MONETARY, CREDIT, AND FISCAL POLICIES

FRIDAY, DECEMBER 2, 1949

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY, CREDIT, AND FISCAL POLICIES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10 a. m., in the caucus room, Senate Office Building, Senator Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senators Douglas and Flanders, and Representative Wolcott.

Also present: Dr. Grover W. Ensley, acting staff director; and Dr. Lester V. Chandler, economist to the subcommittee.

Senator DOUGLAS. The committee will please come to order.

Mr. Snyder, we are glad you have come this morning and we are grateful for the reply which you made earlier in the autumn to our questionnaire. That reply and the others have been very helpful to us. We had thought that these replies would shorten the hearings and enable us to get down to more informal discussion more speedily.

I understand that you, however, have a supplementary statement that you would like to read this morning.

Secretary SNYDER. Yes, Mr. Chairman.

Senator DOUGLAS. We will be very happy to have you do that.

Secretary SNYDER. Do I have permission to read the statement into the record?

Senator DOUGLAS. Yes, go right ahead.

STATEMENT OF HON. JOHN SNYDER, SECRETARY OF THE TREASURY; ACCOMPANIED BY WILLIAM McC. MARTIN, JR., ASSISTANT SECRETARY; EDWARD F. BARTELT, FISCAL ASSISTANT SECRETARY; GEORGE C. HAAS, DIRECTOR OF THE TECHNICAL STAFF; SIDNEY G. TICKTON, ASSISTANT DIRECTOR OF THE TECHNICAL STAFF; THOMAS J. LYNCH, GENERAL COUNSEL; C. R. McNEILL, OFFICE OF THE GENERAL COUNSEL; AND J. L. ROBERTSON, FIRST DEPUTY COMPTROLLER OF THE CURRENCY, DEPARTMENT OF THE TREASURY

Secretary SNYDER. Mr. Chairman and members of the subcommittee of the Joint Committee on the Economic Report, I am pleased to have the opportunity of appearing before you today to discuss questions on the monetary, credit, and fiscal policies of the United States Government. I should like at this time to take a few minutes to talk about some of the current factors in the outlook for Treasury financing and debt-management policies in the light of the budget estimates that have been released since I sent my answers to your questionnaire to the committee. In discussing some of the figures, I shall refer occasionally to a booklet of charts which we have prepared, and which I have given to members of the committee.[1]

The budget position is a matter of first importance. The new budget estimates show a deficit of 5.5 billion dollars for the present fiscal year. Expenditures are estimated at 43.5 billion dollars and receipts at 38 billion dollars, as is shown in chart 1 in the booklet. It seems to me, however, that in times as prosperous as these we should have a balanced budget. National income today is close to the highest level in our history; and, by every standard of sound Government finance, the time to have a balanced budget is now.

This is the position I have taken consistently since I became Secretary of the Treasury in June 1946. In the statement which I made at that time, I said:

> * * * It is the responsibility of the Government to reduce its expenditures in every possible way, to maintain adequate tax rates during this transition period, and to achieve a balanced budget—or better—for 1947.

It was, therefore, a source of great satisfaction to me to be able—as Secretary of the Treasury—to announce at the end of the fiscal year 1947 that the Federal Government had operated with a budget surplus. In the following fiscal year, which ended on June 30, 1948, we again had a budget surplus—it amounted to 8.4 billion dollars and was, in fact, the largest budget surplus in the history of the United States Government.

In the past 3 years, I have restated the urgent need for an excess of receipts over expenditures on many occasions—notably when the Congress was considering tax-reduction measures in 1947 and 1948.

Furthermore, President Truman has repeatedly urged the necessity of reducing the public debt under the circumstances which have existed since the end of the war. In his message to the Congress on April 2, 1948, in which he returned, without approval, the tax-reduction bill, H. R. 4790, he stated:

> * * * I repeat what I have so often said before—if we do not reduce the public debt by substantial amounts during a prosperous period such as the present, there is little prospect that it will ever be materially reduced.

You will recall that it was this tax-reduction measure which the Congress passed over the President's veto, and which resulted in a loss of revenues to the Federal Government amounting to approximately $5,000,000,000 annually. It is largely as a result of the enactment of this legislation that we had a budget deficit of 1.8 billion dollars in the fiscal year which ended last June 30, and that we have a prospective budget deficit of 5.5 billion dollars in the current fiscal year.

About 3 billion dollars of the deficit for the fiscal year 1950 has already occurred. It has been financed principally by increases in the weekly Treasury bill offerings and by increased sales of Treasury savings notes. The total amount of Treasury bills outstanding rose approximately 800 million dollars between August 4 and September 8 as a result of six successive offerings in excess of the amounts matur-

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[1] The charts referred to follow Secretary Snyder's statement.

ing. The amount of Treasury savings notes outstanding has increased by over 2½ billion dollars since the end of June.

The Treasury cash balance is currently running between $4,000,000,000 and $5,000,000,000. Without any further new financing, the balance should remain near this level for the next 4 months, as shown in chart 2. If everything works out exactly as calculated in present estimates, the balance would run down to approximately $3,000,000,000 by next April 30.

There are always, however, a number of variables which could have an important influence on the picture. There is the possibility that revenues might vary from the amount shown in the budget estimates. We knew, for example, at the time the revenue estimates were made, that it was very difficult to gage the full effect of strikes on incomes and corporate profits. It still is not possible to do so. There is bound to be considerable range in expenditure estimates for such programs as farm-price supports, RFC mortgage purchases, and various types of payments to veterans. These considerations are important in our estimate of cash-balance levels.

The picture of how the various Government operations affect the cash balance is one that I have before me daily as I consider debt-management decisions and policies. We revise our appraisals constantly as new information comes in. It looks at this time as though we will have to do some additional new-money financing later in this fiscal year.

There are three main sources which we might tap for new borrowing. These are nonbank institutional investors such as insurance companies, mutual savings banks, and savings and loan associations; other private nonbank investors, including individuals and pension funds; and the commercial banks of the country. We keep close watch at all times on the position of the various investor classes which comprise the market for Government securities.

In addition to the problem of new borrowing, the Treasury will find itself faced next year, as it has been in each of the postwar years, with a large refunding task. Approximately $1,000,000,000 of Treasury bills mature each week; there will be a number of issues of certificates of indebtedness and notes maturing, totaling about $33,000,000,000; and there will be four Treasury bonds amounting to about $11,000,000,000 which mature or are callable next year. This is shown in chart 3. The budget deficit makes it clear that there will not be any reduction during the fiscal year 1950 on these maturities, except for tail ends of maturing securities not turned in for refunding. There will not be any official budget estimates for the fiscal year 1951, of course, until the President's budget message is released in January. The total of maturing or callable marketable securities in the calendar year 1950 is approximately $56,000,000,000; and, on net balance, it appears that nearly the entire amount will be refunded into securities maturing in the future.

Two-thirds of the securities which mature in 1950 are held by the commercial banking system. A significant portion of the remainder is held by industrial, commercial, and mercantile corporations. The ownership of maturing issues as well as the ownership of the remainder of the public debt is, of course, one of the considerations which we must take into account in making our debt-management decisions.

The debt is broadly distributed and we want to keep it that way. The present widespread ownership is, to a large extent, the result of the Treasury's policy of fitting its security offerings to the needs of various investor classes. This first became of special importance during the war period when one of the major objectives was to sell as great a portion as possible of the large wartime offerings to nonbank investors. It has had increasing importance in the postwar period, when we wished to maintain a large nonbank holding of Government securities, especially among individuals, under varying circumstances of business reconversion and then expansion.

A central consideration in fitting Government securities to the needs of different classes of investors has been setting the appropriate maturities for each class. Industrial, commercial, and mercantile corporations, for example, have been sold short-term securities primarily, since their purchases are generally made with reserves which they may want to have readily convertible. The same type of consideration was kept in mind in fitting Government security offerings to the needs of other classes of investors. The net results of this policy can be observed by an analysis of the portfolios of the leading investor classes. Information on this account appears in chart 4, which shows changes in the estimated average number of years of maturity of the Government-security portfolios of three important investor groups—life insurance companies, mutual savings banks, and commercial banks.

Life insurance companies and mutual savings banks are, of course, generally longer-term investors. During the war, insurance companies acquired a large volume of Governments, and it was the Treasury's policy to sell them longer-term securities. The results are evident. The average length of Government securities held by life insurance companies increased from about 10 years in 1941 to about 16 years in 1945. Since then there has been a gradual decline and at the present time the figure is 14 years.

The picture with respect to mutual savings banks differs somewhat from that of the life insurance companies. The average length of the Government-security holdings of these banks increased during the war finance period from 9 years to 14 years and has declined subsequently to 12 years. Savings banks also were sold longer-term securities, but their investment needs resulted in the acquisition of more medium-term securities than were acquired by life insurance companies.

Because there have been no new offerings of long-term marketable securities since the end of 1945, the average length of the outstanding marketable Federal debt has been automatically shortened during this period. Investors who are primarily bondholders have this reflected in their investment portfolios to a greater degree, of course, than do investors who hold primarily short-term debt. The average length of the holdings of life insurance companies and of mutual savings banks would have declined more sharply since 1945, therefore, if these institutions had not bought long-term issues in the market and sold shorter-term issues. They offset thereby, to some extent, the automatic shortening of their portfolios.

Commercial banks have been offered principally short-term securities throughout the war finance period and as a part of our postwar program. This has been a major factor in keeping their portfolios short on the average. The average length to first call or maturity date of the Government security holdings of commercial banks has declined from 7 years in June 1941 to about 3 years at the present time.

There is considerable variation among banks throughout the country in the maturities of the Governments which they hold. Estimates of the average number of years to maturity of Governments held by commercial banks, by Federal Reserve districts, are shown in chart 5. Longer-term securities are more generally held in the eastern areas, with the exception of New York City, than in the western areas. There are three districts in which the average length of Governments held is less than 2½ years; and, as you can see from the chart, these areas are in the western part of the country. The shortest average length, 2 years, is found in the Kansas City Federal Reserve District; while the longest average length, 4¾ years, is in the New York district, excluding New York City. In this connection, it is interesting to note that as we go farther west commercial banks also have more loans in proportion to their capital.

I have gone into these matters at some length to indicate how the present maturity distribution of the public debt developed. Our objective has been a smoothly functioning economy, and securities have been issued to the various investor classes to suit their needs and the requirements of the economy.

In handling the new money and refunding operations that are in prospect for next year, the interest cost of the debt to taxpayers must also be one of the considerations in our debt-management program. The interest cost of the debt comprises over 13 percent of the Federal budget for the fiscal year 1950. The total annual cost is likely to grow, even without any increase in the debt, because the rate of interest on savings bonds increases as they approach maturity and because an increasingly large proportion of the debt represents the accumulation of trust funds invested at an average interest rate which is higher than the present average rate on the total debt.

Even a relatively small increase in the average interest rate on the debt would add a substantial amount to the total annual interest cost. It is estimated that the interest on the debt will amount to 5.7 billion dollars in the calendar year 1949. About 1¼ billion dollars would be added to this amount if the average interest rate were one-half of 1 percent higher.

Senator DOUGLAS. The average interest rate, I take it, is about 2¼ to 2⅓ percent, is that right?

Secretary SNYDER. It is running 2.2 right now on the average. The annual interest cost would be more than $5,000,000,000 larger if the average interest rate were equal to the average borrowing cost of World War I, which was approximately 4¼ percent. The annual saving in the taxpayers' money as a result of the present level of interest rates is an important factor in the budget picture of the Federal Government.

The distribution throughout the economy of the interest on the public debt is, of course, determined by the ownership of the debt. The next chart, which is chart 6, shows interest on the Federal debt, by class of recipient, from 1946 through 1949.

It seems to me that the outstanding fact in this connection is the increase during this period in the interest on the Federal debt going to individuals. Their share during the current calendar year is one-third of the estimated 5.7-billion-dollar total. It rose from 1.4 billion dollars in 1946 to an estimated 1.9 billion dollars in the current year.

The share received by Government investment accounts also rose during this period, while interest payments to other nonbank investors declined slightly. The share received by commercial banks also declined. This was largely due to the Treasury's policy of concentrating debt reduction in the holdings of commercial banks.

Senator DOUGLAS. That is in the years in which you had a surplus?

Secretary SNYDER. That is correct, and also by using the cash balance we had at the end of the war. The receipts from the sale of nonmarketable issues were also available to retire bank-held debt.

Another way of looking at the interest cost of the debt is to consider the burden which it represents when compared with the gross national product of the country, from which it must be paid. The public debt is nearly 10 times as large as it was at the World War I peak in August 1919, as is shown in chart 7. But, because we were able to finance the Second World War at a borrowing cost about one-half as great as the average borrowing cost of World War I, the interest cost of the public debt today is only 5 times, rather than 10 times, as large as it was in 1919. This does not, however, mean an interest burden 5 times as great. For, in the meantime, our gross national product has risen from less than $80,000,000,000 in 1919 to an estimated annual rate above $250,000,000,000 at the present time. We have a tremendously increased product out of which to pay the interest on the debt, and the present interest cost is only 2.3 percent of gross national product. This compares with 1.4 percent in 1919.

One of the important refunding matters which will come before the Treasury in 1950, and in greater volume in 1951, 1952, and subsequent years, will involve the Government-security holdings of individuals. These holdings amounted to 69½ billion dollars on October 31, 1949, up from 65 billion dollars on December 31, 1945, and from 10½ billion dollars before the war, as shown in chart 8.

Ownership of Government securities by millions of individuals is good for the country as well as for those individuals. It gives the people of the country an increased interest in the affairs of their Government and causes them to participate more actively in those affairs. We have continued to promote the sale of savings bonds in order to encourage thrift. Thrift has played a vital part in the building of our Nation, and today it is as important to our well-being as it has ever been in the past. At the end of October, 48½ billion dollars of savings bonds of all series were held by individuals. Savings bonds comprised 70 percent of their total holdings of Government securities. Holdings of E bonds alone—the bond which is designed to meet the needs of small investors—amounted to 33½ billion dollars.

The savings bonds held by individuals at the present time are distributed broadly throughout the country. In chart 9 the United States is divided into geographical areas to show that the 48½ billion dollars of savings bonds outstanding in the hands of individuals are distributed approximately as follows: 16½ billion dollars held in the northeastern area of the country; 10 billion dollars held in the States of Michigan, Illinois, Indiana, and Ohio; 6 billion dollars held in the southern part of the United States; 6 billion dollars held in the seven States which are the farthest west; and 10 billion dollars held in the large block of Central States which is bounded, roughly, by the Mississippi on the east, the Rocky Mountains on the west, and stretches from Canada to Mexico. These savings bonds comprise a tremendous amount of assets in the hands of individuals. The 48½-billion-dollar total seems particularly significant if we recall that at the bottom of the depression in 1933 national income in the country was only 39½ billion dollars. Across the Nation people now have a cushion of reserves to fall back upon that is greater than the total income in the Nation in that year.

You may remember that during the latter years of the war there was considerable speculation as to the probable redemption experience with series E bonds as soon as the war had ended. The opinion was freely expressed that the large quantities of bonds which were being sold under the pressure of patriotism and intensive wartime selling methods would be redeemed speedily as soon as the war was ended. Instead, as I have noted, we have continued to sell savings bonds and to increase the total amount outstanding. Redemption experience with series E bonds is, in fact, more favorable than the postwar rate of turn-over in other forms of savings. Chart 10 shows the annual rate of savings-account withdrawals and savings-bond redemptions from 1943 to date, expressed as a percentage of total amounts outstanding. The rate of redemption of series E bonds has been substantially lower than the rate of withdrawals from savings accounts. Furthermore, since the end of the war savings-bond redemptions as a percentage of the amount outstanding have followed a downward trend, while the rate of turn-over of other forms of savings has followed an upward trend.

We have not, however, encouraged the sale of savings bonds at the expense of other types of savings. From December 31, 1945, through October 31, 1949, the increases in practically all other forms of individuals' savings were substantially greater relatively than the increase in savings-bond holdings.

It might be interesting at this point to give you the changes in some other types of savings as compared with savings bonds.

Savings bonds increased, between December 31, 1945, and October 31, 1949, 13 percent; savings accounts in commercial banks increased 15 percent; in mutual savings banks, 25 percent; in savings and loan associations, 60 percent; in postal savings, 10 percent; insurance increased 30 percent; and checking accounts, 10 percent. Currency holdings decreased 10 percent.

I think those are interesting to show that the savings-bond program has not been built up at the expense of other types of savings.

I have been talking about some of the technical matters that will have to be considered in connection with Treasury borrowing and refunding. Uppermost in our minds in making all of our policy decisions is the fact that the foremost responsibility of the Secretary of the Treasury is to maintain confidence in the credit of the United States. One hundred and fifty years ago, the main financial problem of our newly born Nation was to establish that credit. Confidence in our Government's financial soundness was successfully established; and it has been the responsibility of Secretaries of the Treasury for a century and a half to maintain it.

But never before has this responsibility been so great as since the end of World War II. The public debt increased more than fivefold during the war. It represents more than half of all of the debt of the country, public and private. It comprises a substantial proportion of the assets of the leading investor classes; and the decisions which are made with respect to it are of immediate and vital significance to each and every one of us.

The primary concern of the Secretary of the Treasury in formulating debt-management policies is to promote sound economic conditions in the country. Because the debt is so great, because it is such a large proportion of the total debt of the country, and because it is interwoven in the financial structure of the country, the policies and decisions made in the Treasury Department are of tremendous importance and significance to the economic and financial welfare of the Nation.

Figures on the total debt of the country—public and private—are shown in chart 11. At the end of 1939, the debt of the Federal Government amounted to $47,500,000,000 and accounted for 23 percent of the total debt of the entire country. At the present time, the public debt amounts to $257,000,000,000 and comprises 51 percent of all debt.

The estimated distribution of the ownership of the debt on October 31 of this year is shown in chart 12. Nonbank investors held $172,000,000,000 of Government securities—two-thirds of the $257,000,000,000 of Federal debt outstanding on that date. It is particularly significant that the holdings of individuals are so large. They totaled $69,500,000,000, as I mentioned earlier. Insurance companies held $20,500,000,000 of Government securities. Mutual savings bank holdings totaled $11,500,000,000. Government investment accounts, principally Government trust funds which are required by law to be invested in Government securities, held $39,500,000,000 of the public debt. The holdings of "other" nonbank investors—which include State and local governments, corporations, pension funds, and charitable institutions—were $31,000,000,000.

One-third of the debt—$85,000,000,000—was held by the commercial banking system. Commercial banks held $67,500,000,000; and the remainder, $17,500,000,000, was held by the 12 Federal Reserve banks.

These figures are large, in dollar terms; and they are also a substantial proportion of the assets of the various investor classes, as shown in chart 13. In the case of commercial banks, for example, holdings of Governments are equal to 56 percent of earning assets—a large percentage, but a sharp decline from February 28, 1946, when Government securities comprised over 70 percent of the earning assets of these institutions.

Nonbank investors—both financial and nonfinancial— also have a large share of their assets invested in Government securities. On October 31, mutual savings bank holdings of Governments represented 54 percent of their total assets; life-insurance companies had 27 percent of total assets invested in Government securities; and other insurance companies—fire, marine, and casualty—had 47 percent. Nonfinancial corporations had 13 percent of their current assets in this form. And, when we turn to individuals, we find that Government securities accounted for 34 percent of their liquid assets—that is, their combined holdings of Government securities, savings and checking accounts, and currency—which approximated $200,000,000,000 on October 31.

These figures are unmistakable evidence that the decisions which are made with respect to the public debt affect every segment of our economy. They indicate the compelling necessity for considering not only the effect of our decisions upon the financial structure of the Government itself, but their effect on the financial and economic structure of the whole country.

It is for this reason that Treasury and Federal Reserve authorities have cooperated to keep the market for Government securities stable during the postwar period. Under the circumstances which existed, stability in the Government bond market has been of tremendous importance to the country. It contributed to the underlying strength of the country's financial system and eased reconversion, not only for the Government, but also for industrial and business enterprises.

This is in marked contrast to the situation after World War I, when prices of Government securities were permitted to decline sharply—with disastrous results. Investors suffered serious financial losses. And the decline contributed importantly to the business collapse that occurred in the early post-World War I period. These things happened at a time when the public debt was a much less powerful element in the economy than it is at the present time. It seemed obvious to us that widely fluctuating Government bond prices would have even more serious repercussions after World War II.

It is now 4 years since Victory Loan 2½'s were issued. Chart 14 shows the price history of the Victory Loan 2½'s after World War II, as compared with the price history of the Fourth Liberty Loan 4¼'s during the corresponding period after World War I. At the end of the fourth year, Victory Loan 2½'s are above par; at the end of a similar period, Fourth Liberty Loan 4¼'s were in the vicinity of par. But the price movements within the two periods differed radically. Victory Loan 2½'s have always been above par. The Fourth Liberty Loan 4¼'s dropped substantially below par, reaching a low of about 82½. From this point, they had a long climb back before reaching par.

In the short-term area of the Government security market, we also had to consider the possible effect of our actions on the financial markets. When interest rates on short-term Government securities were raised, beginning in mid-1947, they were raised gradually in order not to disrupt these markets. When they were reduced, the change was small for the same reason.

In the 4 years since VJ-Day, the United States has achieved a record level of prosperity. There can be no doubt that world-wide confidence in the financial soundness of the Government of the United States played a prominent role in achieving this prosperity.

I have gone into some of the current matters of public debt management with you in some detail in order to round out the entire picture for your committee. Many of the answers to the questions submitted by your committee to me and to other Government officials and agencies touched on some of the points that I have mentioned; but I felt that it would make for better understanding of the problems and considerations involved, if I summarized the current situation as it looks from my position as Secretary of the Treasury.

Senator DOUGLAS. Thank you very much, Mr. Secretary. Might we have your permission to include this list of charts in the printed record of the hearings?

Secretary SNYDER. I would be pleased to have you do so.

(The charts above referred to are as follows:)

CHARTS ACCOMPANYING THE STATEMENT BY SECRETARY OF THE TREASURY SNYDER BEFORE THE SUBCOMMITTEE ON MONETARY, CREDIT, AND FISCAL POLICY OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT DECEMBER 2, 1949

CHART 1

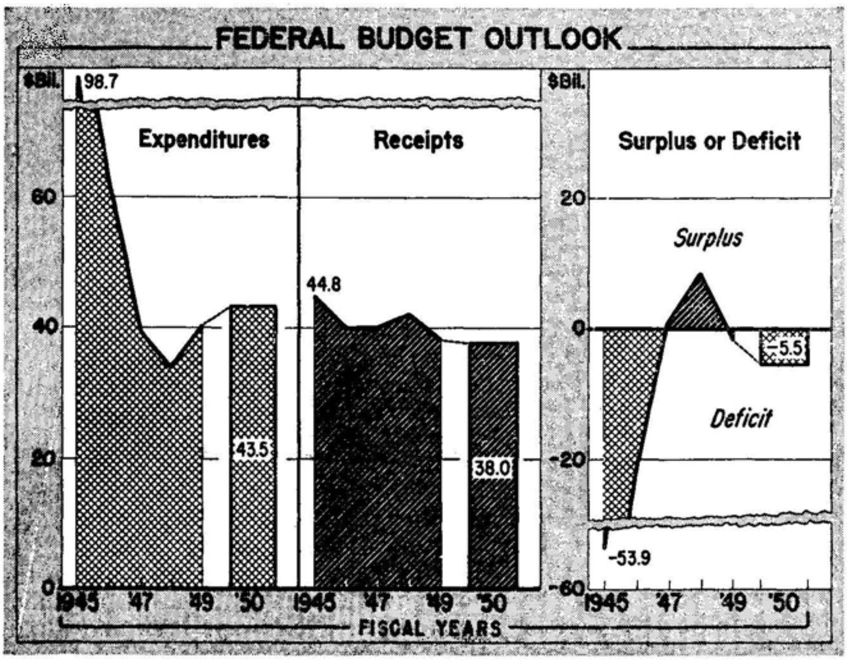


CHART 2

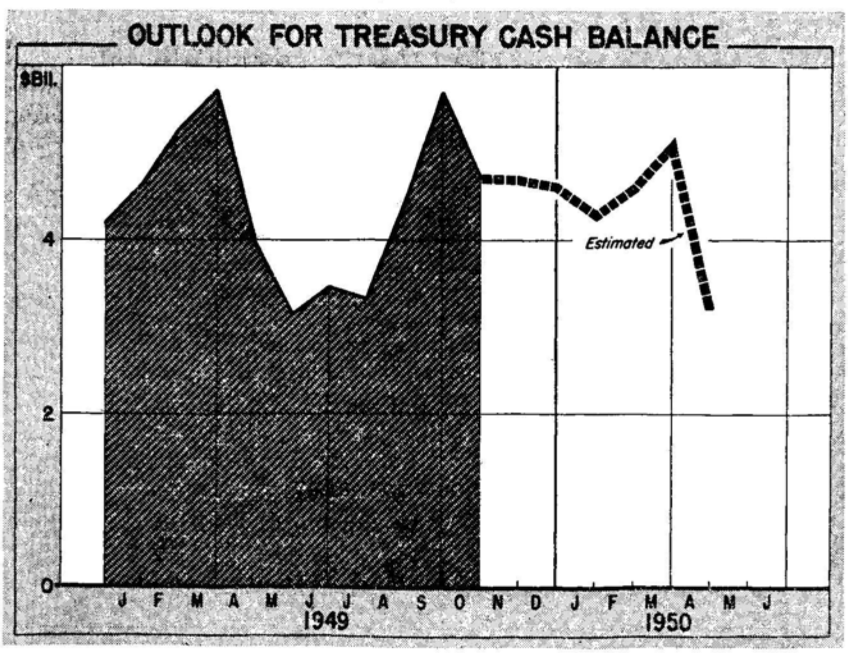


CHART 3

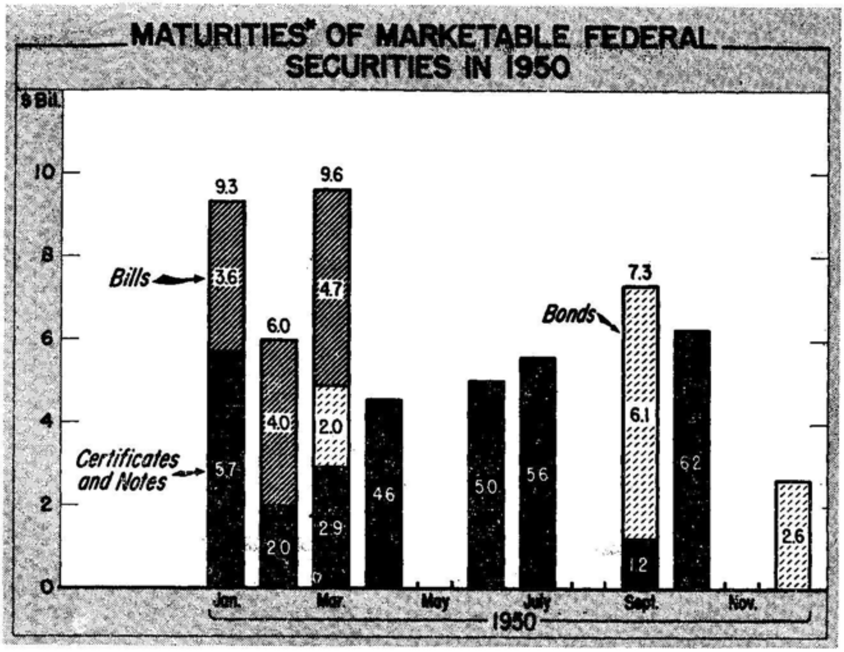


CHART 4

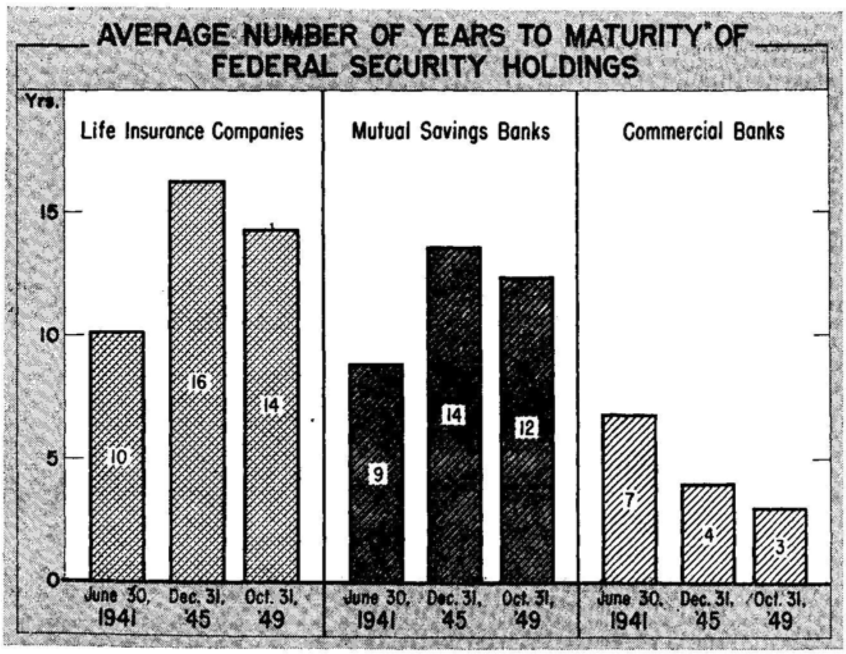


CHART 5

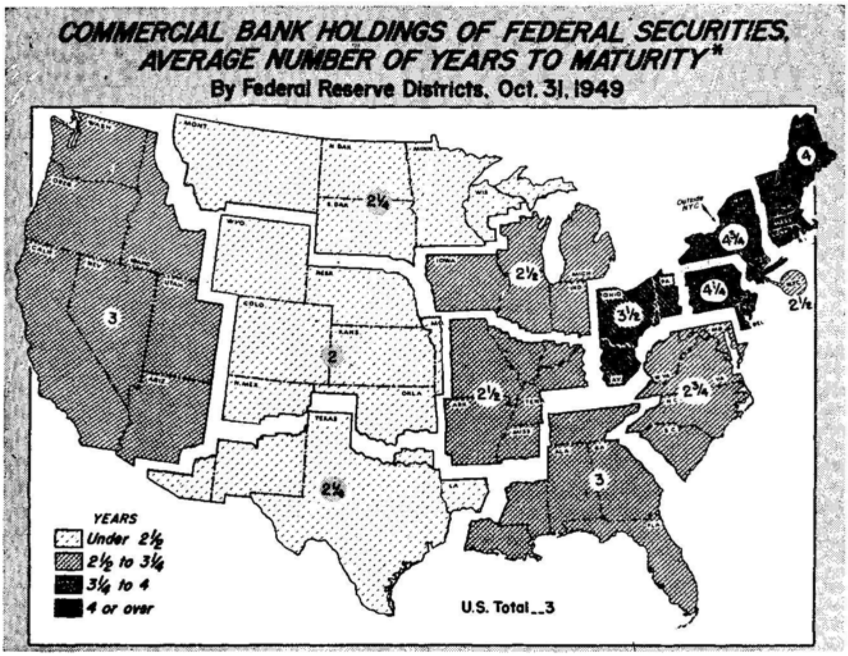


CHART 6

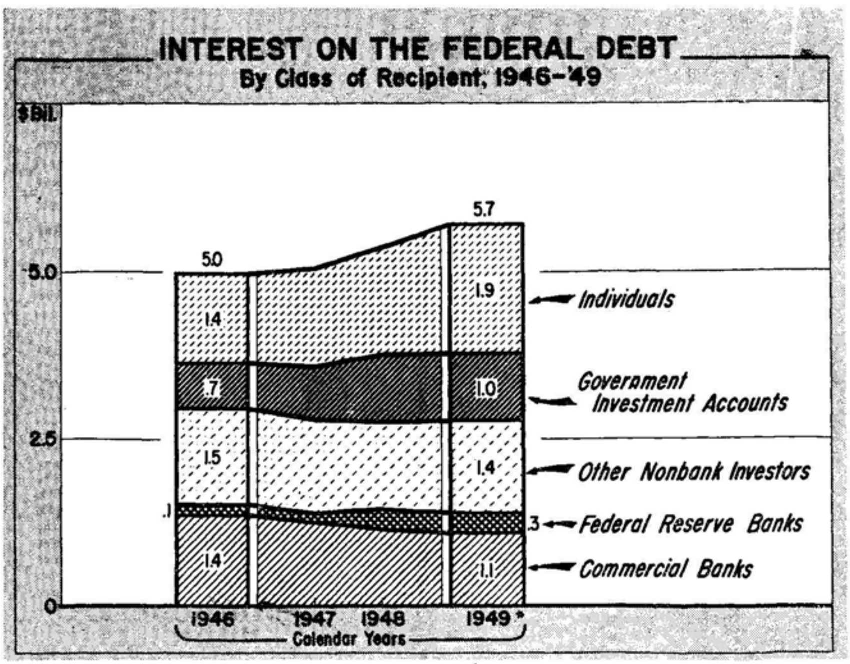


CHART 7

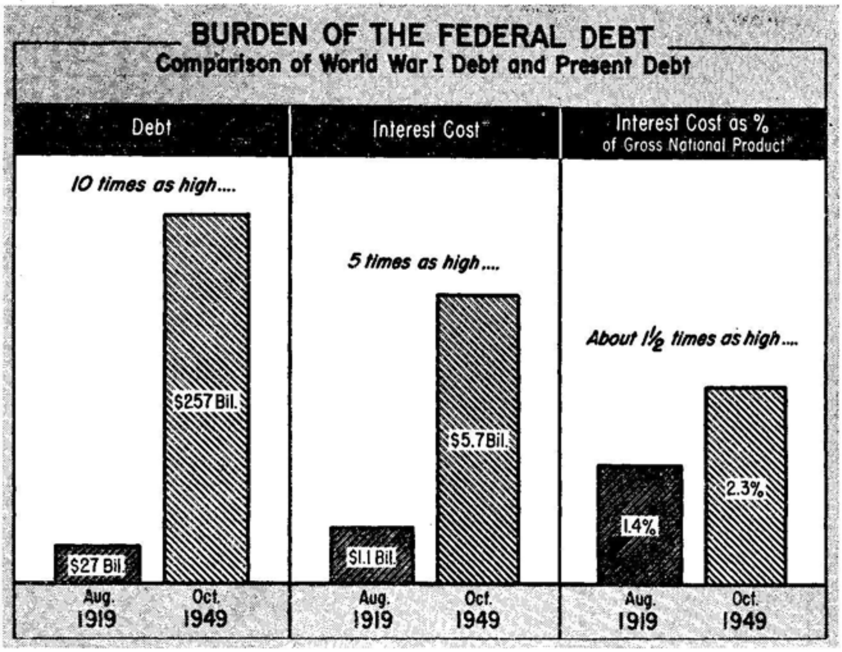


CHART 8

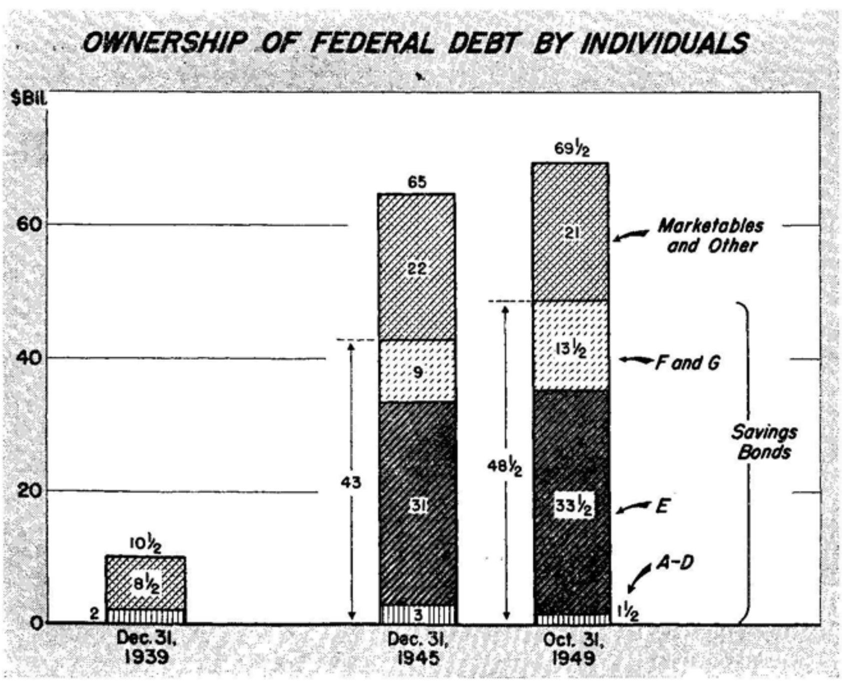


CHART 9

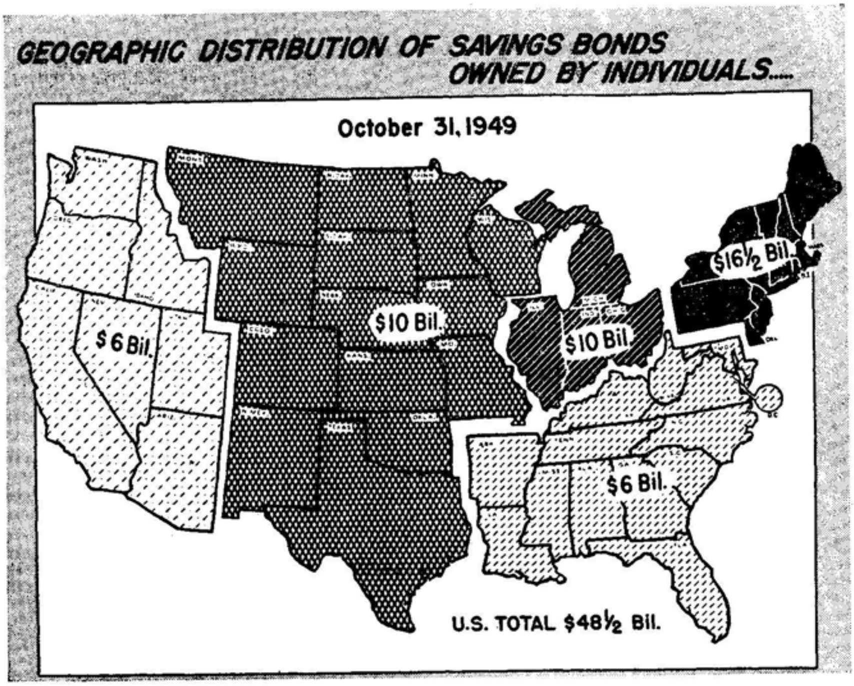


CHART 10

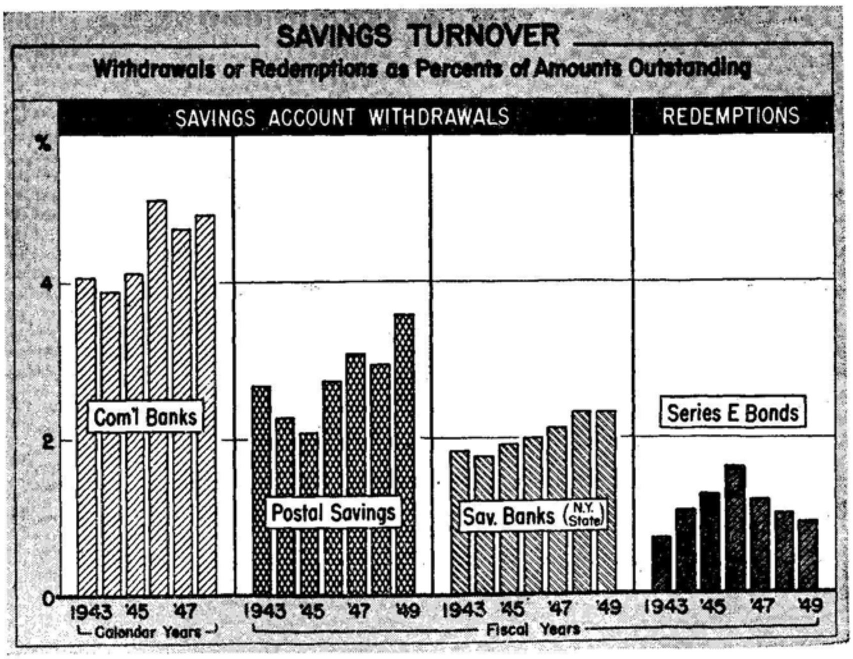


CHART 11

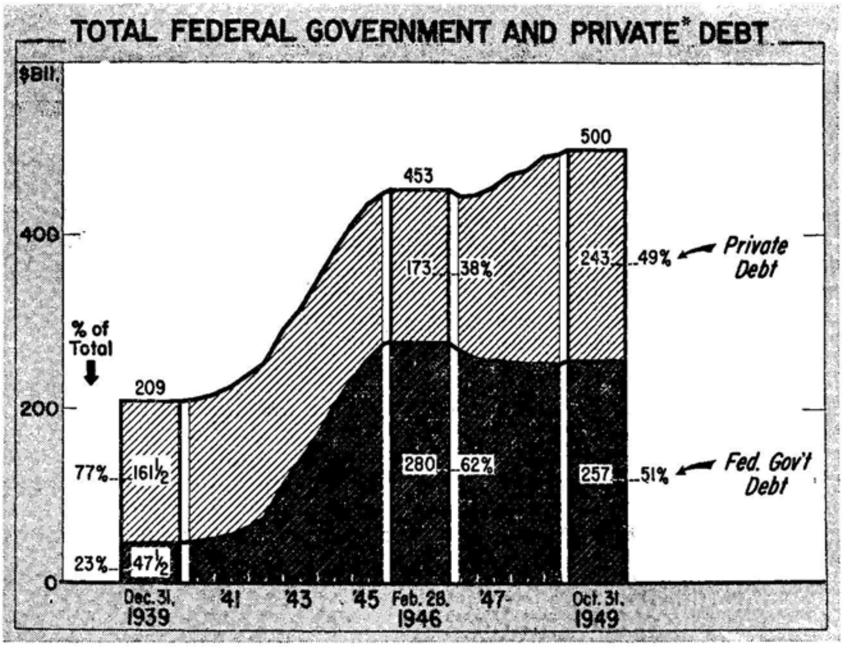


CHART 12

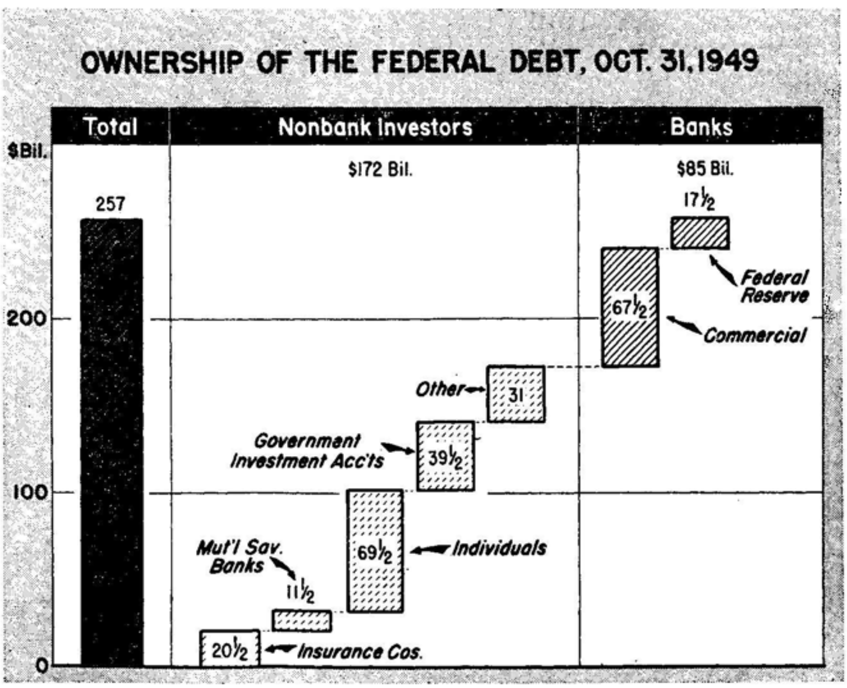


CHART 13

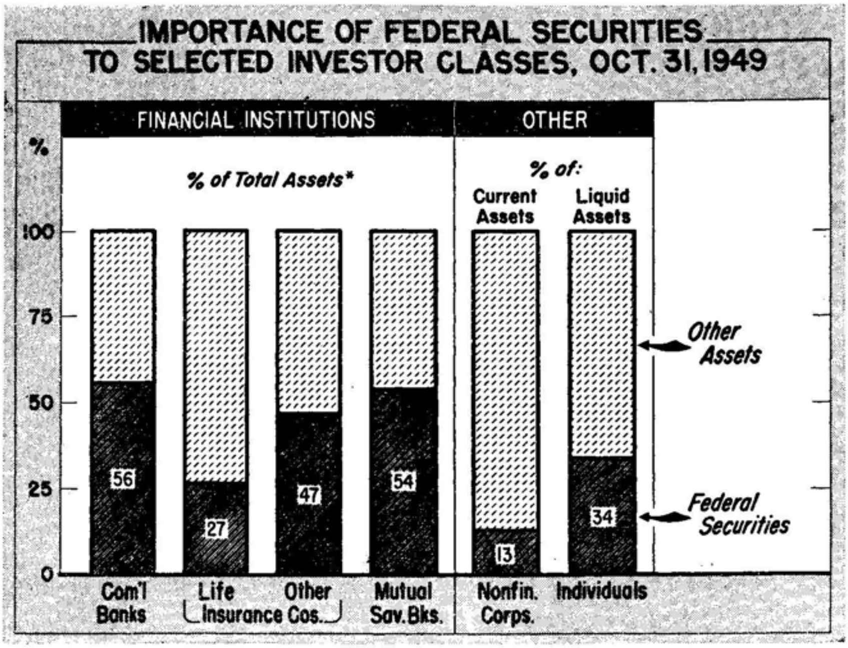
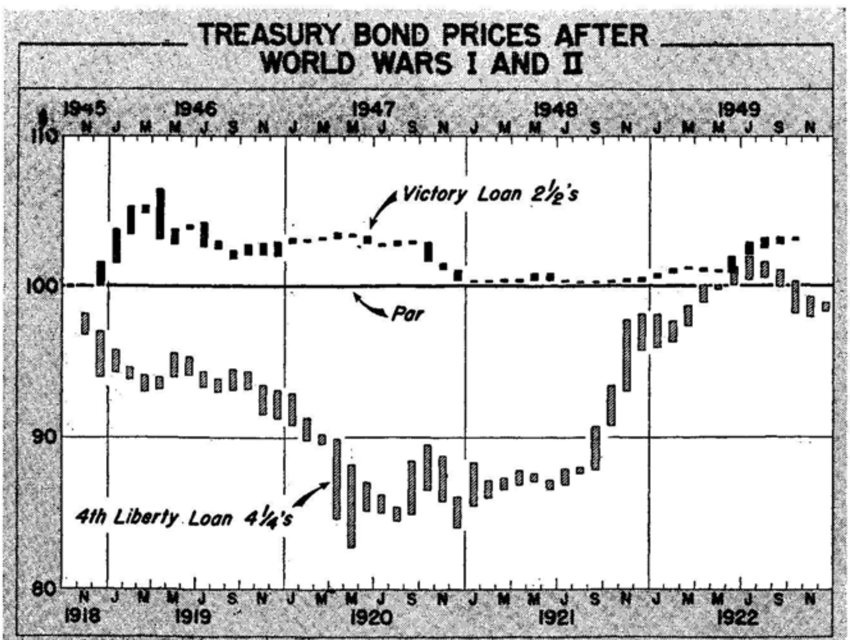


CHART 14



Senator DOUGLAS. Mr. Secretary, I should like to begin, if I may, with some questions on fiscal policy. I notice that you say at the end of the second paragraph of your statement:

By every standard of sound government finance the time to have a balanced budget is now.

Secretary SNYDER. Yes, sir.

Senator DOUGLAS. I wonder if you will describe the role which the Treasury plays in the formulation of the annual budget and the total receipts and expenditures.

Secretary SNYDER. The Treasury's part in the budget, of course—in the formulation of expenditures—is limited to its own department as to detail. But it is consulted on the over-all picture as the budget develops because this picture has a direct influence on the amount of revenues required.

As to the revenues, the Treasury Department cooperates with the tax committees of the Congress and has been in consultation with the joint tax group for over a year now in discussing the various types of taxes both existing and those that might be considered for additional revenue.

Senator DOUGLAS. Then do I infer from your statement that you believe the budget for the fiscal year 1950–51 should be balanced?

Secretary SNYDER. I certainly believe that an intense effort to balance it should be made; yes, sir.

Senator DOUGLAS. And would it be premature or going outside the province of your department to inquire whether you think it should be balanced primarily by the imposition of new taxes, or by an attempt to reduce expenditures, or by both methods?

Secretary SNYDER. That is a matter, Mr. Chairman, that is in the hands of the President; and as a member of his Cabinet, I would be guided by his statements.

Senator DOUGLAS. And you feel it would be premature to state to a committee of Congress what your own opinion on that would be?

Secretary SNYDER. In view of the fact that his budget statement comes out in about 30 days, I think it is a little early for me to comment on it.

Senator DOUGLAS. May I ask some questions about gold and silver?

Secretary SNYDER. Yes, sir.

Senator DOUGLAS. For some time there seemed to be a good deal of uncertainty as to whether or not the Secretary of the Treasury and the President had the discretionary power to increase or decrease the price of gold without congressional action.

Now, I understand that in the early part of November your office issued an interpretation stating that the price of gold could not be changed without an act of Congress. Am I correct in that?

Secretary SNYDER. Yes; and we can introduce into the record here the legal provisions relating to the price of gold.

Senator DOUGLAS. Is it your judgment that the Secretary of the Treasury and the President cannot alter the price of gold without an act of Congress?

Secretary SNYDER. Only an act of Congress can alter the statutory gold content of the dollar.

Senator DOUGLAS. What about the purchase price of gold, or that which is not minted into dollars?

Secretary SNYDER. That is tied up in the Bretton Woods agreement. Under the agreement the price of gold must remain at $35 per ounce unless there is agreement to change that purchase price within the International Monetary Fund.

Senator DOUGLAS. Of course, the gold dollar as such has virtually disappeared. Gold has gone underground, as it were. But the question is on the purchase price of gold bullion. Is it your judgment that the Executive Department could alter the purchase price of gold without an act of Congress, or would it be necessary to have an act of Congress to alter it?

Secretary SNYDER. The Executive Department by itself cannot alter the monetary price of gold.

Senator DOUGLAS. The purchase price of gold?

Secretary SNYDER. The purchase price of gold.

Senator DOUGLAS. It would need an act of Congress?

Secretary SNYDER. It takes corollary action.

Senator DOUGLAS. It would need an act of Congress?

Secretary SNYDER. It would take an act of Congress for the International Monetary Fund to take any action with respect to a change in the dollar price of gold.

Senator DOUGLAS. You mean the International Monetary Fund could reach an agreement to alter the price of gold, and that would be operative without the consent of Congress?

Secretary SNYDER. Mr. Chairman, this is Mr. Thomas Lynch, general counsel for the Treasury Department. May I have him reply to the technical question?

Senator DOUGLAS. Yes.

Mr. LYNCH. Replies to this question were given in the staff document submitted to the committee, and I believe that the matter is set out in full therein.

There is statutory power still on the books for the Secretary of the Treasury, with the approval of the President, to change the purchase price of gold. The fact is, however, that under the United States commitments respecting the International Monetary Fund, approved by Congress, gold may be bought or sold only within a margin of one-quarter of 1 percent of the par value of $35.

Senator DOUGLAS. That is, unless there is action by the International Monetary Fund to the contrary?

Mr. LYNCH. The United States Government could not agree to change the par value of gold without approval of Congress. That is provided in the Bretton Woods Agreement Act. So long as par value is fixed at $35 under the agreement the United States must buy within one-quarter of 1 percent margin of $35, and that $35 cannot be changed under the Bretton Woods Act without the approval of Congress. That is a summary statement.

Senator DOUGLAS. That applies to the purchase price of gold?

Mr. LYNCH. Purchase and sale.

Senator DOUGLAS. Could the executive branches of the Government propose to the International Monetary Fund that the price be altered without prior consent by Congress?

Mr. LYNCH. The executive officials of the United States dealing with the fund could take no action with respect to changing the par value of the dollar in terms of gold without the approval of Congress. That is specifically reserved in the act of Congress approving participation by the United States in the fund.

Senator DOUGLAS. And in your judgment no further legislation would be needed to make that power of Congress definite?

Mr. LYNCH. The statute relating to the participation of this Government in the International Monetary Fund is binding.

I would like to suggest, if I may, that the answers in some detail supplied to the staff become a part of the record.

Senator DOUGLAS. They are already a part of the record. You mean the record at this point? There has been a supplementary memorandum?

Mr. LYNCH. Yes.

Senator DOUGLAS. We will be very glad to do that.

In regard to the questionnaire, I do not know that this specific question was asked, and, therefore, I do not know whether it was replied to.

Secretary SNYDER. In fact, it was.

(The material referred to above is as follows:)

THE LEGAL PROVISIONS RELATING TO THE PRICE OF GOLD

The gold content of the dollar, and hence the statutory monetary value of gold in terms of United States dollars, was defined by the Presidential proclamation of January 31, 1934. The proclamation was issued under authority of section 43, title III, of the act approved May 12, 1933, as amended by section 12 of the Gold Reserve Act of 1934. That section of the act of May 12, 1933, authorized the President to decrease the weight of the gold dollar by not more than 50 percent, and section 12 of the Gold Reserve Act provided that devaluation should be not less than 40 percent.

The weight of the gold dollar fixed by the President on January 31, 1934, was $15\frac{5}{21}$ grains of gold nine-tenths fine, that is, one thirty-fifth of a troy ounce of pure gold technically referred to as gold 1,000 parts fine. The monetary or statutory value of gold in the United States is therefore $35 per fine troy ounce. After several extensions the authority of the President by proclamation further to change the gold content of the dollar expired on June 30, 1943.

Only an act of Congress can now alter the statutory gold content of the dollar.

A FULL DESCRIPTION OF THE DISCRETION LEFT IN THE HANDS OF THE SECRETARY OF THE TREASURY AS TO THE PRICE OF GOLD

The Secretary of the Treasury has authority under sections 8 and 9 of the Gold Reserve Act of 1934, as amended, with the approval of the President, to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.[1]

[1] Section 8 of the Gold Reserve Act, 31 U. S. C. 734, provides:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

Section 9 of the act, 31 U. S. C. 733, provides:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding 1 year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

The authority of the Secretary of the Treasury in this respect, however, is limited by a number of factors. First is the obligation undertaken by the United States as a member of the International Monetary Fund. Article IV, section 2 of the articles of agreement of the International Monetary Fund provides:

"The fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin."

The fund has prescribed a margin of one-fourth of 1 percent above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less, than $35 plus or minus the prescribed margin, unless the par value of the dollar should be changed consistently with the articles of agreement and with the Bretton Woods Agreements Act, which requires the approval of Congress for any such change.

Even without this legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar.

The importance which the Congress attributes to the maintenance of a stable dollar price for gold is demonstrated by a number of legislative provisions. The gold parity statutes contained in the Gold Standard Act of 1900 and the act of May 12, 1933, provide that the gold dollar "shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity."

The Gold Reserve Act of 1934 provides that:

"The amount of gold certificates issued and outstanding shall at no time exceed the value at the legal standard of the gold so held against gold certificates."

In addition, section 5 of the Bretton Woods Agreements Act provides that neither the President nor any person or agency shall propose to the International Monetary Fund any change in the par value of the United States dollar or approve any general change in par values unless Congress by law authorizes such action.

Senator DOUGLAS. Now, may I ask a question about silver?

Secretary SNYDER. Reverting for a moment to my personal position on the price of gold, Mr. Chairman, I have tried to make that perfectly clear. I have no intention of making any change in the price of gold or of asking Congress or the President to make any change, and the President himself has stated rather categorically his position about it.

Senator DOUGLAS. I think that is made very definite now.

Now, as I understand it, you are purchasing silver under congressional action at 90½ cents an ounce, and the open market price is 73 to 74 cents an ounce and that, therefore, constitutes a subsidy to American silver producers of at least 17 cents an ounce, and possibly more, because if the Government did not purchase silver the price of silver would undoubtedly fall still lower.

I notice that you have made a somewhat guarded statement in your reply to the questionnaire in which you say:

On previous occasions the Treasury has stated that it would interpose no objection if Congress wished to repeal all the provisions relating to acquisition of silver in the above-named acts.

Secretary SNYDER. We have not changed our position.

Senator DOUGLAS. You have no objection, but do you have any recommendations?

Secretary SNYDER. That is a matter for Congress. We will not object to it if Congress sees fit to change it.

Senator DOUGLAS. But you do not plan to initiate any such movement?

Secretary SNYDER. No, sir.

Senator DOUGLAS. You are going to play passive on that issue?

Senator FLANDERS. Hopefully passive.

Senator DOUGLAS. Well, now, Mr. Secretary, I have been struck with the fact that most of the memoranda which you submitted this morning dealt with the issue of debt management, and I can see that you take the responsibilities which are imposed upon such a Treasury very seriously, and I think, so far as debt management is concerned, that you have legitimate reason for pride in the postwar record which the Government has made under your direction.

You have been able to keep the interest rates low and yet maintain the price of Government securities at par or above, and, so far as that is concerned, I think your job has been done extremely well. You have undoubtedly saved the taxpayers, with the help of fortunate economic circumstances, billions of dollars.

You are aware, of course, of the fact that among (A) the banking fraternity, and (B) those who believe in the power of the Federal Reserve System being exercised to check credit expansion, it is argued, for differing reasons, between these two groups, that in a period of rising prices and credit expansion it would be wiser to let the interest rate rise, even though that might mean a higher interest charge and also a lower price of the long-term securities, in order that this higher interest rate might then serve to repress or dampen down the volume of commercial borrowing from banks and hence check the private expansion of credit.

I think we have here a very important issue of public policy. The Treasury is charged with managing the debt. You have performed that function not only to the best of your ability but with great savings to the Government. The Federal Reserve System, on the other hand, is charged with an attempt to stabilize business conditions and to prevent undue expansions and contractions of credit—private credit primarily and public credit somewhat.

Now, suppose we should have a situation in which the consensus of Federal Reserve opinion would be that it would be wise to allow the interest rate to rise in order to check the volume of private borrowing and hence dampen down possible inflationary tendencies. But the Treasury, wanting to save money for the Government and wanting to fulfill its function, insisted upon low interest rates. Now, that would present a conflict of purposes, and, in view of the importance of the public debt, as you say, the Federal debt alone forming half of the total volume of debt in the country, the decisions on the public debt would vitally affect and might indeed control the decisions on private credit. So that you might have the Federal Reserve System chained to a low-interest-rate policy in a period when prices were expanding, employment was reasonably full, and when we would have the danger of private credit inflation.

I wonder if you have any comment you want to make on that issue as a general matter.

Secretary SNYDER. As a general matter, Mr. Chairman, there is no question but that the management of the debt and the control of credit and monetary affairs are closely interrelated and require an extreme amount of cooperation between the two agencies that are in control of the various segments—the Treasury and the Federal Reserve Board.

I have been very happy with that cooperation. I think it has been splendid, I think we have worked to the interest of the public as the results have shown. I will stand on those results—both as to what we have be able to do in the way of savings to the taxpayers and also the effect on the continued prosperity of the country.

Senator DOUGLAS. It is sometimes regarded as futile to discuss past history. I do not regard it as such, because I think if you analyze past history, it sometimes can teach you lessons about the future; and I raise this last question not to do any point scoring or to say who is right and who is wrong, but to try to look toward the future.

Is it not possible that the price expansion of late 1946 and 1947, which we can call quite a violent inflation, might have been partially changed or dampened down if the interst rate had been allowed to rise, even though that would have meant a heavier debt charge upon the Treasury and possibly, in the case of some long-time securities, though not E, F, and G bonds, some depreciation in their price?

Secretary SNYDER. Mr. Chairman, that is so debatable and other elements come into consideration there that——

Senator DOUGLAS. It is debatable, but we are trying to grope our way toward an answer, and we would like your advice.

Secretary SNYDER. We feel we have followed the best procedure that we could after careful consultation with many segements of the economy. The Treasury Department holds constant studies with various groups: bankers, insurance people, businessmen, savings bank people, investment bankers. We are in constant consultation with the Federal Reserve Board.

After all that consultation, however, the actual responsibility always fell back on the Treasury Department to make the decision, and we felt we made the decisions as ably as we could on the data before us.

Senator DOUGLAS. I would like to offer, if I may, an argument in support of your position, which you yourself have not given—namely, that I suppose you could have argued, and probably did, that by keeping the interest rate down, you thereby increased the Government surplus in the fiscal years 1947 and 1948 and enabled a larger amount of the bank-held public debt, primarily in short-time securities, to be retired. I suppose you could argue that you, therefore, effected a greater stabilizing influence through fiscal policy than could have been exerted by the Reserve System through credit and interest policy.

You see, I am jumping into the breach now in your defense.

Secretary SNYDER. That was the reason I said the matter was very debatable and we could get into a lot of arguments back and forth that would not particularly solve the problem. I am not trying to say we were right and somebody else was wrong, or that somebody else was right and we were wrong.

Senator DOUGLAS. Having argued on your side, let me, however, also argue on the other side. If you had been able to check the inflation of prices by credit policy, the cost of Government services would not have risen by as much as they did and, therefore, your expenditures would have been less, and the surplus would have been greater than it otherwise would have been, and the deficit in the present period probably would have been less.

Secretary SNYDER. Mr. Chairman, you are proving the very point that I made, that it is a most debatable matter, that you can argue back and forth for days.

Senator DOUGLAS. What we are trying to find are the reasons and the grounds on which one can debate, so that instead of this thing being done with a few high-powered experts and officials, the public and the Senators and the Congressmen can get some appreciation of what the intellectual issues are, because I have always felt that, in a democracy, monetary policy was not sacrosanct, that it vitally affects the life of the community and, therefore, the community should know something about it and should have some share in making the decision. That is why I would like a full unveiling of these matters, if we might have them.

Secretary SNYDER. I would be delighted to have all the unveiling possible, but please remember that you cannot discuss public debt policies—as to what is going to be done or not done in the future, as to interest rates and maturities and that sort of thing—the Secretary of the Treasury cannot discuss those things openly as an individual because the minute he does go on record as to his thinking, that becomes then the policy of the Treasury in the minds of the public; and it would greatly affect our market relationships and possibly cause us great difficulties in the management of the debt.

Senator DOUGLAS. Can we discuss intellectual issues based on past history?

Secretary SNYDER. The Treasury Department has to keep the practical side along with the intellectual side constantly in mind.

Senator DOUGLAS. I do not suppose anyone except, shall we say, financial die-hards, want to have a completely unsupported bond market. The question is where the yield in prices shall be allowed to fluctuate within certain narrow limits. That is the issue.

Senator FLANDERS. Mr. Chairman, I was interested in the testimony yesterday from Mr. Kline, of the Farm Bureau, who gave a very well-prepared written statement, and Mr. Grede and Dr. Lutz, of the National Manufacturers Association. I suppose in some sense those two organizations and those witnesses can be said to represent, perhaps, an informed point of view on the part of their organizations.

The interesting thing was that both of them in their testimony indicated that they did not feel it was necessary to support the Government security market, keep it from going below par, and felt there were advantages in more flexibility in the interest rate.

Now, in other words, if those gentlemen were correct and really represented their constituencies, there would be no feeling of distrust if there were a change of policy provided, as the chairman just said, that it was understood the support was going to be there; and that it was being undertaken in the purpose of some flexibility in the interest rate and not a dropping of controls to allow the market to go anywhere it pleased.

Secretary SNYDER. Mr. Chairman and Senator Flanders, there has been considerable flexibility in the interest rate. We have demonstrated that. The Treasury Department has never taken an inflexible position in reference to interest rates. We just have to keep a careful watch on interest rates fluctuating too rapidly one way or the other.

Senator FLANDERS. But the other point of view is that they should be allowed to fluctuate. There are reasons and purposes involved in allowing them to increase at times and in holding them down at other times. And that is determined by the point of support of the market, and I think it is true, is it not, that at no time has the market been allowed to go below par to any extent or for any length of time?

Secretary SNYDER. Of course, the bond market has not been supported on the 2½ basis for some time. There was only a short period when it was receiving relative support. But as to the flexibility of the short rate, during the course of my incumbency as the Secretary of the Treasury, it has fluctuated all the way from three-eighths to 1.12 at the present time, and that looks like considerable flexibility.

Senator FLANDERS. But was it allowed to fluctuate for the purpose of affecting commercial interest rates? That is the question.

Secretary SNYDER. Exactly; that was used for tightening up purposes to assist in the credit-control arrangement.

Senator DOUGLAS. Mr. Secretary, that was done about the middle of 1947, I take it?

Secretary SNYDER. Between then and now.

Senator DOUGLAS. So that during 1946 it was not done when the rate on Treasury bills was less than one-half of 1 percent?

Secretary SNYDER. Correct.

Senator FLANDERS. In other words, there is some question as to whether it was done at the time when it would have been most helpful to do it.

You are aware, Mr. Secretary, as you have indicated, this is a question which is of very serious concern to people who are thinking about this subject. We have to find some means of getting into it. We have to find some means of satisfying our responsibilities with regard to it as legislators.

I think we have a greater responsibility than that assigned with reference to the general public by the chairman. We have a specific responsibility for trying to understand this situation and coming to some conclusion on it.

I would like to read into the record two paragraphs from a letter from Marriner Eccles which raises the question in a fairly compact form. I believe, sir, you have a copy of this letter.

Secretary SNYDER. It was handed to me just as I started up here, and I have not had a chance to look at it.

Senator FLANDERS. I see.

I will just read these two paragraphs:

The Federal Reserve System was established by Congress primarily for the purpose of determining and carrying out credit and monetary policy in the interest of economic stability and is responsible to Congress for that task. There is a seven-man Board of Governors, appointed for 14-year terms with approval of the Senate. The Board is assisted by an experienced and highly qualified staff of experts. There are 12 presidents of the Federal Reserve banks, each with a staff of specialists, and each Federal Reserve bank has a board of directors composed of leading citizens in its district drawn from professional, business, farming, banking, and other activities. There is also the Federal Advisory Council, composed of a leading banker from each of the 12 districts, established by Congress to advise the Board. All of these supply information and advice and many participate in formulation of monetary policies appropriate to the needs of the economy.

Under present circumstances the talents and efforts of these men are largely wasted. Views of the Federal Reserve Board and Open Market Committee regarding debt-management policies are seldom sought by the Treasury before decisions are reached. The System, however, has made suggestions on its own initiative to the Treasury in connection with each financing, but very often these have not been accepted. Decisions are apparently made by the Treasury largely on the basis of its general desire to get money as cheaply as possible.

I might comment by saying that that desire is a fairly praiseworthy desire, and I think you should still maintain that desire.

Secretary SNYDER. Just before you leave that, Senator Flanders. You are going to have the Chairman of the Federal Reserve Board here tomorrow, are you not?

Senator FLANDERS. I believe so.

Senator DOUGLAS. Yes; that is right.

Secretary SNYDER. Read that paragraph to him and ask him if he concurs.

Senator FLANDERS. I will be glad to do it.

Now, Mr. Chairman, I have this suggestion to make for your consideration. I think that the Secretary makes a very important point when he suggests that what he says in public with regard to the bond market, maintaining its price, changing the interest rate, and so forth, has far more effect than when you, or I, or any of the witnesses we have had before us, make similar suggestions or similar statements.

Furthermore, I do not believe that any useful purpose would be served on having a long-range debate on this subject, with one witness appearing one day and another witness the next and another witness the next.

I think we have a duty to see if there is some composition that can be made in the public interest of these differences of opinion, and my suggestion is that we ask members of the two groups to meet with us in executive session and see if we can come to our own conclusion as a result.

Senator DOUGLAS. Would that be acceptable to you?

Secretary SNYDER. That would be acceptable to me, Mr. Chairman.

Senator DOUGLAS. We have a somewhat tight schedule next week, but I think we could probably fit it in. We will send an invitation to Mr. Eccles and also to Mr. McCabe if he cares to be there. It is possible we could arrange that this afternoon.

Secretary SNYDER. Unfortunately, I will not be able to attend this afternoon, Senator, but any day next week I am available for it.

Senator DOUGLAS. Mr. Secretary, yesterday Mr. Kline, in the testimony to which Senator Flanders has referred, made an interesting suggestion on the adaptation of the refunding policy of the Treasury to business conditions. And, before I go into that, I want to see if my own knowledge of the facts of the situation is correct.

As I understand it, the purchases of Government bonds, generally, for long periods of time, are made primarily by others than banks—namely, by individuals and savings institutions—and come primarily out of savings, and hence represent probably no real creation of additional monetary purchasing power, but instead the transfer of purchasing power to the purchase of Government securities which would otherwise be used for some other purpose; but that the purchases of securities by banks are primarily short-time securities and are primarily derived from the creation of credit by the banks, the writing up of deposits on the bankbooks with which these short-time securities are purchased, and that they, therefore, amount to an injection of additional monetary purchasing power into the economy.

Am I correct in that general impression?

Secretary SNYDER. That is correct.

Senator DOUGLAS. Mr. Kline's suggestion, as I gathered it, was that the refunding policy instead of being independent of the business cycle or business conditions should be adapted to business conditions. For example, in periods of so-called prosperity and rising prices, or inflation, there should be a relative shift from short-time Government securities held by banks to long-time securities held by nonbanks, individuals, and savings institutions; that in this way you would at least prevent from increasing, and probably decrease, the amount of bank credit which was available, and you would substitute for that genuine savings out of the current income; and that this would dampen down, therefore, possible inflationary influences.

Secretary SNYDER. Mr. Chairman, that is exactly what we did. We shifted $34,000,000,000 out of the commercial banking system into that type of portfolio. We study those portfolios every day of the year, and we are right on top of the available investment cash in all of those different types of institutions, and we consult with them every month in the year as to exactly how much they have available for investment purposes. And we have been attempting to do exactly what you have just outlined.

Senator DOUGLAS. Well, the converse of what Mr. Kline said was that in a depression period you should shift from the long-time holdings of Government bonds to short-time holdings; and that, therefore, you should diminish the holdings of long-time securities by individuals and savings institutions and increase the amounts of short-times furnished by the banks.

Secretary SNYDER. We have not had a depression since I have been Secretary of the Treasury.

Senator DOUGLAS. I am using the two words "prosperity" and "depression." Suppose we substitute for depression the word "recession." I think Mr. Kline would say that in a period of recession there should be a shift from long-time to short-time, thus creating additional monetary purchasing power through the banks.

Secretary SNYDER. That follows the policy that we have been using. Of course, we have not had any real recession.

Senator DOUGLAS. I am not trying to score a point, Mr. Secretary.

Secretary SNYDER. I am not trying to score points, either. I am just trying to say we are in accord with those views because that is exactly what we did on the one side. I have not had any experience to actually do the other to any degree.

Senator DOUGLAS. Has not this last year been one of recession on the whole?

Secretary SNYDER. There has been a shifting back and forth. We do not consider this last year a recession, you understand. Income was higher than it ever was before in the history of the country. 1948 was the most prosperous year in history.

Senator DOUGLAS. 1949 was not a recession?

Secretary SNYDER. 1948 was not, and in 1949 income paid to individuals is still running at a tremendous rate. We have had some adjustments, yes; but we have not had any recession.

Now there have been neighborhoods and localities that have had some difficulties; but, as a national picture, we have had adjustments but certainly no recession The income during the first 10 months of the year was higher than in 1948.

Senator DOUGLAS. Well, it was a recession from the latter part of 1948.

Secretary SNYDER. You are talking about the inventory adjustment which began at the end of last year?

Senator DOUGLAS. Mr. Secretary, wholesale prices went down, as I remember it, by 8 percent; manufacturing production went down, as I remember it, by about 16 percent. We have the charts. Unemployment went up from 3 percent; that is, if you take the nonagricultural working force, from 3½ percent to 7½ percent. I know there are lots of semantic difficulties on these things, but I would call that a recession.

Secretary SNYDER. Frankly, in the volume that took place, I would call it an adjustment.

Senator DOUGLAS. But if it had been a recession—let us put it that way. If it had been a recession, would it have been wise to have pushed the sale of E, F, and G bonds which are bought out of savings? Had it been a recession, might it not have been better to have shifted from long-time to short-time, which Mr. Kline suggested? Now we have got a purely suppositious question.

Secretary SNYDER. That is what led me to say, Mr. Chairman, we have to carefully study each time we make a decision in the Treasury the conditions of that time. We have never seen where there was any trend developing there. We saw adjustments taking place, and we conducted our affairs accordingly.

If such a condition as you envision should come about, we would have to sit down and give it our very careful consideration.

Senator DOUGLAS. How serious would the drop have to be for the adjustment to turn into a recession?

Secretary SNYDER. We would have to observe that and decide.

You see, Mr. Chairman, if I would venture to say that any point is the turning point, these gentlemen would never forget it; and if we ever reached that point, then we would be said to have a fully binding obligation. So, I will not venture to put any deciding line between what is an adjustment and what is a depression or what is a recession.

Senator DOUGLAS. That preserves administrative discretion but does not add to either public or senatorial enlightenment.

Secretary SNYDER. I will be glad to discuss the matter more fully in this executive session you are planning.

Senator DOUGLAS. Mr. Secretary, let me ask you a theoretical question.

Who in your judgment has the responsibility for monetary policy, the Secretary of the Treasury or the Federal Reserve Board?

Secretary SNYDER. Well, the Federal Reserve has the primary responsibility.

Senator DOUGLAS. Who has the ultimate?

Secretary SNYDER. I am talking about generally speaking. If you include debt management in monetary policy, that is another matter. The Treasury Department without question—the Secretary of the Treasury—has the responsibility for debt management, and it was given to him by Congress.

Senator DOUGLAS. But credit management is in the hands of the Federal Reserve.

Secretary SNYDER. Congress has placed that largely in the Federal Reserve's hands.

Senator DOUGLAS. Through the increase in the public debt, the Treasury and the Federal Reserve have become Siamese twins, as it were, joined together by an indissoluble connection. Now suppose the Federal Reserve wants to move one way and the Treasury wants to move the other, how strong is the filament which connects these two bodies, and which has the greater motive force to lead the other?

Secretary SNYDER. Theoretically and practically, I would say, the Treasury Department and the Federal Reserve Department must have full cooperation. I said that initially, and I still believe it.

Senator DOUGLAS. Suppose the Federal Reserve wants to raise the interest rate to check inflation and the Treasury wants to keep interest rates down to reduce the debt service, who in this partnership is then to decide?

Secretary SNYDER. Cooperation is a two-way street, and it is certainly to be hoped that the two agencies can sit down together and work out their problems. I thought we had been doing it very well.

Senator DOUGLAS. We had a whole list of questions, Mr. Secretary; but, in our desire to cooperate and have full cooperation between the legislative and executive branches, I feel somewhat constrained in the matter. I feel that I probably should not ask them with all these gentlemen of the press about. I feel that I should defer them to this executive session when I shall receive the first dividend in enjoyment which I have thus far experienced as a Senator.

Secretary SNYDER. Mr. Chairman, in order that you might have seasoned and carefully considered answers to those questions, if you would give them to us now, we will be glad to go to work on them.

Senator DOUGLAS. Senator Flanders has read an excerpt from Mr. Eccles' letter. I think you have copies of that letter. If you would address yourself to the letter, we would appreciate it. Also, here is the list of questions which I had intended to ask you.

Secretary SNYDER. We have a copy of the letter. We will be delighted to work on it and these questions in the interim.

Senator DOUGLAS. I am sorry to disappoint the gentlemen of the press, but the chairman, having run out of questions, feels it is proper to ask in the interest of cooperation——

Mr. Wolcott, excuse me.

Mr. WOLCOTT. That is perfectly all right. I am a very humble member of this committee, anyway. I have enjoyed the debate thus far very much.

I hope that no crime will be committed by me in my questions against the committee's willingness to cooperate with the Treasury in this respect. So, if any of the questions I ask are seemingly a crime which violates this spirit of cooperation, I hope the Secretary will refuse to answer them point-blank.

I think we should find out from the Secretary whether the Treasury has any program to offset a recession or depression or other adjustment periods.

Secretary SNYDER. What sort of program?

Mr. WOLCOTT. That is what I want to know.

Secretary SNYDER. That is a pretty broad question.

Mr. WOLCOTT. Put it this way: Have you outlined what the Treasury should do to offset a depression?

Secretary SNYDER. You mean in the management of the debt? Is that what you had in mind?

Mr. WOLCOTT. In all the fields over which you exercise an influence.

Secretary SNYDER. We will certainly attempt in any fashion we can to adjust our policy to the conditions of the times. As for having any direct program that we are going to take a certain step at a certain time, we will have to do that in consultation with other agencies because the Treasury alone does not have a great deal of control over conditions of that sort. And, as far as the taxing is concerned, that is a matter in the hands of Congress. And that, of course, is one of the biggest factors that can be used that we are connected with—the taxing program of any given year—and that is a matter, of course, that is in the hands of Congress. We can make recommendations but the Congress makes the decision and makes the actual tax legislation.

Mr. WOLCOTT. Would you suggest that taxes be raised in periods of depression or recession?

Secretary SNYDER. Be raised in periods of recession?

Mr. WOLCOTT. Yes; if it is necessary to balance the budget.

Secretary SNYDER. Well, I think those are matters that certainly have to be decided, taking into consideration the conditions of the times. And if raising taxes is going to drive us into a deeper period of recession, we would have to give it full consideration at that time, and consider the interests of the public.

Mr. WOLCOTT. I remember some testimony by one of your predecessors, Secretary Morgenthau, some years ago, when he said that the Treasury was on a day-to-day basis in respect to policy. Is the Treasury still on a day-to-day basis in respect to policy?

Secretary SNYDER. It has to be, Mr. Congressman, because of the economic conditions of the country, that is, so far as debt management is concerned. A very definite policy in other matters, but in debt management we have to be on a day-to-day basis—say a month-to-month basis, but it is practically the same thing.

Mr. WOLCOTT. There is a very close affiliation between debt management and our economy, generally, because of the interest rate.

Secretary SNYDER. There is no question in the world about that.

Mr. WOLCOTT. I guess perhaps what I am trying to get at is: Have you any program outlined as to what you might do in respect to debt management which might affect our economy generally if we were threatened with a recession?

Secretary SNYDER. The major things that we could do are tied up in whatever tax program is adopted in any one year.

Mr. WOLCOTT. Well, have you a program which contemplates any recommendations of Congress to offset a depression or a recession?

Secretary SNYDER. We have a study group constantly working with Congress on various types of taxes and their effects on the economy.

Senator FLANDERS. May I interrupt for an observation?

Mr. WOLCOTT. Yes.

Senator FLANDERS. What you have just been saying, Mr. Secretary, rather indicates to me that on the face of it you do not conceive of that management as being a major factor in stabilizing the economy.

Secretary SNYDER. It is very important when combined with other forces, Senator. But debt management by itself, set off alone, is limited in what it could do in stabilizing the economy. We have to work with the credit-control people, we have to work with the Congress, we have to work with a number of elements, and tie those all in together; then we can make the debt management fit into the stabilization program. But set off by itself, it has a limited effect.

Senator FLANDERS. I do not think anyone has felt that debt management was unimportant or was in any other relationship to the whole than the various other factors are.

Excuse me, Congressman Wolcott.

Mr. WOLCOTT. Perhaps at this point it might be interesting to determine what proportion of our debt now is in accumulated interest.

Secretary SNYDER. Have we got the figure on that?

Mr. HAAS. You mean on discount bonds, Mr. Congressman?

Mr. WOLCOTT. Interest on the whole debt, I guess.

Mr. HAAS. I beg your pardon.

Mr. WOLCOTT. It would have to be interest on the whole debt if we are going to compare it to the debt.

Secretary SNYDER. On the total debt the figure is $3,100,000,000.

Mr. WOLCOTT. $3,100,000,000?

Secretary SNYDER. Yes.

Congressman Wolcott, I do not want to diminish it, and I have emphasized the importance of debt management's part in the whole economic stabilization program. But I again accented the importance that it must be tied in with other elements, and it cannot simply by itself, isolated, have a tremendous effect. But tied in with the operation of Federal Reserve and with the tax program and with recommendations for budgetary matters, it is vitally important. I want to make that perfectly clear.

Mr. WOLCOTT. I think when you said there was this very close affiliation with great influence on our economy incident to debt management, that you surely could not be charged with saying there was not a great influence and a very close affiliation.

Secretary SNYDER. Yes.

Mr. WOLCOTT. Is your management of the debt predicated upon the continuance of the present inflated dollar?

Secretary SNYDER. Just what do you mean by that?

Mr. WOLCOTT. Well, we have about a 60-cent dollar as opposed to a 100-cent dollar on the 1936–39 level, and of course there is a reflection in the debt of that depreciation in the value of the dollar.

Secretary SNYDER. We have to measure that, of course, against what our national income is now and what the present economy is. We just cannot isolate it and say what the dollar might have been worth in purchasing power in 1939 and what it is today.

Mr. WOLCOTT. Let me put it this way: Do you think that the value of the American dollar should remain static on the $35-an-ounce gold base?

Secretary SNYDER. Under conditions as they are today, I see no reason, with the commitments that we have in the purchase and sale of gold, why we should make any change in the dollar price of gold—$35 an ounce.

Mr. WOLCOTT. I think you have made the statement that it would perhaps be disastrous if you were to make any change in the dollar price of gold.

Secretary SNYDER. Well, it would just mean this: If we would make a change upward in the price of gold, we would be taxing our taxpayers to pay the subsidy on our purchases of foreign gold. The present volume of newly mined gold, known newly mined gold, in the world is roughly 900 millions of dollars. Of that the United

States produces about 75 million. Last year we purchased more gold than all of the current world production of gold. Any increase in the price of gold would be a subsidy paid by the American taxpayer. I just cannot bring myself to agree to that.

Mr. WOLCOTT. That world production of gold is an estimate or the actual figure?

Secretary SNYDER. That is the actual known figure.

Mr. WOLCOTT. Do you know how much Soviet Russia produces?

Secretary SNYDER. That is why I put it "known" production.

Mr. WOLCOTT. We have been trying for a good many years to find out their production.

Secretary SNYDER. We do not know accurately what Russia is producing. That is why I qualified the statement and said the "known" world production of gold.

Mr. WOLCOTT. Have you taken into consideration some production by Soviet Russia, or is the Soviet production in addition to these figures?

Secretary SNYDER. No Soviet gold is in that figure.

Mr. WOLCOTT. In your statement you say that under the circumstances which existed stability in the Government bond market has been of tremendous importance to the country.

You mean by that it is important to stabilize the Government bond market if we are going to stabilize our economy?

Secretary SNYDER. The fact we have had a stable Government bond market has had a good influence on all other segments of our economy—in the operation of credit in various fields, in the development of industry, and in the financing of our crops.

Mr. WOLCOTT. I was merely leading up to this question: Do you advocate the continuance of pegging the bond market by the Federal Reserve or the Open Market Committee, or anyone else?

Secretary SNYDER. We have not had to put any pegs in there for some time.

Mr. WOLCOTT. I mean if there came a time when the Government bond market was declining, would you feel that the Government bond market should be stabilized at any given arbitrary figure?

Secretary SNYDER. Well, the Federal Government is under no implied obligation to peg any market.

Mr. WOLCOTT. I know that.

Secretary SNYDER. As to what our position will be, we will just have to determine it as conditions develop.

Mr. WOLCOTT. It has a very important influence on economic stability. I will put it this way: Do you believe it is necessary to support the Government bond market?

Secretary SNYDER. I will have to measure by conditions as they are at the time we make a decision.

Mr. WOLCOTT. That is not part of the program, however?

Secretary SNYDER. There is no program implied.

Mr. WOLCOTT. Have you any recommendations to make to the Congress in respect to what we might do as a stabilizing influence in respect to taking from you the authority which you now have to buy gold freely?

Secretary SNYDER. I would have to give that some consideration, Mr. Congressman.

Mr. WOLCOTT. Would you be opposed to the repeal of sections 8 and 9 of the Gold Reserve Act? I think those are the sections which give you that authority.

Secretary SNYDER. I would have to give that some consideration.

Mr. WOLCOTT. Under the Bretton Woods Enabling Act, we have provided—and with the chairman's consent I will read it into the record so that there will be no dispute about the language of the law. There seems to be a little dispute as to what section 5 of the act contains in this respect.

That provides:

Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States propose or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7.

I will also read article IV, section 1, defining the par value:

The par value of the currency of each member shall be expressed in terms of gold as a common denominator.

Section 2 of the same article specifies that—

The fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

Now if the directors of the fund, having set that margin at a quarter of 1 percent, increased it to, we will say, 10 percent, that would in effect change the gold content of the American dollar, would it not?

Secretary SNYDER. By their action you mean it would actually change or would theoretically change?

Mr. WOLCOTT. Well, I guess theoretically primarily, perhaps, but it would naturally follow—it would be an actual change.

Secretary SNYDER. If the board of directors of the fund were to make such an adjustment, it does not imply the United States will follow through and buy and sell gold at that price.

Mr. WOLCOTT. To be sure now.

Secretary SNYDER. It takes the consent of the United States along with it.

Mr. WOLCOTT. But it would in effect and in practice change the gold content of the dollar, notwithstanding the fact that our director on the fund might vote against it or might refrain from voting under the terms of the enabling act, which forbids him from voting any change without consent of Congress. Perhaps this is all theoretical, and I hope academic, because of the position which you have taken effectually.

What I am trying to find out here—what I am reading from here now is what I consider a splendid article which will appear in the Engineering and Mining Journal in next month's issue, which I have a tear sheet from. I think the article is very well put up and puts this whole problem into one package. And I might suggest to the chairman, if he cared to do it—and I have the consent of the Engineering and Mining Journal—that it might go into the record.

Senator DOUGLAS. We will be very glad to have that, Congressman Wolcott.

(The document above referred to is as follows:)

COULD THE TREASURY RAISE ITS GOLD PRICE OVERNIGHT?

(Herbert M. Bratter, Washington, D. C.)

"Can the Treasury overnight increase the price of gold?" This question was put to me by the editor of Engineering and Mining Journal. For years, as a Government economist and private citizen, I have watched American gold legislation from the ringside, but I hasten to state at the outset that I am no lawyer.

Had the question been phrased differently, the reply might be easier. Had the editor asked: "Do you think the administration wants to raise the price of gold or devalue the dollar any time in the visible future?" my reply would be "No."

However, the editor's question relates to power, not intent. It arises from the fact that there is on the statutes a clear power for the Secretary of the Treasury to change the price at which the Government buys and sells gold. While that power, last enacted in 1934, has never been specifically repealed, some hold that it has been in effect repealed by the subsequently enacted Bretton Woods Agreements Act of 1945. The most that the Treasury has stated about its 1934 power today is that the "discretion of the Secretary of the Treasury" to change the price of gold has been "limited" and "circumscribed." The power remains.

PRICE OF GOLD

Under the gold standard, as understood by economists, the terms "price of gold" and "gold content of the dollar" mean the same thing. Thus, in the United States today, regardless of the fact that the dollar is not internally redeemable in gold coin, the price of gold is $35 an ounce troy. The troy ounce contains 480 grains. The gold content of the dollar, therefore, is 480 grains divided by 35, or 13.71+ grains of fine gold.

Since 1934 the weight or gold content of the dollar has remained unchanged. Hence, there has been no change in the official price of gold in the United States. Were the gold content of the dollar to be reduced, the price of gold would be raised automatically, pari passu. If, for example, the gold content of the dollar were to be reduced by 50 percent the price of gold at the Treasury would be doubled.

It is possible for the Treasury to increase the price of gold while leaving unchanged the legal definition of the weight of the dollar, but if that is done, the country violates one of the rules of the gold standard. It was actually done in 1933. The administration at that time deliberately took the country off the gold standard, utilizing the Trading With the Enemy Act. Congress later endorsed the steps taken when it passed the Thomas amendment in May 1933. Subsequently, that year the administration raised the price of gold in the open market, despite some question in the Treasury as to the legality of what it was doing.

In sections 8 and 9 of the Gold Reserve Act of 1934 the legality of the purchase of gold at premiums above the legal price of gold was retroactively ratified.

"The par value of the United States dollar" is another term, understanding of which is necessary in connection with the subject of this article. Parity means equality of value, expressed in terms of the monetary standard. As between two countries whose currencies are each defined as specific weights of gold, parity is the ratio of the two official prices of gold. Within a single country which defines its currency unit as a weight of gold, parity is that weight.

In the United States the dollar is at the official parity whenever it equals one thirty-fifth of an ounce of gold. It is this which the Congress obviously had in mind in the Bretton Woods Agreements Act cited hereafter.

Under the Thomas amendment of 1933 the President was authorized to reduce the weight of the gold dollar by as much as 50 percent. No time limit was set on that power. But the Gold Reserve Act of 1934, passed after the open market price of gold in the United States had been raised to almost $35 an ounce, put a time limit on this power of the President, which was several times extended, but finally was allowed to lapse in June 1943. However, to the extent that the Secretary of the Treasury may have any power over the price of gold under the terms of sections 8 and 9 of the Gold Reserve Act of 1934, the President also has power; the power to consent. And the President's power to consent is certainly, in fact, the power to initiate action as well.

GOLD RESERVE ACT

Sections 8 and 9 of the Gold Reserve Act of 1934 read as follows:

SEC. 8. Section 3700 of the Reserve Statutes (31 U. S. C. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency or the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury." (31 U. S. C. 734.)

SEC. 9. Section 3699 of the Revised Statutes (31 U. S. C. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar." (31 U. S. C. 733.)

The act which authorizes United States participation in the International Monetary Fund provides (Sec. 5) that:

"Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States * * * propose or agree to any change in the par value of the United States dollar under Article IV, Section 5, or Article XX, Section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under Article IV, Section 7 * * *."

The Articles of Agreement of the International Monetary Fund in article IV, section 1, define par value as follows:

"The par value of the currency of each member shall be expressed in terms of gold as a common denominator . . ."

Section 2 of the same article specifies that:

"The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin."

SNYDER COMMENTS

On repeated occasions, notably in press conferences, Secretary of the Treasury John W. Snyder has consistently denied any intention to propose a change in the dollar price of gold. In a statement handed to the press in written form on October 5, 1949, the Secretary went further. He not only denied the intention to propose a change. He made it clear that the power given the Secretary of the Treasury in sections 8 and 9 of the Gold Reserve Act of 1934 "is limited by a number of factors," first of which is the obligation of the United States as a member of the fund. After quoting article 4, section 2, of the fund agreement, already cited, Mr. Snyder's October 5 hand-out reads:

"The fund has prescribed a margin of one-fourth of 1 percent above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less, than $35 plus or minus the prescribed margin so long as the par value of the dollar declared to the fund remains unchanged. The par value of the dollar can be changed only pursuant to the provisions of the articles of agreement and the Bretton Woods Agreement Act, which requires the approval of Congress for any such change. Section 5 of that act provides that neither the President nor any person or agency shall propose to the International Monetary Fund any change in the par value of the United States dollar or approve any general change in par values unless Congress by law authorizes such action.

"Even without the legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar."

Mr. Snyder went on to emphasize the importance which the United States attaches to maintenance of a stable dollar price for gold. He pointed out that the gold parity statutes of 1900 and 1933 require the Secretary of the Treasury to maintain parity of United States money with the gold dollar.

Note, however, that both these statutes were on the books when Roosevelt late in 1933 raised the price of gold without the dollar's having been formally devalued. Note also that section 8 (already cited) permits the Secretary to buy gold on his own terms, "any provisions of law relating to the maintenance of parity * * * to the contrary notwithstanding."

Although this indicates that Snyder could, if he would, raise the price of gold, the likelihood of his doing so was lessened by President Truman's flat statement on November 10 that as long as he was President, the price of gold was fixed.

While the present Secretary of the Treasury evidently regards the Bretton Woods Agreements Act of 1945 obligation as overriding the powers given him under sections 8 and 9 of the Gold Reserve Act of 1934, it does not necessarily follow that a later law eliminates the provisions of an earlier law, unless those provisions are specifically repealed. On November 17, 1933, Attorney General Homer Cummings sent President Roosevelt a written opinion that the powers of the Secretary of the Treasury enacted in 1862 and 1864 to buy and sell gold (the powers since reenacted in sections 8 and 9 of the Gold Reserve Act) were still alive in 1933.

THE FUND'S POSITION

The board of executive directors of the International Monetary Fund, in which the United States has the largest voice, have it in their power to prescribe (under article 4, section 2, of the fund's articles of agreement) the margin above and below par value for transactions in gold by members. In the fund's present rules and regulations this margin is fixed at one-fourth of 1 percent. This margin could be increased without amendment of the articles of agreement. Only the rules would have to be changed. Were the margin to be expanded to, say 10 percent, the Secretary of the Treasury could use his powers under the Gold Reserve Act of 1934 to buy gold at $38.50 an ounce.

Several members of the World Fund have subsidized their gold-mining industries. While the intentions of the Bretton Woods Conference are somewhat obscure on this point, the fund in practice tolerates gold-mining subsidies so long as they are not on a uniform-per-ounce basis.

Individual subsidies to individual gold mines get around the fund's objections and are just as satisfactory to the miners concerned. It would be possible for the United States to subsidize its gold-mining industry without violating the fund articles of agreement. For example, suppose that the Secretary of the Treasury with the President's approval were to buy all the gold produced in excess of the previous year's output at, say, $40 an ounce, it would be possible to maintain that:

(1) The gold content or weight of the dollar remains unchanged.
(2) The par value of the dollar remains unchanged.
(3) The fund articles of agreement and recent policies are observed.

And this can be done without any new legislation by the Congress. That it would be done is, of course, most unlikely, in view of the lack of need for more gold in the monetary system and the relative smallness of the gold-mining industry in this country's economy.

THE OUTLOOK

On the surface or behind the scenes, so far as a Washingtonian can observe, there is not the slightest sign that the present administration desires an increase in the price of gold or devaluation of the dollar.

Whatever powers the Truman administration has over the price of gold, it has no intention of using them. Nor has it any intention of surrendering them.

Yet this generation has had experience with long-dormant laws and powers and their application to surprising ends. It has discovered that laws and promises do not always mean what they have long seemed to mean. Who can be sure, therefore, that in some future 1933, with another FDR in the White House,

another Homer Cummings as Attorney General. another Herman Oliphant as Treasury General Counsel, it will not be determined that the Secretary of the Treasury has the power to increase the price of gold?

Mr. WOLCOTT. I think it throws a tremendous amount of light on this whole question, and the law is all here in 1–2–3 order.

Senator FLANDERS. Congressman Wolcott, may I inquire whether the article explains whether gold stabilizes the dollar or whether the dollar stabilizes gold?

Mr. WOLCOTT. I think there would be general agreement under the plan that gold would stabilize the dollar.

Senator FLANDERS. That is a debatable question.

Mr. WOLCOTT. I know. It was to me until these hearings. And I gather from the hearings that, much to my surprise, we are on some sort of a gold standard. I had not known that for some years. But every witness has brought out this very close affiliation between the American dollar and gold. So I assume from that, if we are not actually on a de jure gold basis we are at least on a de facto gold basis.

Senator FLANDERS. Or gold is on a dollar basis.

Mr. WOLCOTT. I will agree—I did not think we were in disagreement on this—that the dollar under the Bretton Woods agreement in practice has been substituted as a basis which controls the value of all major world currencies.

Secretary SNYDER. I think we are definitely on an international gold bullion standard. There is no question about that.

Mr. WOLCOTT. I do not think there is any question in anyone's mind about the desirability of getting as much of the debt into private hands as possible as a hedge against inflation. And we have been told that the drives on the savings bonds have been very successful in that respect.

Now how much can we rely upon future activities in that field to prevent the monetization of the debt?

Secretary SNYDER. Well, the savings bond program, as we have conducted it since the war, has been on a thrift basis and including with it at times an inflationary basis. But recently we have used it most as a thrift incentive, and it has been deemed so by all the banking institutions because we have had the hearty support of all banking groups in the savings bond programs. And it has been very effective in spreading the ownership of the debt and the interest on the debt.

We have tried to keep on that level, and we keep our eyes constantly on it, and if it ever got to be a drain on the economy, we would naturally taper off on the promotion of the savings bonds.

Is that the question?

Mr. WOLCOTT. Yes; I believe so.

The purchaser of the bond purchases it because he is thrifty. Many in Government and financial circles, however, have stressed the advisability of selling E, F, and G bonds to the general public to prevent further threats to the value of the dollar incident to the possibility of monetizing that debt if this debt were held by the banks in such a way that it could be monetized. So I think on the part of the purchaser it is a question of thrift, and on the part of Government there is this very decided factor, perhaps deciding factor, that the sale of these bonds to private holders does prevent further inflationary influences. That is right, is it not?

Secretary SNYDER. It is.

Mr. WOLCOTT. Now, what I am trying to find out is how successful we have been in that field.

I have before me a release of the Treasury Department on July 21, 1949, which is very short, and if I may, I shall read it. The number is S–2060. It says:

> Acting Secretary of the Treasury Foley announced today that sales of Series E Savings Bonds in the recent opportunity Savings Bonds drive reached $1,216,230,000. This was 117 percent of the national quota of $1,040,000,000.
>
> The Acting Secretary said:
>
> "The Nation is to be congratulated on this further evidence that the spirit of thrift is very much alive in America.
>
> "The success of the drive was due primarily to the work of the hundreds of thousands of volunteers who gave it their energetic support. These volunteers included representatives of practically every field of activity. National Director Vernon L. Clark of the Treasury's Savings Bonds Division joins me in extending hearty thanks to these volunteers as individuals as well as to their community, State, and national organizations."

Now I have also the Treasury Bulletin of November 1949 before me. And if I understand the figures correctly, they perhaps belie that statement by Mr. Foley.

Your drive was going on from sometime in May to sometime in June. Let's go back to April. Sales of E, F, and G bonds in April, just before the drive, were $331,000,000; in May 1949, during the drive, they were $322,000,000; in June, $359,000,000; July, $378,000,000, when there was not any drive on. There does not seem to be too much difference in the volume of sales.

Secretary SNYDER. I would like to look into it—those figures are not in my mind.

Mr. WOLCOTT. I will give you some other figures here from your report which, of course, are authentic.

The E's outstanding, which would be the bonds, presumably, for which there would be the greater demand in a drive of that kind, as of April 30, were about 33 billion dollars; May 31, about 33 billion; June 30, 33 billion; July 31, 33 billion; August 31, 33.4 billion; September 30, 33.5 billion.

Secretary SNYDER. I do not carry those figures in my mind. But are those net figures?

Mr. WOLCOTT. I think so.

Secretary SNYDER. Those are net figures, are they not?

Mr. WOLCOTT. From the Treasury daily statement.

Secretary SNYDER. They are net outstanding.

Mr. WOLCOTT. Yes; net outstanding. So that would not indicate there was in the aggregate much accomplished.

Secretary SNYDER. You have got to keep working to stay even sometimes, you know. I will be glad to look into that for you.

Mr. WOLCOTT. I wonder if Mr. Foley was not a little optimistic. I should not put it that way. Of course, I do not want to dispute the figures. But I wonder if the people were not perhaps justified in being a little bit misled by the Treasury's statement that we had sold $1,216,000,000 during that period.

Secretary SNYDER. If you desire it, I will have a reconciliation of those figures prepared.

Mr. WOLCOTT. I wish you would and I will appreciate it.

I bring it up only for the purpose of showing that perhaps our effort to put these bonds in position as part of our public debt, where they cannot be monetized, has not been the success that we in Congress are sometimes led to believe.

Secretary SNYDER. Congressman, I think the real test is the total volume outstanding. And that, of course, is an indisputable figure. We know exactly what that is and have so stated in my statement. And if that is being maintained, then we are accomplishing what we have been endeavoring to do.

(The following information was later submitted for the record:)

In response to Congressman Wolcott's inquiry about the opportunity savings bond drive:

The savings-bond program must be kept constantly before the public. The Treasury Department has had several promotional drives since the end of the war and in each case this has been one of the major objectives. As I said in my prepared statement, and again in the questioning which followed, we have continued to promote the sale of savings bonds since the end of the war in order to broaden the ownership of the debt; because of the anti-inflationary effect of such sales during periods of inflationary pressures; and as a means of encouraging thrift.

Another aspect of the promotional drives which might be mentioned is the probable effect which they have in cutting down redemptions. As I noted in another part of my statement, the savings-bond redemption experience since the end of 1945 has been more satisfactory than the turn-over experience in other forms of savings.

It is with all of these considerations in mind that we have sponsored promotional savings-bond drives since the end of the war. The important thing is to maintain the total volume outstanding. We have done this; and the total amount of E bonds outstanding has increased approximately $3,000,000,000 since January 1947, as shown in the following table:

[In millions of dollars]

	Sales	Accrued discount	Redemptions		Amount outstanding
			Sales price	Accrued discount	
1947—January	535	52	334	8	30,507
February	394	40	282	7	30,651
March	372	45	333	9	30,725
April	349	40	355	10	30,749
May	305	42	320	9	30,767
June	301	61	328	10	30,791
July	339	57	344	11	30,833
August	294	42	305	10	30,854
September	304	46	329	11	30,864
October	304	41	305	10	30,894
November	263	46	262	9	30,932
December	325	67	316	11	30,997
1948—January	479	60	299	11	31,226
February	367	44	233	9	31,394
March	383	48	328	13	31,485
April	320	44	332	14	31,503
May	305	60	303	13	31,552
June	341	78	332	14	31,625
July	379	70	305	13	31,755
August	334	49	307	14	31,818
September	304	52	289	13	31,872
October	305	49	274	13	31,939
November	308	59	281	13	32,012
December	399	83	292	14	32,188
1949—January	438	75	269	13	32,419
February	386	53	213	11	32,634
March	415	57	291	14	32,800
April	331	54	271	14	32,901
May	322	64	276	14	32,997
June	359	89	301	16	33,127
July	378	81	269	14	33,303
August	329	59	283	16	33,393
September	299	62	[1] 281	[1] 15	33,457
October	289	64	[1] 263	[1] 15	33,532
November	286	69	[1] 278	[1] 15	33,594

[1] Preliminary.

Mr. WOLCOTT. I am sorry I will not be here for this debate between you and Mr. Eccles and Mr. McCabe. I assume that the Treasury Department and the Federal Reserve have had pretty close contact in respect to monetary and credit policies, have they not?

Secretary SNYDER. It has been my opinion that that is true, yes.

Mr. WOLCOTT. Then can I leave here tomorrow under the assumption that this debate you are going to have will not elicit any more cooperation than has been elicited from previous meetings you have had?

Secretary SNYDER. Are you going to be here for the testimony of the Chairman of the Board tomorrow?

Mr. WOLCOTT. Yes.

Secretary SNYDER. That probably answers the question.

Mr. WOLCOTT. Then we can take your testimony today and his testimony tomorrow and by putting them together we can conclude what will be the result of the meeting which you are going to have in executive session here before this committee?

Secretary SNYDER. We are not limiting the scope of this meeting next week. The Chairman has asked to get parties together to visit. I did not know it would necessarily be a debate, but an open discussion of problems.

Mr. WOLCOTT. Perhaps I misused the word. But there has been open discussion between the Treasury and the Federal Reserve?

Secretary SNYDER. Constantly, constantly.

Mr. WOLCOTT. Do you want us to wait until we hear Mr. McCabe before we go further into the Eccles letter?

Secretary SNYDER. I have not had a chance to look at the Eccles letter, but anything you want to bring out of it, all right.

Mr. WOLCOTT. He says:

"The Federal Reserve System was established by Congress primarily for the purpose of determining and carrying out credit and monetary policy in the interest of economic stability and is responsible to Congress for that task."

I guess that is right, is it not?

Secretary SNYDER. I do not think there is any doubt about that.

Mr. WOLCOTT. He goes on to indicate that, because of the great influence which the Treasury has upon the decisions of the Federal Reserve Board, the Federal Reserve is put in the position now of serving two masters, the Congress of the United States and the Treasury.

Do you want to comment on that?

Secretary SNYDER. I do not think I want to comment on that. It is interesting to me that the Federal Reserve serves any master.

Mr. WOLCOTT. He says also, and this is particularly interesting in view of your statement of the decided influence of debt management on our economy generally:

> Decisions are apparently made by the Treasury largely on the basis of its general desire to get money as cheaply as possible.

Is that the policy of the Treasury?

Secretary SNYDER. It is not.

Mr. WOLCOTT. Then he goes on to say that because of this policy on the part of the Treasury the Federal Reserve's hands are tied pretty much; that if you develop an easy money policy with respect to debt management, it is difficult for the Federal Reserve to offset that by exercising the orthodox controls which it has within the limitations of law.

Now we run up against that in respect to other agencies of the Government. The Federal Reserve could raise the rediscount rates, reserve requirements; it could manipulate the open market operations to a point where there might be a tightening of credit and at the same time this could be offset completely by the other agencies of the Government. The RFC, the farm loan agencies, and Export-Import Bank might completely offset the efforts on the part of the Federal Reserve to tighten credit or expand it.

Secretary SNYDER. As I said a while ago, it takes the coordination of the operation of many agencies to come up with a net result. And if they could all be brought to bear on a single objective, which I feel they attempt to do, why we accomplish the end result. But this Government was set up on a sort of check and balance theory, and so I think that comes into operation in many of those considerations.

Mr. WOLCOTT. Well, in the committee print I think you answered the question as to whether you were in favor of a credit council, or something along that line, rather generally. As I recall it, you objected to it because it might, in the process of coordination, mean that through any such council you might have to yield a little sovereignty in that respect.

Secretary SNYDER. I do not think I objected to it. I think I specifically said I had no objection to the formation of such a monetary council. I did express the doubt of whether or not it would accomplish the full objective for which it was set up.

Mr. WOLCOTT. Would you vest them with any powers with respect to the formulation of Treasury policies?

Secretary SNYDER. The Treasury will not delegate any authority except when ordered by Congress to do so.

Mr. WOLCOTT. Would you think it advisable for the Congress in the establishment of any coordinating body to vest that body with such administrative powers that they could veto Treasury policy?

Secretary SNYDER. Well, the question is raised: Is the legislative going to become administrative? I wonder whether or not Congress wants to undertake to spell out how we are going to manage a debt.

Mr. WOLCOTT. We are not going to do that. I did not intend that to be the question. I intended it to be along this line: If the Congress establishes a coordinating body, a body to coordinate policy—call it a Federal credit council or whatever you want to, but not a monetary commission; I do not have that in mind—do you think this commission should be vested with such power that, notwithstanding Treasury policy, they could establish policy?

Secretary SNYDER. I doubt if it should go beyond the type of advisory group of the NAC. It can be an advisory group, but the agency that has been charged by Congress with making final decisions will have to continue to have that responsibility.

Mr. WOLCOTT. And you think that logically should be in the Treasury?

Secretary SNYDER. The NAC has, as I think you know, been extremely effective in coordinating foreign monetary policy. It might well be that a domestic council of that sort would be helpful.

Mr. WOLCOTT. Could you suggest any standards under which they should operate in this field?

Secretary SNYDER. In order to be of value to you, I would have to give that very serious consideration and discuss it later.

Mr. WOLCOTT. What I am trying to find out here is: What would you suggest that the Congress do to help in the coordination of policy within or between the Executive establishment and independent offices of the Government?

Secretary SNYDER. I think possibly the formation of such a domestic council would be helpful. As a matter of fact, I was giving it a great deal of consideration about 2 or 3 years ago. I think I talked with one or two of you here about it. I think Senator Flanders and you were both interested at the time. And we were comparing it with the operation of the NAC. We never quite got around to making any definite proposals about it, but I will be glad to brush up on the thinking of that time and bring it up to the point where we can discuss it with you in more detail.

Mr. WOLCOTT. Do you think it should be given any greater authority in the domestic field than the NAC now has in the foreign field?

Secretary SNYDER. On the face of it, I would say "No." I would have to give it very careful consideration to see if there is any further latitude that should be granted domestically than is given in the foreign field.

Mr. WOLCOTT. And would the same results be accomplished by transferring the independent offices to the executive establishment, letting the President coordinate, as he does, the executive establishment?

Secretary SNYDER. For just a complete blanket answer, I could not give that. Some of the agencies could very appropriately be blanketed into some of the executive establishments, but I would have to give the whole picture careful consideration.

Mr. WOLCOTT. Of course, in doing so we would destroy the checks and balances you referred to.

Secretary SNYDER. You would. Every time you do that you are to some extent mitigating the check and balance theory.

Mr. WOLCOTT. Thank you, Mr. Secretary.

Senator DOUGLAS. I have just one final question that I would like to ask in order to make the record clear.

Did I understand you to say that you felt there was no indefinite obligation upon the part of the Government to support the bond market and to maintain prices of Government securities at at least par? There was no indefinite obligation?

Secretary SNYDER. I said there was no definite obligation.

Senator DOUGLAS. No definite obligation?

Secretary SNYDER. That is true.

Senator DOUGLAS. And therefore there is no obligation even at the present time or in the future?

Secretary SNYDER. Our obligation is to pay them off at par at maturity.

Senator DOUGLAS. But in the meantime there is no legal obligation upon the Government to maintain it?

Secretary SNYDER. It is a matter of policy.

Senator DOUGLAS. Again not to point out differences but for the purposes of clarification. Mr. Harl, the head of FDIC, testified on this other matter before us, and I would like to read from his testimony:

Mr. HARL. We have labored under the policy that Government securities will be supported at all times. In 1940 and 1941, when the war came on, I was a State bank commissioner. I was assured by people in high places that the Government bond market would be supported. In that connection we went to our banks and asked them to participate in the war effort by making certain purchases. Naturally, the bankers who were there in 1929 to 1933, in those days, and particularly in 1920 and 1921, when Libertys dropped to, I think, 85, were reluctant to participate, until we, as State bank commissioners, told them that we were told that the bankers of this country would be protected on a stabilized Government market.

Then I asked the question:

Was that protection a guaranty for an indefinite period of time, world without end, or was it for a stated period?

Mr. Harl replied:

There was no statement made as to the length of guaranty or the time involved. We were told that the Government bond market would be protected. As you remember very well, in those early twenties when Libertys went to 85 cents. Therefore, you know, if you discount 15 percent of your Government holdings in the banks of the country it would materially affect their capital structure.

Then I asked a further question:

But suppose the Federal Reserve, for example, should decide to either end the system of support price or lower the support price, where would you be then?

And Mr. Harl replied:

I think if that was done, that good faith would have been broken with the banking fraternity who have supported, by large investment, Government bonds. I don't think we could have won the war if the bankers of the country hadn't gone in and bought these bonds like they did. I understand that it cost us one-tenth of 1 percent to dispose of our Government's. The bankers rallied and bought these bonds. I know, frankly, that I would not have recommended to any bank under my supervision at that time that they invest heavily in Government's unless there was some assurance that they would be protected.

Then there is an intervening paragraph referring to the volume of these obligations, and in the next paragraph:

I think that the bankers of this country believed that, and had a right to believe, that their Government would see that the bond market was supported at par, or they would not, as trustees of these large sums and these large deposits, invested 56 percent of their assets in the securities of this Government.

I wondered if you had any comment on Mr. Harl's testimony, whether you agree with his inference which, I think, is almost a clear statement in his testimony, that Government securities would be supported at all times, or whether you think any modification should be made in that statement.

Secretary SNYDER. Mr. Chairman, I was not present at those discussions, and that was before my time in the Treasury; so I am in no position to discuss it one way or another as to what was said or what was not said.

Senator DOUGLAS. I wondered if you wanted to make any expression.

Secretary SNYDER. I have no comment on it. I think the bankers had the right to expect the debt would be properly managed.

Senator DOUGLAS. This is our difficulty: If there have been promises made, we would naturally feel obligated to carry them out, but if promises have not been made, we are not obligated to carry them out.