president who is elected by the six banker representatives, of his board, to never indicate to them by a wink or a nod or anything as to what might happen in the future. I am not charging you specifically with violating your pledge, but in dealing with the bank directors normally you put out information to them that they would have some knowledge of.

Mr. IRONS. I wish I could be more convincing than apparently I have been. But, in the first place, I do not consider, and I say this as honestly as I can, I do not consider that I am in the job I am in because of the bankers in our district or any given number of bankers, large or small. I am in the job I am in——

The CHAIRMAN. You would not have been there if they had opposed you.

Mr. IRONS. Let me finish, just a minute.

I am in the job because the Board of Governors determined I would be in. My appointment is finalized by the Board of Governors, and it cannot be——

The CHAIRMAN. Well, that is pretty weak, Mr. Irons, with all due respect to you.

Mr. IRONS. It has happened, sir.

The CHAIRMAN. In thousands of cases of government, you know, Senate approval and so on is necessary, but it is not the key. You were a good man, there was no reason to disapprove you, the others the same way, and they are not going to turn people down. They have only turned down one in 50 years. That was in Chicago many years ago. They do not turn people down. They are going to select the ones that the local banks want.

Mr. IRONS. Well, if I ever get out of this job it is going to be because the Board of Governors express dissatisfaction, and gets me out of it, not the directors or the bankers, and I am not going to cotton to the bankers in our district, and I just know that that is typical of the Federal Reserve Presidents. I do not do anything under pressure, suggestion, or connivance with the bankers in our district. I consider I am in my job because the Board of Governors said, "Yes, we will accept you."

The CHAIRMAN. I know that you must feel that way. I am not questioning your word, Mr. Irons, but I know something about what happens in life, and I know that we get along with people who are responsible for our position, and the six directors who were selected by the private banks in that Dallas region made your job possible. You would not have it if they had not selected you.

They are two-thirds of the board. They had to select you, and they select for you a 5-year term, and that 5-year term they cannot even cancel that, can they?

Mr. IRONS. Sir?

The CHAIRMAN. It is a 5-year term. There is no way to have——

Mr. IRONS. I consider that they can. I consider that they could fire me at any time or not.

The CHAIRMAN. Whether they could or not, the private bankers, the representatives of the private bankers, on the board of nine selected you for the place, they selected all these bank Presidents of the 12, and may I get on now to what I was bringing up?

When they have this most important meeting here every 3 weeks, you have the 7 members of the Federal Reserve Board to represent the public, of course, selected for 14-year terms, they are there, and if you were operating the way the law is written you would have the 5 Presidents of the Federal Reserve banks to come in, and you would have 12 people there at that Committee, but you do not have it that way. You have the seven members of the Federal Board come in, and the five Presidents who are legally members of that Committee, and the other seven Presidents, too, you all sit there in the Open Market Committee, and you state your views and opinions, you engage in debate and everything.

For all practical purposes all 12 Presidents are participating in the proceedings of the Open Market Committee, so I consider that absolutely illegal, absolutely illegal, because the Board says that shall be 12 members, 7 Governors and 5 Presidents.

Instead of having 7 members of the Board and 5 Presidents, you have 7 members of the Board and 12 Presidents, and every one of those 12 Presidents is selected just like you are by the representatives of the private banks, and it just does not seem right to me that these should be the people who are passing upon the volume of money and the interest rates that the people must pay. I do not think that is a proper balance, and I believe that other people, who are genuine public servants and obligated to nobody but the people, and the President of the United States, should be deciding that great function of the volume of money and the cost of money, about the most important thing that can happen, and today you have gotten away from the Government.

You would not pay any attention to what the President said unless you wanted to, because all the Presidents have said that they are not obligated to the President, they are not obligated to Congress unless we can change the law, and you do not know how cumbersome that is, so you gentlemen are setting yourselves up as a dictatorship of money and monetary policy. You have succeeded in doing it since 1951, and I predict you will not always—I do not know how soon it will be or how late it will be—but one of these days Congress is going to wake up to this thing and say that the bankers have no right to set monetary policy any more than the owners of railroads have the right to be on the ICC and set the freight rates and the passenger rates, or the broadcasting industry to be on the FCC and determine the rights and privileges and responsibilities of the broadcasting industry.

I think you have gone too far on this, insisting too much—even objecting to the GAO auditing your books.

I think that is going rather far. For 50 years you had no audit by a Government auditor. You have had no independent audit, you have handled hundreds of billions of dollars of Government money, and yet you have had no audit of any kind by Government auditors. I think that the Federal Reserve officials ought to come in here and say: "Sure, we would be glad to be audited by the GAO. We have nothing to hide. We know it is going to come out all right."

I just hope that you will reconsider that, Mr. Irons. I hope you will reconsider it. I think you put the bankers in a position that they are not entitled to be put in. You know one time we had a charge here that in Pittsburgh, Pa., where they were destroying money, there happened to be a heavy wind which blew money out of the chimney, and money went all over Pittsburgh, and people picked up $5, $10, and $20, asking where it was coming from. Everybody was grabbing for money.

We looked into that, and we found out you have a very loose system of destroying the money, a very loose system. You have a very loose system of taking care of bonds, because out in San Francisco a fellow just walked off with $7.5 million in bonds a while back.

Mr. Irons. I do not know.

The Chairman. And there is no accounting; nobody knows what happened to it.

Mr. Widnall. In San Francisco there was not any proof that anybody walked off with it.

The Chairman. Well, the bonds walked off, we will say, or the bonds got away. Anyway, the bonds were not there.

Mr. Widnall. I think the record should show that there was no proof that anybody walked off with it.

The CHAIRMAN. No; there is no proof.

Mr. IRONS. I think I would like to say just briefly that I do not believe—I can only speak for our own bank—I certainly do not believe that we have a loose system in handling Government securities, destroying money, or in any other respect in handling funds.

The CHAIRMAN. Why do you object to a GAO auditor finding that out? Why just a self-audit? In other words, people that you appoint, you describe the scope of the audit, and it is your own people, your own employees.

It occurs to me that for that reason alone you should say, "We want a Government auditor because we know we have got this thing in a clean condition and doing things exactly right."

I am afraid you have had so little to do, 20,000 employees and more buildings than there are on Capitol Hill and on Pennsylvania Avenue, throughout the country, and so little to do, that I am afraid you have just gotten a little bit careless, Mr. Irons. I would hope I am wrong about that.

Mr. IRONS. I think you are.

The CHAIRMAN. Yes, sir.

But I am afraid you have gotten a little bit careless, and you certainly are not doing any banking business.

Whenever you have 650 member banks and you only accommodated 24 of them in 12 months' time, why, it would not take 1 vice president 2 hours hardly to take care of that business.

Mr. IRONS. We are not doing a heavy load of lending to member banks in the form of discounts and advances.

The CHAIRMAN. What are you doing for them?

Mr. IRONS. Pardon?

The CHAIRMAN. What are you doing for them?

Mr. IRONS. We are processing checks and improving the checking collection system.

The CHAIRMAN. That is their business.

Mr. IRONS. We are doing it not for the member banks, but really to get a better check collection system. That is the point I would like to emphasize.

The CHAIRMAN. When the law was written, they were supposed to pay for that, and it is section 16 there, you read it.

Mr. IRONS. I know.

The CHAIRMAN. And they did pay for it for 2 or 3 years until you acquired some Government securities by creating money to do it. You did not pay a penny for them. The $33 billion you have up there in that portfolio that you claim to have a participating interest in, which you do have, you did not pay a thing for those bonds, not a penny. You just created money.

Mr. IRONS. We created money with which to buy them.

The CHAIRMAN. That is right—with which to buy them.

Now, then, the taxpayers have to send $1 billion up there every year to pay the interest on that, and then you spend all you want to spend of that $1 billion, and turn the rest over to the Treasury.

Mr. IRONS. But there are no more Government bonds outstanding and no more interest burden against the Treasury because we own Government bonds than there would be if we did not. The amount of Government bonds outstanding, and the interest burden against the Treasury, the Government bonds are out there because we have been running a budget deficit.

The CHAIRMAN. According to that, some of our problems could be solved by letting each Member of Congress have $5 million in bonds, and he would collect $100,000 in interest every 6 months, and at the end of the year what he spent, all right, and what he did not, he would turn over to the Treasury, just like you gentlemen do.

Mr. IRONS. What I want to say is the Government bonds are a derivative of the budgetary deficits we have been experiencing year after year, and if we want to reduce or if we want to stop the growth of Government bonds in the United States, the approach to it is to stop the perpetuation of deficits, and then we won't need additional bonds.

The CHAIRMAN. We could stop a lot of that deficit if the Federal Reserve owned a lot more of those bonds and the interest went back into the Treasury. That is the way to stop that. If the Federal Reserve had acted 100 percent in the people's interest over the last 50 years we would not have any Government debt today.

Mr. IRONS. I cannot agree with that, Mr. Patman.

The CHAIRMAN. The war debt would have been amortized and and paid with taxes easily without this tremendous interest burden. Interest rates have been going up, up, and for 12 years, from 1939 to 1951 when the Federal Reserve was serving in the people's interest, and not necessarily the banker's or any other group, but looking at it strictly from the standpoint of the taxpayers, of the people, for those 12 years the Government never paid more than 2.5 percent on bonds.

Mr. IRONS. That is right.

The CHAIRMAN. And the bondholders never had to sell any bonds under par. Now, that is for 12 years, during the most terrible time in the history of our Nation when we had 10 million unemployed, and other times when we were spending a quarter of a million dollars a day on the battlefield, and we were spending all kinds of money for every purpose, and we had price control and allocations, and people were dissatisfied, yet the Federal Reserve kept those rates 2.5 percent and less, and kept the bond market so that no bonds went below par, and if they could do that during that 12-year period they can do it anytime.

Mr. WIDNALL. Mr. Chairman, if the gentleman will yield, How much did the Government debt go up from 1939 to 1952 when the Federal Reserve was acting, as you have said, "in the public interest"?

The CHAIRMAN. It went up because of the war about $200 or $250 billion, nearer $200 billion. But Mr. Truman paid off a large part of that, of course, on account of the tax increase.

Mr. WIDNALL. It is your contention there would be no Government debt?

The CHAIRMAN. We could have amortized it and paid it out over a period of years and without any problem or trouble because then the people would have been glad to pay taxes to get rid of the debt.

Mr. BROCK. On another point, Mr. Chairman, if you will yield to me, when the Federal Reserve was operating in the people's interest, as you say, in a period after the war until 1959——

The CHAIRMAN. 1951.

Mr. BROCK. In 1951 the price level went up 70 percent. The people who had Government bonds had bonds that were worth considerably less money in purchasing power, people on social security, the aged people, and the people on pensions could not buy as many goods and services at the end of the war. I do not consider that they were acting in the best interests of the people.

The CHAIRMAN. Your party carries a large responsibility for that, your Republican Party. Republicans voted against price controls and allocations. They were clamoring to get rid of them immediately after the war was over, and they commenced to campaign, and a lot of Democrats joined them. "We have got to get rid of all price controls and allocations," and then commencing in the fall of 1945 and the early spring of 1946 the Republicans were carrying on a campaign to get rid of all price controls. You made it a party issue in 1946, and you were so popular with it that you were successful in electing the 80th Congress, and you got rid of all price controls, and you did not replace these controls with some other check on inflation like immobilization of bank reserves, and that caused prices to go up, they went up over 70 percent, as you say.

But that was not caused by the Government bond market. That was caused because the Republicans made the mistake of getting all these price controls and allocations taken off too quickly, and doing this without first assuring that bank reserves would be raised or immobilized.

Mr. BROCK. Would you say it was the Republicans' fault and not the fault of the fact that there was excess demand and excess cash in the country available to purchasers?

The CHAIRMAN. Of course, we had more money than ever before because people had been wanting automobiles and could not get them, and that's why bank reserves should have been raised or immobilized. People wanted appliances and they could not get them, because we quit making things like that, and just made war products.

Therefore, people had their pockets filled with money, and they had big bank accounts. They were wanting to buy everything that they could possibly get, and that is the reason price controls should have been kept on. But you gentlemen were successful in getting the people to elect you to the 80th Congress and get rid of all these things, and prices went out the roof.

Mr. BROCK. In other words, it would be in the public interest to put a limit on the interest rates and then to reimpose price and wage controls where a man could not increase his salary?

The CHAIRMAN. No, I am talking about what happened then. A mistake was made then. We cannot go back and unscramble the egg. That is exactly what happened, because I was here. I know all about it, and we had a terrific time keeping price controls even during the war. Every year we would have the price-control measure before this committee to extend it, and we went before the House on an open rule, any kind of an amendment was in order, and you can't imagine the type of amendments that would be offered. It looked very simple. They just tore down these price-control bills. The longer the war went on, the worse it got, and when the war was over, as evidence of the fact that the people did not like controls, they elected the 80th Congress. But controls were needed during the war, and they were removed too quickly ofter the war, and it was a mistake to do that without immobilizing reserves.

Mr. BROCK. If they elected that Congress, wouldn't you say it was in the people's interest?

The CHAIRMAN. That is perhaps the case.

Mr. WIDNALL. I think perhaps you have forgotten that while we had price controls that pork was 35 cents a pound to the consumer, that the poor man could not buy any pork. He could only get it by paying under the table $1.05 a pound, and that was the only way you obtained meat.

The CHAIRMAN. I am not accepting that.

Mr. WIDNALL. What continued to happen because of the great surplus in savings, if we had kept price controls after the war, the wealthy would have obtained the goods, the high-income people, and the poor would have been much worse off.

The CHAIRMAN. I know those were the claims that were made at the time which, of course, the Democrats showed were falacious, but the people were, of course, carried away with this desire to get rid of any controls of any kind, and they made a mistake in voting for a party that got rid of the controls too quickly and without knowing what to do about bank reserves.

Mr. BROCK. If they did, I am very happy because of that.

Mr. HARVEY. I would call to the gentleman's attention that the present minority party has only had control of the Congress 4 years out of the last 34.

The CHAIRMAN. That is right.

Mr. BROCK. And if these controls were so popular as the gentleman would indicate they were, and they were so necessary, when his party got control of the Congress in 1948 they could have been promptly reinstated, and the chairman himself has been a member of the majority party of this Congress all of those years excepting those 4 years.

The CHAIRMAN. No, the people would not have accepted that. In fact, it was awfully hard enforcing price controls during a fighting war when there was a casualty list out every morning.

Mr. MINISH. Would the chairman yield?

How can the people afford to pay the price for pork when the price went up 70 percent? The poor people can less afford to pay.

Mr. WIDNALL. I understand that, but wages went up correspondingly.

Mr. MINISH. Not 70 percent, not in that period.

The CHAIRMAN. No.

Mr. WIDNALL. Congress had to appropriate more and more for social security, social security payments, because the value of the dollar went down.

Mr. MINISH. There again they are the people who can least afford to pay it when the controls went off and prices went up, and they were then hurt further.

Mr. BROCK. The point is when you take off price controls, then you must have some other factor, and the factor is, of course, the variation in the interest rate which does determine the price of money in this country. Now, if the Federal Reserve had been given authority to take the lid of 2.5 percent off Government bonds, there could have been a holding down of the inflationary tendencies in this country, the over-supply of money, and you could have had an opportunity to give people who really needed it the chance to buy these goods at a fair price.

Mr. MINISH. But the facts are that the prices went up 70 percent.

Mr. BROCK. It would not have gone up 70 percent if you had given the Fed a chance to operate, that is the point.

The CHAIRMAN. I have demonstrated many times that interest rates can be held, you cannot dispute it, my dear sir. Nobody can dispute it. It is a fact that for the 12 roughest years in the history of our Nation, when the Federal Reserve was working in the people's interest, interest rates never went over 2.5 percent on Government bonds. And no Government bond—this is the most important—and no Government bond was forced to be sold for less than par. That is a great record, and that can be documented.

Mr. Irons, please pardon us for taking so much of your time. We appreciate your testimony which is very helpful to us, and we will consider what you have said. You do not agree with us, and we will give it consideration.

Mr. IRONS. I will respect your judgment.

The CHAIRMAN. I am sure a lot of members will agree with every word you said, and some of us will not.

We appreciate your testimony and we thank you for coming and we appreciate your cooperation. You have demonstrated fine cooperation which, of course, we appreciate.

Mr. IRONS. Thank you.

The CHAIRMAN. We will be calling on you possibly for some other things.

Mr. IRONS. I hope you will.

The CHAIRMAN. But not much, I hope.

Mr. IRONS. It has been very nice being here. Thank you.

The CHAIRMAN. Thank you, sir.

Mr. Ramsey?

We have with us this morning Mr. Ralph Ramsey, Associate General Counsel of the General Accounting Office.

Because there have been some questions about General Accounting Office practices, we considered it appropriate to have representatives from the GAO appear. Our invitation was informal and on short notice, which gave the witnesses practically no time for preparation, so we will not ask for any statements but proceed to question them.

Mr. Ramsey, we are glad to have you, sir. It is very nice of you to accept our invitation. You may identify for the record the gentleman accompanying you, if you please.

STATEMENT OF RALPH E. RAMSEY, ASSOCIATE GENERAL COUNSEL; ACCOMPANIED BY FRED SMITH, DEPUTY DIRECTOR, ACCOUNTING AND AUDITING POLICY STAFF, GENERAL ACCOUNTING OFFICE

Mr. RAMSEY. The gentleman with me is Mr. Fred Smith, Deputy Director, Accounting and Auditing Policy Staff, General Accounting Office.

The CHAIRMAN. Yes, sir. I will start off in asking you questions. What are the views of the General Accounting Office on the propriety of items like the following:

First, a Christmas remembrance of $10 sent to each of 21 employees on military leave;

Next, sterling silver trays for retiring directors and employees.

How is that generally handled by all Government agencies except the Federal Reserve?

Mr. RAMSEY. Well, Mr. Chairman, if I may consider this as being in connection with a regular Government agency which is expending appropriated funds, I would say that Government agencies, in general, are not permitted to increase the salaries or to add extras to the salaries of their employees. They are not permitted to give gifts, gratuities, things of that nature, in the absence of some specific authority of Congress.

There is, with reference to a payment of extras to Government employees, a specific statute which is found in 5 United States Code, section 70. We would generally disallow such a payment in our examination of the accounts.

The CHAIRMAN. The next question—Government agencies have a travel allowance, I believe, generally of $16 a day. But the Fed has been approving expenditures in the $20 to $30 per day range. What do you do in a case like that, as auditors? Do you disapprove it or approve it above $16?

Mr. RAMSEY. Well, as you have said, Mr. Chairman, the limit on the commuted rate is $16 per day, that is the maximum limit. There is a provision for paying actual expenses up to $30 per day under unusual circumstances if the order is so issued by the authority who directs the travel, and in the individual case. That is supposed to be allowable only in unusual circumstances.

The CHAIRMAN. Yes, sir. Thank you, sir.

Now, third, is membership in associations. What is the general rule for Government agencies regarding memberships in organizations like the American Bankers Association, State Bankers Association, NABAC—the Association for Bank Audit Control & Operations, the Robert Morris Associates, National Association of Bank Loan Officers & Creditmen, local chambers of commerce, local associations of building owners and managers?

Mr. RAMSEY. Mr. Chairman, there is a specific law that is found in 5 United States Code, section 83, which prohibits payment by Government agencies of fees for memberships in associations unless they are authorized by Congress. Generally we would disallow a payment which represented a fee only for a membership in an association.

The CHAIRMAN. Thank you, sir.

Now, fourth is conferences and meetings. These hearings have brought out the fact that the Federal Reserve bank employees attend a wide variety of meetings, conventions, and conferences at the Government's expense; for example, bankers association conventions, machine accountants meetings, creditmen's association conventions, conventions of special library associations, building managers group meetings, and chambers of commerce meetings.

Would expenditures of this category be allowed in a Government agency, and if allowable, under what circumstances?

Mr. RAMSEY. There is authority contained in the Government Employees Training Act, section 19, I believe, which makes available appropriations for travel expense of an agency to pay for attendance at meetings that have to do with the functions or activities of the particular agencies.

If such a meeting had a relationship to the functions or activities it would be allowed. If it did not, of course, it could not be—credit for the payment could not be—allowed.

The CHAIRMAN. Now, the training of employees. I am a great believer in education in any form. I know that Government agencies, some more than others, pay to improve the knowledge and skills of their employees. The Department of State is authorized to, and does, spend substantial sums in training its employees for foreign service.

However, these hearings have brought out the fact that all the Federal Reserve banks send employees not only to banking schools but also to regular colleges where they take courses in Shakespeare, psychology, history, and other liberal arts courses as opposed to technical training. Would expenditure of Government funds for these purposes be considered proper by the General Accounting Office?

Mr. RAMSEY. Mr. Chairman, under this Training Act, Government Employees Training Act, that I spoke of a moment ago, there is authority to use the salary and expense appropriation of an agency for training purposes. That training, however, must pertain to a training for the job which they occupy or an improvement in their skills or proficiency, and specifically the law says that it is not to be used for providing academic courses looking toward a degree or that sort of thing, where the primary purpose is to increase, say, the cultural or educational level of the employee rather than for the purpose of increasing his usefulness and his skills in his job.

The CHAIRMAN. Now, on public information—Government agencies prepare and publish a wide variety of papers, books, and magazines. Some of these publications are quite elaborate, but they are usually approved in advance through the appropriations process.

In addition, many of these publications are available to the general public through the Government Printing Office at prices which more than cover the cost. Most of the Federal Reserve banks publish one or more monthly reviews, pamphlets, and books which are distributed free to the public. Tens of thousands of these publications are printed and sent out each year.

Would the General Accounting Office consider this type of expenditure by a Government agency proper?

Mr. RAMSEY. Mr. Chairman, there is a law in 44 United States Code section 219, I believe that provides that printing must be necessary in the activity of the agency, and that it must pertain to the ordinary transactions of that agency and, of course, beyond that printing done by Government agencies must usually be done in the Government Printing Office and subject to the regulations of the joint committee.

We would have to examine any printing, any unusual printing, that was done in order to come to some conclusion whether it was necessary in their operations and pertains to their ordinary transactions. If it did not, I think we would have to consider that it was an improper expenditure.

The CHAIRMAN. Now, the last one, entertainment, recreation, welfare—parties, food, athletics, flowers, popular magazines, employee magazines.

Federal Reserve banks have employee cafeterias and executive dining rooms that are heavily subsidized. They pay for elaborate dinner parties and dances with comedians and orchestras. They sponsor and pay for golf tournaments, bowling leagues, softball leagues, dinner parties, luncheons, theater parties. They have recreational libraries. They send flowers to sick employees and relatives of deceased employees. They publish elaborate employee magazines.

Is the expenditure of Government funds for these purposes permitted?

Mr. RAMSEY. No, sir; unless there is an appropriation available for entertainment or representation or for welfare and recreational activities.

There are some agencies, I believe, which have amounts available.

The CHAIRMAN. Like the State Department?

Mr. RAMSEY. Yes, sir. But in the absence of that we would consider, and have for many years, that an appropriation could not be used for those purposes.

The CHAIRMAN. Well, thank you very much, sir.

Would you like to interrogate the witness, Mr. Widnall?

Mr. WIDNALL. Yes, sir. Thank you, Mr. Chairman.

Does the GAO apply the same caveats to all departments or can a department establish criteria to which it abides, but which are different from other departments becauses of its responsibilities in the type of work it performs?

Mr. RAMSEY. In an audit or an examination, where the question of legal availability of funds came up, sir, we would naturally have to look to both the general and the particular laws that applied to the agency which we were auditing.

The work we do, of course, is always against a background of statutory authority, and it may vary from agency to agency.

On the other hand, there are many statutes which apply pretty much across the board.

Mr. WIDNALL. When the State Department entertained King Ibn Saud and all of his retainers, and Sukarno and all his retainers, do the items have to be specifically approved or do they just come under a general appropriation for entertainment?

Mr. RAMSEY. My impression, sir, is that it is paid for from an appropriation available for entertainment or representation. It is quite possible, too, that it might be paid from an appropriation which is accountable only on certificate. There are those types of appropriations which we are not able to or which we do not question once that certificate appears on the voucher.

Mr. WIDNALL. Well, would your audit show whether or not the State Department bought 100 Carona-Carona cigars for King Ibn Saud or provided dancing girls for entertainment?

Mr. RAMSEY. I cannot answer that question, sir.

Mr. WIDNALL. Why not, if you made an audit of their expenses?

Mr. RAMSEY. If it were paid from an appropriation accountable only on certificate, the certificate is the only thing that would be necessary there to pass, to allow that voucher to pass, audit.

On the other hand, if it were from an appropriation not so available in which they had to itemize specifically the purposes and the objects we doubtless would be able to or we should be able to tell exactly what was purchased. There are, as you know——

Mr. WIDNALL. But not necessarily so, if it was not on documents.

Mr. RAMSEY. Not, perhaps, from the voucher itself; no, sir.

Mr. WIDNALL. Are memberships in professional societies from which a department received professional papers valuable to that department, are those memberships illegal?

Mr. RAMSEY. The first question, Are they valuable?

Mr. WIDNALL. I do not mean to pose it that way, the papers that are valuable to the department in connection with the membership—they do receive papers in connection with that.

Mr. RAMSEY. I would think not in every case, sir. Now, an agency, many agencies have authority, and do require an immense amount of technical information, some of which we understand is available only through a membership in a technical organization.

Now, if that membership is a necessary part of procuring the technical information, the publications and the things which they need, we would, I believe, not deny their right to purchase that because of the membership statute which I cited a while ago. We would consider that was necessary in their——

Mr. WIDNALL. There would be a different criterion for each department of Government then?

Mr. RAMSEY. Yes, sir. I think—well, a different criterion depending on what their organic authority was, and the operations in which they engaged. But somewhere along the line if there is a general statute prohibiting a thing we have to find some reason why it does not apply to them. That might very well be in the organic act. It might be in an appropriation act, and it might be—we might find in some cases that something was absolutely necessary to carry out a purpose for which an appropriation was made so that if we denied its use it would frustrate the purpose of the appropriation. In those cases, I think we would probably not deny the use of the money for those things.

Mr. WIDNALL. Would memberships in business organizations be illegal if the work of the department depended on an interchange of information with the business community for a fuller understanding of present and future movements in the economy?

Mr. RAMSEY. On the assumption, sir, that that is one of the basic or substantive activities in which this agency is authorized to engage, I think you would have a very close question of whether money would be available for that purpose.

I would not like to categorically say yes or no, but I would be inclined to think that money would be available for that type of a membership and information. I think we have to assume that something beyond the membership itself is required or needed by the agency in those cases; that it is not just a question of their becoming, say, a member of an association to increase their professional standing or, of an employee becoming a member to increase his professional standing, which, of course, it may well do. But it may not be of benefit to the agency unless there is something indispensable which accompanies that membership.

Mr. WIDNALL. Just one more question now. Do not various departments in the Government conduct seminars for businessmen and absorb all the expenses, including transportation, meals, drinks, cigars? I am thinking now of the Air Force trips to SAC in Colorado, the Navy trips aboard carriers, the Army briefings at proving grounds, and so forth, where they take representatives of labor organizations, representatives of industry, representatives of agriculture, representatives of the news media?

Mr. RAMSEY. I am not aware, sir, that that is done. That does not mean, of course, that I am saying it is not done.

Mr. WIDNALL. Doesn't the GAO audit the Defense Department?

Mr. RAMSEY. Yes, sir; the GAO audits the Defense Department.

Mr. WIDNALL. Why doesn't the GAO know?

Mr. RAMSEY. Well, my saying that I am not aware, sir, does not imply that the GAO does not know.

Mr. WIDNALL. Maybe they ought to have a seminar for the GAO and take them on some of those trips.

Mr. RAMSEY. That information may well be available in the GAO, and if I might, I would like to see what information——

Mr. WIDNALL. If it is available would you provide it for the record, please?

Mr. RAMSEY. Yes.

The CHAIRMAN. Wouldn't you want it to be specific, Mr. Widnall? Mr. Ramsey?

Mr. WIDNALL. I have mentioned Air Force trips to SAC in Colorado; Navy trips abroad carriers; Army briefings at proving grounds, and so forth; trips to Guantanamo and——

The CHAIRMAN. Any of those cases you know about, supply them for the record.

Mr. RAMSEY. Yes, sir.

Mr. HARVEY. I think the witness should go further and indicate whether it is common practice because, as a member of Congress, I believe it is, and if the witness has any doubt in his mind, I will cite to him several instances where members of the news media, business, labor, and so forth, have been invited by the various service departments in my district.

The CHAIRMAN. In connection with national defense.

Mr. HARVEY. In connection with national defense. So if there are doubts in the witness' mind, I think we would like to have it in the testimony.

The CHAIRMAN. I think there is a little difference there between acting in national defense and acting in a way that would especially benefit a private——

Mr. WIDNALL. I thought the Federal Reserve System was set up to act in the national interest, and that is what I feel they have been doing.

Mr. RAMSEY. I should like to say, sir, on that general proposition that any such cases as that, the ones that you have referred to, in considering their propriety, we certainly would have to look to the agency's general basic authority and the purpose for which their funds were appropriated before we said whether or not it was proper.

Mr. HARVEY. Will the gentleman yield at that point?

The CHAIRMAN. Certainly.

Mr. HARVEY. Wouldn't the witness agree that these invitations by the various service departments, whether it is the Navy, Army, or Air Force, whichever one, is really for the purpose of making a basic display to members of the news media, to prominent leaders in the community, and so forth, so that it will get back to Congress and thereby increase the appropriations? They have nothing more to sell, as the chairman puts it, really than does the Federal Reserve.

The CHAIRMAN. Oh, yes, they do. The Federal Reserve is for private parties, and they can be benefited especially. The other is national defense to help everybody's security.

Mr. BROCK. Will the gentleman yield? As I understand it, the purpose of these trips in many cases is public relations purely to benefit the Navy in their program for carriers. They want more carriers, and they want pressure on Congress to get them.

The CHAIRMAN. That is understandable.

Mr. BROCK. The Air Force is doing the same thing. I merely question whether you can say that is vital to national defense. If it is——

The CHAIRMAN. It is bound to be in some appropriation bill where they allow them to do it.

Mr. BROCK. The point is the services actually compete in trying to get businessmen to go on these trips in order to press their particular case, whether it is SAC or for the carriers.

(The information requested is as follows:)

The General Accounting Office views with respect to the legal propriety of expenditures by the Department of Defense of the type discussed above are indicated in the following excerpt from a report of July 6, 1959, made in response to a congressional inquiry:

"It is true that when the Congress appropriates money for a specific purpose such money is available only for that specific purpose. It is true also that no funds have been appropriated for the specific purpose of transporting private citizens to these demonstrations. There is no provision of law, however, prohibiting expenditures for air demonstrations or the transportation of private citizens unless appropriations are made specifically available therefor. The fact that no appropriation has been made specifically available for these purposes does not necessarily mean that such purposes cannot be accomplished and financed from a more general appropriation if they are necessary to the accomplishment of an objective of that appropriation.

"As you know, the Department of Defense operates under broad general provisions of basic law as well as rather general appropriations and has demonstrated this country's military power on numerous occasions over a long period of years. For example, section 101(a) of the act of September 19, 1951, 65 Stat. 325, 5 U.S.C. 626–2(a), provides:

" 'The Secretary of the Air Force shall be responsible for and shall have the authority necessary to conduct all affairs of the Air Force Establishment, including, but not limited to, those necessary or appropriate for the training, operation, administration, logistical support and maintenance, welfare, preparedness, and effectiveness of the Air Force, including research and development, and such other activities as may be prescribed by the President or the Secretary of Defense as authorized by law. There are authorized to be appropriated such sums as may be necessary to conduct the affairs of the Air Force Establishment.'

"The appropriation 'Operation and maintenance, Department of the Air Force' for the fiscal year 1959, contained in the act of August 22, 1956, Public Law 85–724, 72 Stat. 721, provides:

" 'For expenses, not otherwise provided for, necessary for the operation, maintenance, and administration of the activities of the Air Force, * * *.'

"The demonstrations at Eglin Air Force Base are a part of the JCOC program, the continuation of which was authorized in a memorandum, dated January 14, 1949, from the then Secretary of Defense to the Secretaries of the military departments, and the transportation of civilians to such demonstrations is considered by the Department of Defense to be a necessary part thereof. The Office of the Secretary of the Air Force takes the position that the attendance of the influential citizens at these demonstrations is a means of more effectively informing the public of the military operations and that the aircraft which transport certain invitees to the demonstration are on crew readiness flights and, regardless of the demonstration, would be making this or a similar trip to maintain the proficiency of the crew. As stated above, the authorization for transportation of press representatives and selected community leaders to the World Congress of Flight was 'on a space-available basis and at no expense to the Government' and the participation of the Air Force staff in this event cannot be questioned.

"While the necessity for transporting private citizens to the demonstrations at both Air Force bases at Government expense is not entirely clear to us and we doubt that transportation on a space-available basis is entirely free from additional expenses to the Government, we do not feel warranted in questioning the legality of any expenditures therefor in the light of the broad statutory authority of the Department of Defense and the Department's position that such transportation is necessary. If the Congress desires to restrict such transportation of private citizens to these demonstrations and for numerous other purposes, we feel that appropriate legislation should be enacted."

Mr. MINISH. Will the gentleman yield?

Mr. BROCK. Certainly. It is not my floor.

Mr. SMITH. Mr. Chairman, could I say something?

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Mr. Smith, does the GAO try to direct policies of the Government agencies?

Mr. SMITH. The General Accounting Office has no authority to direct the operation of an agency as such. Our authority is based in law, and it is generally geared to our authority to disapprove or disallow illegal expenditures.

In the course of our audits, many of them, we have called the attention of the Congress and agency managers of policy matters which we think were inefficient or ineffective; that were not in accordance with the purposes of the agency as set forth in law.

I have a document here before me which I could read from that states our basic policy a little bit more precisely. This is a document entitled "Purposes and Objectives of Independent Audits," by the General Accounting Office. If you wish I could leave a copy.

The CHAIRMAN. I wish you would put it in the record, but read what you think is appropriate at this time, and without objection the whole statement will be put in the record.

(The document referred to follows:)

PURPOSES AND OBJECTIVES OF INDEPENDENT AUDITS BY THE GENERAL ACCOUNTING OFFICE

The U.S. General Accounting Office is an independent agency in the legislative branch of the Federal Government under the control and direction of the Comptroller General of the United States. It was created by the Congress to carry out several functions relating to the management of the Government's financial affairs. One of its major responsibilities is to make independent audits of the activities of Federal Government agencies and this responsibility is accompanied by broad statutory authority.

AUDIT AUTHORITY

Of primary importance among the various statutes assigning audit authority to the Comptroller General are the Budget and Accounting Act, 1921, and the Budget and Accounting Procedures Act of 1950.

Section 312(a) of the Budget and Accounting Act, 1921, states:

"The Comptroller General shall investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds * * * he shall make recommendations looking to greater economy and efficiency in public expenditures." (42 Stat. 25; 31 U.S.C. 53.)

Part II of title I of the Budget and Accounting Procedures Act of 1950 is also known as the Accounting and Auditing Act of 1950. Section 117(a) provides that:

"Except as otherwise specifically provided by law, the financial transactions of each executive, legislative, and judicial agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies." (64 Stat. 837; 31 U.S.C. 67.)

Other laws assigning broad audit authority to the Comptroller General are the Government Corporation Control Act (1945); section 206 of the Legislative Reorganization Act of 1946; and section 206(c) of the Federal Property and Administrative Services Act of 1949.

Full and complete access to all records pertaining to the subject matter of an audit or investigation is necessary in order to enable the General Accounting Office to fully carry out its audit responsibilities. Basic authority governing access to records of Government agencies is contained in section 313 of the Budget and Accounting Act, 1921, as follows:

"All departments and establishments shall furnish to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their respective offices as he may from time to time require of them; and the Comptroller General, or any of his assistants or employees, when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department or establishment * * *" (42 Stat. 26; 31 U.S.C. 54).

PRIMARY PURPOSE OF AUDITS

The primary purpose of audits by the General Accounting Office is to make for the Congress independent examinations into the manner in which Government agencies discharge their financial responsibilities. Financial responsibilities of Government agencies include the administration of funds and the utilization of property and personnel only for authorized programs, activities, or purposes, and the conduct of programs or activities in an effective, efficient, and economical manner. Particular emphasis is placed on any aspects suspected or found to require correction or improvement and on the means of accomplishing it. The effective carrying out of these audit responsibilities requires the prompt reporting of audit findings and related recommendations to the Congress and also to appropriate agency officials. Settlements are made with accountable officers, where required.

RELATIONSHIP TO AGENCY MANAGEMENT RESPONSIBILITIES

The general viewpoint adopted for audit purposes by the General Accounting Office is that the achievement of efficient, economical, and effective operations is a basic agency management responsibility. Each agency's system of organization, management, and control should be designed to achieve this end, with due regard to the requirements of applicable laws and regulations. The General Accounting Office audit approach is to test the workings of each agency's system of control, to proble apparent weaknesses, and to report on the conditions found together with appropriate conclusions and recommendations.

RESPONSIBILITIES FOR ACCOUNTING

In addition to his audit responsibilities, the Comptroller General has certain statutory responsibilities relating to accounting in the Federal Government. These responsibilities are (1) prescribing the principles, standards, and related requirements for accounting to be observed by Government agencies; (2) cooperating with agencies in the development of their accounting systems; (3) reviewing their accounting systems; and (4) approving agency accounting systems when deemed adequate and in conformity with prescribed requirements. Basic responsibility for establishing and maintaining adequate systems of accounting is vested by law in the heads of Government agencies.

The Comptroller General's responsibilities for accounting in the Federal Government are carried out in a coordinated and integrated manner with the audit activities of the General Accounting Office.

GENERAL AUDIT OBJECTIVES

The full discharge of the audit responsibilities of the General Accounting Office with respect to a Government agency, or an agency-activity, program, function, or operation selected for audit, involves examination into the following matters:

1. Whether the agency is carrying out only those activities or programs authorized by the Congress and is conducting them in the manner contemplated and to accomplish the objectives intended. Where appropriate, a review is also made for the purpose of considering whether the authorized activities or programs effectively continue to serve their originally intended purpose.
2. Whether the programs and activities are conducted and expenditures are made in an effective, efficient, and economical manner and in compliance with the requirements of applicable laws and regulations, including decisions of the Comptroller General.
3. Whether the resources of the agency, including funds, property, and personnel, are adequately controlled and utilized in an effective, efficient, and economical manner.
4. Whether all revenues and receipts arising from the operations under examination are collected and properly accounted for.
5. Whether the agency's accounting system complies with the principles, standards, and related requirements prescribed by the Comptroller General.
6. Whether reports by the agency to the Congress and the central control agencies disclose properly the information required for the purposes of the reports.

BASIC OPERATIONS AND PHASES OF WORK

The basic operations performed in carrying out audit work on specific assignments consist of an integrated combination of (1) gathering information, (2) making evaluations, and (3) developing recommendations, where appropriate.

One of the most important methods of obtaining needed information in an audit is by reviewing and testing the manner in which various kinds of responsibility are carried out. Much of the needed information will be obtained by detailed examination of individual cases, transactions, or other units of activity. The main purpose of obtaining information in this manner, and making related evaluations, is to test the effectiveness of the management control over the activity being examined and to establish a proper basis for reporting on the results of the audit.

The term "management control" is used in the broad sense of embracing the entire system of organization, policies, procedures, and practices employed in managing an agency's affairs and promoting the carrying out of assigned responsibilities effectively, in the manner, and with the results intended.

With due regard to this basic approach, a General Accounting Office audit includes the following broad phases of work.

Preliminary survey

Obtaining general working information on an agency, or segment of agency activity, selected for audit as a general basis for planning the specific work to be done and for use in making the audit.

Review of legislation

Studying the pertinent laws and legislative history to ascertain congressional intent as to:

1. The purpose, scope, and objectives of the activities of functions being examined.
2. The manner in which activities are to be conducted and financed.
3. The nature and extent of the agency's authority and responsibility.

Review and testing of management control

Studying the policies established to govern agency activities under examination for conformity with applicable laws and the intent of the Congress and their appropriateness for carrying out the authorized activities in an effective, efficient, and economical manner.

Reviewing and testing the agency's operating and administrative procedures and practices, system of accounting, reporting, internal review, and other elements of the system of internal management control for effectiveness in promoting:

1. Adherence to prescribed policies.
2. Accomplishment of intended purposes of activities conducted.
3. Operational efficiency.
4. Efficient and economical utilization of property and personnel.
5. Effective control over expenditures, receipts, revenues, and assets.
6. Proper accounting for resources and financial transactions.
7. The production and reporting of accurate, reliable and useful financial data.
8. Compliance with requirements of applicable laws, regulations, and decisions.

This phase of the audit also includes the exploration and development of all pertinent and significant information necessary to properly consider, support, and present any findings, conclusions, and recommendations made.

Reporting

Preparing and submitting appropriate reports on the results of the audit work to the Congress, to appropriate congressional committees, and to agency officials as a basis for appropriate action, where necessary, and for information purposes.

OTHER FEATURES

Although the term "audit" is a general term often applied to the processes of examining accounting records and related documents, General Accounting Office audits are not restricted to accounting matters or to books, records, and documents. The scope of these audits is comprehensive and may extend into all significant aspects of an agency's operations.

The existence of good accounting records and sound accounting procedures facilitates the making of an audit. However, it is not a condition precedent to carrying out audit work in an agency. The accounting function is a management responsibility, the discharge of which is subject to audit review in the same manner as any other financial responsibility.

In general, the detection of fraud is not a primary reason for making audits. Agency managements are responsible for devising their organization structure, dividing responsibilities, and instituting appropriate control procedures so as to minimize the possibilities of fraud. The General Accounting Office investigates evidences of fraud, however, and gives full consideration to the possibilities of fraud, particularly where weaknesses in internal control procedures appear to exist.

The identification and disclosure of improper individual transactions is an important part of an audit. Of greater importance, however, is the citing of such individual transactions as examples to demonstrate the significance of faulty practices and promote the acceptance of constructive recommendations designed to save money, avoid improper payments or other losses, or promote operational efficiency in the future.

In planning and conducting its audits, the General Accounting Office places primary emphasis on those aspects of agency operations and activities in which opportunities for improvement appear to exist. This policy gives recognition to the need to examine into areas of known or anticipated congressional interest, and at the same time, provide for the most effective use of available audit manpower. Application of this policy results in placing particular emphasis on known or suspected weaknesses such as ineffectiveness, inefficiency, waste and extravagance, improper expenditures, failure to comply with laws or congressional intent, and other problem areas. With this kind of emphasis, it is the policy of the General Accounting Office to provide the agency concerned, and others where appropriate, with suitable opportunities to submit additional information and explanations on individual findings so as to enable full consideration of all significant pertinent factors and to better assure a complete and balanced presentation of audit findings.

The General Accounting Office also gives recognition in reports to work resulting in favorable findings, to work sufficiently intensive to enable reporting no significant findings, and to general reviews which reveal no indications or weakness warranting closer examination.

The audit policies of the General Accounting Office recognize that each Government agency has the primary responsibility to determine, with due regard to all applicable restrictions and requirements, the manner in which its activities and operations are carried out. General Accounting Office accountants and auditors are not empowered to direct changes in agency policies, procedures, and functions. However, they do observe opportunities for achieving greater economy, improving efficiency, and obtaining better results. When warranted, recommendations are made through appropriate channels for simplifying and developing more effective procedures and for eliminating those which involve duplication or which do not serve a purpose commensurate with the costs involved. The experience of the General Accounting Office has been that its audits can be and are effective in disclosing many important findings, the correction of which results in substantial savings or significant improvements in Federal Government operations.

Mr. SMITH. Yes, sir. I am looking not at a description of our audit practices. We are talking now about our reviews and testing of management controls. Our practice is to study the policies established to govern agency activities under examination for conformity with applicable laws and the intent of the Congress and their appropriateness for carrying out the authorized activities in an effective, efficient, and economical manner.

So, to that extent we look at the policies that the agency has developed for carrying out the job Congress has given them.

Mr. MINISH. I would also suggest that you send a copy of that to the members of the Federal Reserve Board because apparently they are not interested in having you look over their shoulders, and I thought when you came up here you would come up with horns, but you look like a couple of legitimate fellows who know your business. I do not understand why they do not want you anywhere around.

The CHAIRMAN. Yes, sir.

Mr. Harvey?

Mr. HARVEY. Maybe Mr. Smith or Mr. Ramsey can answer my questions. I am not certain to which one I should direct them. But I gather, in the course of your auditing here, you find many Government agencies have the problem of entertaining foreign visitors, for example?

Mr. RAMSEY. Yes.

Mr. HARVEY. In other words, it is not only in the State Department but the State Department has a big problem when it entertains foreign visitors, and they spend considerable sums entertaining them; isn't that correct?

Mr. RAMSEY. Yes, sir. There are other agencies that——

Mr. HARVEY. The Army, the Air Force, the Navy certainly all entertain foreign dignitaries when they are here. The Department of Labor, as my colleague here points out, also entertains. As a matter of fact, you can go right down the President's Cabinet and almost each one of these has had responsibilities for entertaining foreign dignitaries.

Mr. RAMSEY. I assume that is true, sir. We have no comment about the policy, of course. We simply look to the law to see whether it authorizes the use of funds for that purpose when a question comes up.

Mr. HARVEY. I am sure that is true. But I am sure you are also mindful that these agencies do have problems in that they cannot—for example—follow, maybe, the same rules as would normally apply in some domestic entertainment, for example.

Mr. RAMSEY. Yes. We have become aware of the problems, sir, and quite often they are discussed with us and quite often, too, I am sure they are discussed with Congress, because there have been appropriations, and, I think recently, which have been made for that purpose to some of the agencies.

Mr. HARVEY. I would just like to touch on another field here, and I am not sure whether Mr. Smith is best qualified to answer this or not. But, Mr. Smith, have you, for example, seen an audit of the Federal Reserve banks?

Mr. SMITH. No, sir.

Mr. HARVEY. You have never seen one?

Mr. SMITH. No, sir.

Mr. HARVEY. So that as to whether or not, let us say, as to how they would compare in scope in detail with an audit by the GAO, you would have no way here of telling us; is that correct?

Mr. SMITH. No, sir.

Mr. HARVEY. Let me ask you this: Do you have any men trained in banking on your staff?

Mr. SMITH. We do have as part of our audit responsibility the auditing of certain banks established by the Federal Government. I am talking about the banks of the farm credit system, intermediate credit banks, the banks for cooperatives, the Federal home loan banks, the Federal National Mortgage Association which is, in effect, a bank. They do not operate strictly according to banking practices, but they are banks and we audit them.

The CHAIRMAN. And also the FDIC and the Export-Import Bank; do you not?

Mr. SMITH. Yes, sir. We audit the Export-Import Bank. The FDIC we classify as an insurance company, however, like the Federal Housing Agency.

Mr. HARVEY. These would not have the same operations as the Federal Reserve Board.

Mr. SMITH. No, sir.

Mr. HARVEY. None of them would be comparable whatsoever.

Mr. SMITH. They are comparable to this extent, that the Federal Home Loan Bank Board is a banking system operating for Federal savings and loan associations somewhat comparable, as I understand it, to the Federal Reserve System operating for commercial banks.

Mr. HARVEY. But it does not issue currency.

Mr. SMITH. No, sir; it does not issue currency. It just acts as a bank of discount.

Mr. HARVEY. Now, do you have anybody on your staff who has ever had any experience with the Federal Reserve Board at all?

Mr. SMITH. We have two or three, sir, who have served with this committee.

Mr. HARVEY. In what capacity did they serve with the Federal Reserve?

Mr. SMITH. I say they served with this committee, and got their information through that source.

Mr. HARVEY. I see. But never——

Mr. SMITH. Let me clarify that. We have 2,200 professional auditors on our staff, and they come from all kinds of places, and I am not familiar with the backgrounds of all those 2,200 people. There could be some of them that have had extensive banking experience.

Mr. HARVEY. I take it you would have then to add some additional persons to your staff to accomplish an audit of the Federal Reserve System.

Mr. SMITH. No, sir; I do not believe so.

Mr. HARVEY. You feel that the persons you have at the present time are qualified to audit the Federal Reserve?

Mr. SMITH. When we audit the Federal Government we are probably auditing——

Mr. HARVEY. Let me ask you to give a yes or no answer. Do you feel the persons you have at the present time are qualified to audit the Federal Reserve System?

Mr. SMITH. I have been a professional auditor for 40 years——

Mr. HARVEY. Again I will give you a chance to answer, but I think you can answer that yes or no. Do you feel that the persons you have are qualified to audit the Federal Reserve System or are you going to need some sort of a training system to make them qualified? Yes or no?

Mr. SMITH. I would say yes; yes, sir.

Mr. HARVEY. All right. Now go on and explain it. Yes, they are qualified without a training program..

Mr. SMITH. They are qualified because they are auditors. We do not look at this audit profession as needing a particular type of background to be able to conduct an audit. As I started to explain, the Federal Government has probably the most complex and the most ramified type of operations that you could find anywhere in the world, and our people are able to go into contractor's plants, into banks, and into insurance companies operated by the Government, and into utilities, such as TVA and all of those types of things without any particular type of training except the professional knowhow of auditing.

Mr. HARVEY. Well, right there, let me ask you this question, then. Would your audit be limited to strictly an audit as a layman thinks of an audit, checking figures, or would you also feel that you were compelled to pass judgment on the policies of the Federal Reserve as well?

Mr. SMITH. When we pass judgment on policies we are looking primarily at the effectiveness of the way management is carrying out its job. Sometimes we have gone so far as to question the policy of a program itself, and raise questions about that. But generally it is aimed at the lower level of managerial policy rather than program policy.

I could give you an example of a broad policy question that we raised not too long ago. We were examining the Postal Savings System in the Post Office Department which was created many, many years ago. When it was created there were a few savings banks and there were few places for people to place their savings safely.

Mr. HARVEY. I wonder again if I could get a yes or no answer. Would you feel that your job was to pass judgment on policies of the Federal Reserve System?

Mr. SMITH. We would look at their policies, yes, sir. It would be part of our job.

Mr. HARVEY. Despite the fact that you would have said you had no persons with Federal Reserve training or any experience in that field whatsoever?

Mr. SMITH. We take the view that the best approach to any type of a job is to use commonsense.

Mr. HARVEY. Let me ask you this—would your audit be intended to supplement or take the place completely of the audit by the present Board of Governors?

Mr. SMITH. Well, sir, I would have to remind you that I know nothing about or only vaguely about the audit of the Federal Reserve System. I did read Mr. Martin's statement where he covered this in some detail. We have a comparable situation in the Farm Credit Administration and in the Federal home loan banks where they have very fine central examination systems.

In our audits we utilize to the extent that we feel practical and useful the audits made by those examiners. Where we can, we accept their work after we have satisfied ourselves it is reasonable, but we do not hesitate in our work where we think it is necessary on things they have not covered in sufficient depth or have not covered at all, to supplement their work with our work. But we do not accept their work until we have examined it, even accompany their auditors on their examinations to see that they are doing the job that they are supposed to be doing.

Mr. HARVEY. Mr. Smith, as I understand it from what you have told the committee here, you had never at any time looked at an audit of the Federal Reserve that has been made.

Mr. SMITH. That is correct.

Mr. HARVEY. You are not familiar with it in any scope or detail whatsoever?

Mr. SMITH. That is right.

Mr. HARVEY. So how they compare with the audit you make you cannot tell this committee?

Mr. SMITH. No, sir.

Mr. HARVEY. Don't you think, and Mr. Brock over here makes this point to me, and I think very well, wouldn't you think it wise before you recommended to this committee that your agency go through the trouble and expense of making another audit that you take a look at the audit that is already being made?

Mr. SMITH. We have not made any recommendations at all about the audits of the Federal Reserve banks.

The CHAIRMAN. They were invited here, Mr. Harvey.

Mr. HARVEY. I appreciate that. But don't you think that before you tell the committee whether you feel such an audit would be necessary that you ought to first take a look at the audit presently being made and compare it?

Mr. SMITH. We have no views on whether such an audit is necessary. We do not know. If the Congress in its wisdom authorized us to make such an audit we would then examine the extent of the audits that are now being made, evaluate their adequacy, their scope and all their features, and then make a determination as to what our scope should be to carry out the intent of the Congress.

Mr. HARVEY. Let me say this: Couldn't you better tell us how qualified your men were to make that audit after you had a chance to take a look at one?

Mr. SMITH. Maybe I have a very high opinion of auditors, but I think that we could do the job without having to obtain experts in the field.

Mr. HARVEY. You, after having taken a look at an audit, would feel more sure about it.

Mr. SMITH. We would look at an audit to determine the adequacy of that audit as an audit, to uncover, to appraise the operations; to be a reasonable examination of the financial statements and those types of things, to determine in our own mind as to how much additional work we needed to do, bearing in mind all the time to do the least amount of work, to keep down the overlaps between our audits and theirs, and to keep down the cost of doing a good job.

Mr. WIDNALL. Will the gentleman yield?

When you audit the affairs of the Export-Import Bank, do you make recommendations as to interest rates or terms of loans?

Mr. SMITH. No, sir.

Mr. WIDNALL. You do not in any way go into the policy of the Export-Import Bank?

Mr. SMITH. In one of our reports we did raise some questions about them borrowing from the outside at rates that were higher than they would have to pay to borrow from the Treasury. That borrowing was specifically authorized in law. We are only questioning the cost of doing it.

Mr. WIDNALL. Do you have any people on your staff who are experienced in international monetary affairs?

Mr. SMITH. We have a group in our office now that has been auditing the foreign assistance program for quite a good many years; they audited the Development Loan Fund. I would not say that they are real experts in the subject. They have quite a bit of information and experience in that field.

Mr. WIDNALL. Do you have any who have an economic background?

Mr. SMITH. No. Our professional staff all have professional backgrounds in accounting and auditing. Many of them have studied economics, but probably only as a minor in their training.

Mr. WIDNALL. So you would not feel that your staff was competent to comment on economic decisions that have been made by the Federal Reserve System?

Mr. SMITH. It would be very difficult for us to make an appraisal of that kind, I would say.

Mr. WIDNALL. That is all. Thank you.

The CHAIRMAN. Mr. Vanik?

Mr. VANIK. I have no questions of the witnesses, Mr. Chairman. I appreciate their being here today.

The CHAIRMAN. Yes, sir, Mr. Brock?

Mr. BROCK. Let me say I do not intend to be critical of GAO at all. I think it is a magnificent agency. I think you have done a fabulous job, and I commend you on it.

I think the area we are trying to question is as to whether or not there is need for an additional audit of the Federal Reserve System.

Now, Mr. Smith, you have said if the Congress should direct this; wouldn't there be some way in which the Fed could request your services under the law to just make a judgment on the efficiency of their present auditing practices?

Mr. RAMSEY. I do not know offhand of a way in which it could be done by the Federal Reserve requesting it. I assume there is a way it can be done if we were directed by Congress or some appropriate committee of Congress which has the authority to direct us to make reports.

Mr. BROCK. Well, Mr. Ramsey, you furnished us two men recently to investigate some of these figures within the Fed. As I understand it, they were not reimbursed by this committee and they are paid by GAO; is that correct?

Mr. RAMSEY. I am sorry, I do not know the precise arrangement. But, you see, under the Budget and Accounting Act we are directed to render assistance to certain committees of the Congress, and we do detail people from time to time. Sometimes we are reimbursed and sometimes we are not, and I am not sure what the arrangement is.

Mr. BROCK. If this committee or any member of it would like to know what you thought of the efficiency of the present audit system could we request, Mr. Chairman, that the Federal Reserve invite them to make a study?

The CHAIRMAN. The Federal Reserve could do it all right. In fact, the only reason they do not know about it is they are not welcome at the Federal Reserve.

Mr. BROCK. I think we could correct that situation, though, don't you?

The CHAIRMAN. I think it is a question of whether or not—I do not know whether that goes too much into what we are actually considering.

Mr. VANIK. Mr. Chairman, I do not know whether this has been covered, but I was going to ask these witnesses whether or not in the establishing of a format for a review of the records of an agency whether or not the format that is established for conducting this review pretty much determines the quality of the review; is that correct? I am trying to compare your audit with an audit by some other private auditor. You were asked—if you were asked to audit, as an agency of the Government, as an arm of the Congress, an agency, you would establish a format for the audit.

Mr. SMITH. Yes, sir.

Mr. VANIK. Now, am I correct in believing that if an audit were ordered of a private agency, that the format for the audit would very much have a bearing on its value? In other words, when a private company or an agency of the Government orders a private company to audit a company, the format would determine the value of the audit.

Mr. SMITH. You call that format, we call it scope.

Mr. VANIK. Yes, scope.

Mr. SMITH. In an ordinary public accountant's audit of the financial statements of a corporation, he is primarily concerned with expressing an opinion as to the fairness of those statements and how they are presented. He looks at those statements to see whether they are in accord with certain principles of accounting, whether the disclosures are adequate so that the reader is not misled, and so forth.

Mr. VANIK. Here, when we are dealing with a public agency. we are going a step further.

Mr. SMITH. Yes, sir.

Mr. VANIK. We are not saying it is a correct audit or it represents a fair situation. It also must represent that in all respects whatever has been done complies with the law.

Mr. SMITH. Yes, sir.

Mr. VANIK. An audit of a private agency would not involve that, would it?

Mr. SMITH. No, sir.

Mr. VANIK. Not likely to.

So when you make an audit it would indicate that everything that has been done has met the requirements of the law.

Mr. SMITH. That is our very first step; yes, sir. Our very first step is to determine whether the agency is carrying out those policies or programs authorized by the Congress in the manner contemplated and to accomplish the objectives intended. That is the law.

Mr. VANIK. To your knowledge, have any of these private audits made of the Fed, so far as you have determined, ever dwelt upon or touched upon or gone into any depth with respect to the issues of whether or not the things reviewed in the audit were in compliance with the law?

Mr. SMITH. I am sorry, sir, I cannot answer that because I do not know what the auditors have done.

Mr. VANIK. But they ordinarily would be compelled to do that. Let me put it this way, it is not in the general line of work for a private auditor to deal with the legality of everything that is done and represented on the accounting statement.

Mr. SMITH. No, sir.

Mr. BROCK. What is the policy of a private auditor when he goes into a private corporation's specific branch, and is directed to go into the policies to see that the branch adheres to the corporate policy——

Mr. SMITH. That would be determined entirely by the instructions given to the auditor.

Mr. BROCK. Don't you think General Motors would give those instructions to the auditor, to see that the branch did adhere to the general policies?

Mr. SMITH. They would do what they are employed for. The auditor who is employed to audit the financial statements of General Motors Corp. would look at their method of fiscal controls and management, but they would not get, I do not think they would get, to this area; no, sir.

Mr. BROCK. If they hired a firm under one of their branches to see if it was within the context of their overall policy, they would?

Mr. SMITH. Yes, sir.

The CHAIRMAN. It is 12 o'clock.

Mr. Ramsey and Mr. Smith, we thank you gentlemen very much for some interesting information. You file that statement, Mr. Smith. Thank you for your testimony. We appreciate it.

Mr. SMITH. Thank you, sir.

Mr. RAMSEY. Thank you, sir.

The CHAIRMAN. The committee will stand in recess subject to the call of the Chair. Thank you.

(Whereupon, at 12:05 p.m., the subcommittee was in recess, to reconvene subject to the call of the Chair.)

APPENDIX A

Annual salaries of the principal Federal officials, including the highest paid officials of the Federal Reserve System, Jan. 5, 1964

President of the United States	$100,000
President, Federal Reserve Bank, New York	70,000
President, Federal Reserve Bank, Chicago	55,000
President, Federal Reserve Bank, Philadelphia	40,000
President, Federal Reserve Bank, Cleveland	40,000
President, Federal Reserve Bank, Richmond	40,000
President, Federal Reserve Bank, Atlanta	40,000
President, Federal Reserve Bank, Minneapolis	40,000
President, Federal Reserve Bank, Dallas	40,000
President, Federal Reserve Bank, San Francisco	40,000
First vice president, Federal Reserve Bank, New York	40,000
President, Federal Reserve Bank, Kansas City	37,500
Vice president and senior adviser, Federal Reserve Bank, New York	37,500
Chief Justice of the United States	35,500
President, Federal Reserve Bank, Boston	35,000
President, Federal Reserve Bank, St. Louis	35,000
Vice president, Federal Reserve Bank, New York	35,000
Vice President of the United States	35,000
President of the Senate pro tempore, when there is no Vice President of the United States	35,000
Speaker of the House of Representatives	35,000
Associate Justices of the Supreme Court	35,000
Vice president, Federal Reserve Bank, New York	32,500
Vice president, Federal Reserve Bank, New York	31,500
First vice president, Federal Reserve Bank, Kansas City	30,000
Vice president, Federal Reserve Bank, New York	29,000
Vice president and general counsel, Federal Reserve Bank, New York	28,500
Vice president, Federal Reserve Bank, New York	28,000
Adviser to the Board, Board of Governors of the Federal Reserve System	27,500
First vice presidents, Federal Reserve banks: Boston Philadelphia, Richmond, Chicago, St. Louis, and San Francisco	27,500
First vice president and general counsel, Federal Reserve Bank, Atlanta	27,500
Vice presidents (2), Federal Reserve Bank, New York	27,500
U.S. representative to the United Nations and representative in the Security Council	27,500
U.S. permanent representative to the North Atlantic Treaty Organization	27,500
Ambassador at large	27,500
Chiefs of mission, class 1, Foreign Service	27,500
Vice president, Federal Reserve Bank, San Francisco	26,500
Adviser to the Board, Board of Governors of the Federal Reserve System	26,000
Secretary of the Board, Board of Governors of the Federal Reserve System	26,000
General Counsel, Board of Governors of the Federal Reserve System	26,000
Vice president, Federal Reserve Bank, New York	26,000
Assistant vice president, Federal Reserve Bank, New York	25,500
Circuit judges, U.S. courts of appeals	25,500
Chief judge and associate judges, U.S. Court of Claims	25,500
Chief judge and associate judges, U.S. Court of Customs and Patent Appeals	25,500
Judges, U.S. Court of Military Appeals	25,500

Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System	$25,000
Director, Division of Examinations, Board of Governors of the Federal Reserve System	25,000
First vice presidents, Federal Reserve Banks: Cleveland, Minneapolis, and Dallas	25,000
Vice president and senior adviser, Federal Reserve Bank, Richmond	25,000
Vice president and cashier, Federal Reserve Bank, Philadelphia	25,000
Assistant general counsel, Federal Reserve Bank, New York	25,000
Secretary of State	25,000
Secretary of the Treasury	25,000
Secretary of Defense	25,000
Attorney General	25,000
Postmaster General	25,000
Secretary of the Interior	25,000
Secretary of Agriculture	25,000
Secretary of Commerce	25,000
Secretary of Labor	25,000
Secretary of Health, Education, and Welfare	25,000
Deputy U.S. representative to the United Nations and deputy representative in the Security Council	25,000
Deputy U.S. representative in the Security Council, United Nations	25,000
Chiefs of missions, class 2, Foreign Service	25,000
U.S. representative to the Organization for Economic Cooperation and Development	25,000
U.S. representative, European communities	25,000
U.S. representative on the Council of the Organization of American States	25,000
Special representative for trade negotiations	25,000
Director, Office of Emergency Planning	25,000
Associate directors (2), Division of Research and Statistics, Board of Governors of the Federal Reserve System	24,500
Senior vice president, economic research, Federal Reserve Bank, Kansas City	24,500
Vice president, Federal Reserve Bank, Dallas	24,500
Assistant vice president, Federal Reserve Bank, New York	24,250
Adviser, international finance, Board of Governors of the Federal Reserve System	24,000
Director, Division of Bank Operations, Board of Governors of the Federal Reserve System	24,000
Vice president, general counsel, and secretary, Federal Reserve Bank, Chicago	24,000
Vice presidents, Federal Reserve Banks, New York and Chicago	24,000
Assistant to the Board, Board of Governors of the Federal Reserve System	23,500
Adviser, research and statistics, Board of Governors of the Federal Reserve System	23,500
Assistant General Counsel, Board of Governors of the Federal Reserve System	23,000
Vice president and secretary, Federal Reserve Bank, St. Louis	23,000
Vice president and cashier, Federal Reserve Bank, Chicago	23,000
Vice presidents, Federal Reserve Banks: New York, Cleveland (2), and Chicago	23,000
General auditor, Federal Reserve Bank, Chicago	23,000
Medical director, Federal Reserve Bank, New York	23,000
Economic adviser, Federal Reserve Bank, New York	23,000
Chief judge of the U.S. District Court for the District of Columbia	23,000
Legislative counsel, Board of Governors of the Federal Reserve System	22,500
Vice president and secretary, Federal Reserve Bank, Minneapolis	22,500
Vice president and secretary, Federal Reserve Bank, Dallas	22,500
Vice presidents, Federal Reserve banks: Cleveland, St. Louis	22,500
District judges, U.S. district courts	22,500
Judges, Tax Court of the United States	22,500
Judges, U.S. Customs Court	22,500
Director of the Bureau of the Budget	22,500
Comptroller General of the United States	22,500
Under Secretary of State	22,500
Deputy Secretary of Defense	22,500

U.S. representative in the Economic and Social Council, United Nations	$22, 500
U.S. representative in the Trusteeship Council, United Nations	22, 500
Chiefs of missions, class 3, Foreign Service	22, 500
Director, Office of Science and Technology	22, 500
Deputy special representative for trade negotiations	22, 500
Administrator, Agency for International Development	22, 500
Chairman, Atomic Energy Commission	22, 500
Administrator, Federal Aviation Agency	22, 500
Administrator, National Aeronautics and Space Administration	22, 500
Director, U.S. Arms Control and Disarmament Agency	22, 500
Members of Congress	22, 500
Postmaster, New York	18, 250
Postmaster, Chicago	17, 750
Postmaster, Philadelphia	17, 500
Postmaster, Cleveland	17, 000
Postmaster, Kansas City	15, 990
Postmaster, Boston	17, 500
Postmaster, St. Louis	17, 500
Postmaster, Atlanta	15, 000
Postmaster, Minneapolis	18, 465
Postmaster, Dallas	18, 465
Postmaster, San Francisco	18, 500
Postmaster, Richmond	14, 075

In looking over the listing of salaries, bear in mind that those of officers and employees of the Federal Reserve banks are fixed by their respective boards of directors, subject to the approval of the Board of Governors of the Federal Reserve System. Salaries of members of the Board's staff are fixed by the Board. All other salaries listed are fixed by law.