

# AMENDMENT TO SECTION 10 OF FEDERAL RESERVE ACT

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## HEARING BEFORE THE COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

EIGHTY-THIRD CONGRESS

FIRST SESSION

ON

### H. R. 4605

A BILL TO AMEND SECTION 10 OF THE FEDERAL RESERVE  
ACT, AND FOR OTHER PURPOSES

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MAY 5, 1953

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# AMENDMENT TO SECTION 10 OF FEDERAL RESERVE ACT

TUESDAY, MAY 5, 1953

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C.

The committee met at 10 a. m., Hon. Jesse P. Wolcott (chairman) presiding.

Present: Messrs. Wolcott, Talle, Kilburn, McDonough, Betts, D'Ewart, George, Mumma, McVey, Oakman, Hiestand, Stringfellow, Spence, Brown, Patman, Multer, Deane, Dollinger, Bolling, and O'Hara.

The CHAIRMAN. The committee will come to order.

We have met to consider H. R. 4605.

(H. R. 4605 is as follows:)

[H. R. 4605, 83d Cong., 1st sess.]

A BILL To amend section 10 of the Federal Reserve Act, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second proviso contained in the ninth paragraph of section 10 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 522), is hereby further amended by striking out "\$10,000,000" and inserting in lieu thereof "\$30,000,000".*

The CHAIRMAN. We have before us Mr. Martin, Chairman of the Federal Reserve Board. We are very glad to have you back with us, Mr. Martin. You may proceed in any way you see fit.

## STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, ACCOMPANIED BY RUDOLPH MARTIN EVANS, MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. MARTIN. Mr. Chairman, I have with me Governor Evans who has been in charge of the building work of the Board. If it is agreeable, I will have him right here with me.

At many of the 24 branches of the Federal Reserve banks construction of additional building facilities is urgently needed to take care of the increased volume of work. This need cannot be met, however, because of a provision of the law which placed a limit of \$250,000 upon the cost of any building for a branch of a Federal Reserve bank (exclusive of the cost of vaults, permanent equipment, furnishings and fixtures and also exclusive of the cost of the land).

In 1947, in order to take care of what were then the most urgent needs for Federal Reserve branch building construction, Congress amended the law to provide that this limitation should not apply as long as the aggregate of such costs thereafter incurred for all branch bank buildings of Federal Reserve banks, with the approval of the

Board of Governors, was not in excess of \$10 million. This amount, however, has now been utilized or allocated, and a further amendment to the law is needed to permit the use of additional funds for the Federal Reserve branch buildings which are now necessary.

Under the \$10 million authorization provided by the 1947 amendment, the building occupied by the Cincinnati branch was purchased, new buildings have been constructed for the branches at Jacksonville, Portland, and Seattle, a major addition to the building at the Detroit branch has been constructed, and funds have been earmarked for the erection of a major addition to the Los Angeles branch building, plans for which have been prepared.

Additional space is now required at many branches other than those mentioned. In particular, new buildings or substantial improvements are needed for the branch Federal Reserve banks located at Buffalo, Pittsburgh, Baltimore, Charlotte, Birmingham, Nashville, New Orleans, Louisville, Denver, Oklahoma City, Omaha, El Paso, Houston, San Antonio, and Salt Lake City. The need for additional building facilities at many of these branches is urgent, and a number of them are emergency situations.

Most of the Federal Reserve bank branch buildings were built or acquired over 25 years ago, and since that time there has been a great expansion in the volume of business handled. The greatest increases in volume of work have come in handling of currency and coin and the collection of checks. Money in circulation, around \$30 billion, practically all of which flows through the Federal Reserve banks and branches, is more than three times what it was before World War II. Since 1940, the number of coins received and counted by the Federal Reserve branches has more than tripled, the number of pieces of paper currency received and counted has more than doubled, and the number of checks handled by the branches has nearly tripled. Moreover, much larger vault facilities are required because of the necessity for larger reserve supplies of currency.

The estimates for the cost of the buildings and improvements at the several branches mentioned above are necessarily rough at this time, but, after allowance for a 10 percent margin, the total estimated cost is about \$18,500,000 (after the exclusions provided by the law). This amount does not take into account needs that may later develop.

The Board wishes to emphasize that Federal Reserve banks use their own funds in the construction or improvement of their buildings. No appropriation of Government funds is involved. Costs of these buildings are capitalized—that is, carried as assets of the bank. Moreover, under specific requirement of the law, all construction projects with respect to branch bank buildings, having first been considered by the boards of directors of the branch and of the Federal Reserve bank, come before the Board of Governors for its approval. In each case the Board considers the proposal in the light of the needs of the branch, the type of building to be constructed, the reasonableness of the costs, the availability of materials, and whether the construction at this time is generally in keeping with the prevailing economic situation.

In 1950 the Board recommended to Congress an increase in the authorization for expenditure for branch Federal Reserve bank buildings above the amount authorized in 1947; and a bill for this purpose was passed by the Senate and favorably reported by the House

Banking and Currency Committee. At about that time, however the Korean invasion took place and the legislation was not enacted. Because of the urgent needs above described, the Board now recommends that Congress increase the amount authorized for construction of Federal Reserve branch buildings by an additional amount sufficient to meet the present situation, with a continuation of the requirement of the present law that the Board approve such expenditures.

The CHAIRMAN. Mr. Martin, how many buildings have you now?

Mr. MARTIN. There are 24 branch buildings. The program now contemplated by the bank contemplates the erection of 6 new buildings, one at Buffalo, Nashville, Louisville, El Paso, Houston, and San Antonio, and we have major additions to 10 buildings, at Pittsburgh, Baltimore, Charlotte, Birmingham, New Orleans, Denver, Oklahoma City, Omaha, Los Angeles and Salt Lake City.

The CHAIRMAN. In questioning the witness we might have in mind, a previous report of this committee on this subject matter dated June 30, 1947.

Are there questions of Mr. Martin?

Mr. PATMAN. I want to ask some questions, Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Martin, this money that is proposed to be used to build these buildings, would become profits of the Federal Reserve System, if it were not spent for this purpose, would it not? In other words, it would become a part of the surplus of the Federal Reserve banks?

Mr. MARTIN. Well, these are capitalized expenditures, Mr. Patman, they become capital assets of the banks.

Mr. PATMAN. I know, you are talking about the other end. I am talking about the spending of the money.

The money that goes out is money that would be a part of the surplus, is it not, of the 12 Federal Reserve banks?

Mr. MARTIN. It would be part of the surplus; yes, sir.

Mr. PATMAN. Now, that surplus, as it is now, flows over into the Treasury; 90 percent of it, does it not?

Mr. MARTIN. That is true, not of the surplus but of the earnings.

Mr. PATMAN. I mean the earnings.

Mr. MARTIN. The earnings; yes, sir.

Mr. PATMAN. It is money that would go into the Treasury if it were not intercepted in this manner.

Mr. MARTIN. No; this would not go into the Treasury. This becomes a capital asset of the System.

Mr. PATMAN. I know. You are talking about the other end of the deal. I am talking about before you build the buildings. If you do not build the buildings, the money becomes a part of the earnings. I mean it is part of the earnings in the first place.

Number 1, it is earnings. Number 2, it flows over into the Treasury 90 percent, if you don't intercept it and use it to build these bank buildings. That is correct, is it not?

Mr. MARTIN. Well, if we did not have any buildings, we would not have any operations or earnings at all.

Mr. PATMAN. Well, of course, you have buildings. These are extra buildings.

I am just talking about the effect of it.

(For explanation regarding cost of construction and earnings available for distribution, see p. 41.)

Mr. PATMAN. Mr. Martin, in the compendium that you have assisted us so ably in preparing for the Joint Committee on the Economic Report, I would like to have some of those tables brought down to date. I do not want to take up the time of the committee in interrogating you about them now, but, if I direct a communication to you and seek that information, I assume you would be glad to bring them up to date?

Mr. MARTIN. We will be very glad to bring any of the tables up to date.

(Information requested above is as follows:)

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM,  
May 7, 1953.

To: Mr. Molony.

From: J. E. Horbett.

Pursuant to the request made by Congressman Patman in the course of the May 5 hearings on the bank-premises bill, there are handed you herewith, for insertion in the record of those hearings, three copies of tables showing data for 1951 and 1952 corresponding to the tables appearing on pages 305, 306, 315, and 566-69 of part 1 of the report of the Joint Committee on the Economic Report on Monetary Policy and the Management of the Public Debt, 82d Congress, 2d session.

J. E. H.

*Current earnings of the Federal Reserve banks, by sources, annually, 1951-52; also net profits or net losses on sales of U. S. Government securities*

Year	Current earnings						Net profits, or net losses (-), on sales of U. S. Government securities
	Total current earnings	Discounts and advances	Acceptances purchased	U. S. Government securities	Industrial loans and commitments	All other	
1951.....	\$394,656,072	\$5,139,059	\$1,445	\$389,125,363	\$229,104	\$161,101	-\$1,586,123
1952.....	456,060,260	14,083,126	-----	441,629,317	216,555	131,262	1,991,647

*Annual expenses of Board of Governors of the Federal Reserve System, 1951-52*

Year	Expenses	Ratio to total expenses of all member banks (percent)	Ratio to gross national product of the United States (percent)
	(1)	(2)	(3)
1951.....	\$3,977,007	0.178	0.00121
1952.....	3,966,270	.159	.00115

*Annual expenses of the 12 Federal Reserve banks combined, 1951-52 (Reserve bank expenses include assessments for expenses of the Board of Governors)*

Year	Expenses, inclusive of reimbursable fiscal agency expenses	Expenses, exclusive of reimbursable fiscal agency expenses	Ratio to total expenses of all member banks of—		Ratio to gross national product of the United States of—	
			Percent	Percent	Percent	Percent
1951.....	\$113, 775, 881	\$95, 469, 086	5.10	4.28	0.035	0.029
1952.....	125, 171, 030	104, 694, 091	5.00	4.19	.036	.030

*Comparison of Federal Reserve expenses, 1951-52*

Period	Annual expenses of—						Percentage increase from previous year in—	
	Board of Governors		12 Federal Reserve banks <sup>1</sup>				Expenses of all member banks	Gross national product of the United States
			Inclusive of reimbursable fiscal agency expenses		Exclusive of reimbursable fiscal agency expenses			
Amount	Percentage increase <sup>2</sup>	Amount	Percentage increase <sup>2</sup>	Amount	Percentage increase <sup>2</sup>			
1951.....	\$3, 977, 007	11.4	\$113, 775, 881	18.1	\$95, 469, 086	16.3	10.5	15.8
1952.....	3, 966, 270	-.3	125, 171, 030	10.0	104, 694, 091	9.7	12.1	5.2

<sup>1</sup> Figures include assessments for expenses of Board of Governors.

<sup>2</sup> Percentage increase or decrease (-) from previous year.

*Member bank earnings, 1951 and 1952*

[In millions of dollars]

Item	1951	1952
Earnings.....	3, 669	4, 120
Interest and dividends on:		
U. S. Government securities.....	832	929
Other securities.....	211	235
Earnings on loans.....	2, 003	2, 306
Service charges on deposits.....	187	198
Other current earnings.....	436	452
Expenses.....	2, 232	2, 501
Salaries and wages.....	1, 125	1, 244
Interest on deposits.....	306	365
Taxes other than on net income.....	115	118
Federal deposit insurance <sup>1</sup> .....	45	45
Other current expenses.....	641	730
Net current earnings.....	1, 437	1, 619
Recoveries, profits on securities, etc.:		
Recoveries on securities.....	16	14
Profits on securities.....	52	29
Recoveries on loans.....	43	45
All other.....	29	25
Losses and chargeoffs:		
On securities.....	88	108
On loans.....	69	71
All other.....	45	47
Net additions to reserves.....	128	68
Taxes on net income.....	491	608
Net profits.....	756	829
Cash dividends <sup>2</sup> .....	371	390

<sup>1</sup> Estimated.

<sup>2</sup> Includes interest on capital notes and debentures.

*Sources and disposition of member bank earnings, 1951 and 1952*

[In percent]

	1951	1952
<b>Sources:</b>		
Interest and dividends on:		
U. S. Government securities.....	22.7	22.5
Other securities.....	5.7	5.7
Earnings on loans.....	54.6	55.1
Service charges on deposits.....	5.1	4.8
Other current earnings.....	11.9	11.9
Total earnings.....	100.0	100.0
<b>Disposition:</b>		
Salaries and wages.....	30.7	30.2
Interest on deposits.....	8.3	8.8
Taxes other than on net income.....	3.1	2.9
Other current expenses.....	18.7	18.8
Total expenses.....	60.8	60.7
Net current earnings.....	39.2	39.3
Net losses.....	5.2	4.4
Taxes on net income.....	13.4	14.3
Net profits.....	20.6	20.1
Cash dividends <sup>1</sup> .....	10.1	9.5

<sup>1</sup> Includes interest on capital notes and debentures.*Member bank earnings and profits as percentages of capital accounts, 1951 and 1952*

Year	Percent of total capital accounts	
	Net current earnings	Net profits
1951.....	14.4	7.6
1952.....	15.4	7.9

NOTE.—Net current earnings are total earnings from current operations less current operating expenses. Net profits are net current earnings plus recoveries, profits on securities, etc., and less losses, chargeoffs, and taxes on net income. Capital accounts consist of all forms of capital including capital notes and debentures, surplus, undivided profits, and reserves for contingencies. Capital account figures used for ratios are averages of call report figures during year.

Mr. PATMAN. Now in connection with my statement, Mr. Chairman, in order to cut it down as much as possible, I would like the privilege of extending my remarks to include, in connection therewith, certain matters that I consider material in connection with my questioning and the answers of the witness.

The CHAIRMAN. Without objection, that may be done.

Do you want that information that you asked for a part of the record, or in anticipation of other hearings?

Mr. PATMAN. I would like to have it included in these hearings, I want to ask some questions and I do not want to take up too much time, and I assure the chairman and members of the committee that I shall be as brief as I can but I think this is a matter of tremendous importance, and although the bill itself is minor in proportion to the size of the volume of business of the Federal Reserve banks, it is a matter that I think makes material many issues that are now current, that we should, as a congressional committee having to do with this Federal Reserve banking system, make diligent inquiry about.

Mr. KILBURN. Are you against this bill?

The CHAIRMAN. In this hearing.

Mr. PATMAN. In this hearing.

Mr. KILBURN. Are you against this bill?

Mr. PATMAN. As it is now, yes.

Mr. Martin, I notice a statement you made the other day which indicates to me that you consider the present situation more against deflation than inflation, that you consider that from now on our fight will be not so much against inflation, but to protect the country against deflation.

Is my interpretation of your remarks correct or incorrect?

Mr. MARTIN. Your interpretation is incorrect, Mr. Patman. My position is the same as stated before your committee, that the primary purpose of the Federal Reserve System is to provide, so far as monetary resources can do it, a higher standard of living for the American people.

That means we are always against deflation in the sense that inflation, unbridled inflation, leads to disastrous deflation. Now I have not—

Mr. PATMAN. Well, right now do you view the situation as inflationary, deflationary, or in the middle?

Mr. MARTIN. There are some tendencies on both sides. But it is not sufficiently clear on either side so that I would not want to say on which side is the preponderance, but there are still some inflationary potentials in the picture and business is exceedingly good throughout the country, in the majority of lines.

Mr. PATMAN. You, as Chairman of the Board of Governors of the Federal Reserve System, recognize that you do have control of the volume of money of the country. Your Board, that is?

Mr. MARTIN. Our Board has the problem of regulating—

Mr. PATMAN. The volume.

Mr. MARTIN. The supply of money.

Mr. PATMAN. The supply. Well, that is volume. Perhaps I have used the wrong word, but I think we mean the same thing.

Mr. MARTIN. Volume, availability, supply, that is all right.

Mr. PATMAN. Either one is correct?

Mr. MARTIN. That is right.

Mr. PATMAN. Now, you control it. In other words, you make it plentiful, or you make it scarce, depending upon what you believe you should do in the interests of the general welfare of the country, is that correct?

Mr. MARTIN. Well, within the limits placed upon us by Congress with respect to the reserve.

Mr. PATMAN. Well, there are hardly any limits on open market operations, are there?

Mr. MARTIN. Well, there are always the limits of the currency base.

Mr. PATMAN. One time, in interrogating Mr. Goldenweiser, he got to such astronomical heights I couldn't even follow him, he could even issue enough Federal Reserve notes to pay off twice the present national debt. So I quit going into it after we got that far.

Mr. MARTIN. I accept your comment that we have a very serious responsibility.

Mr. PATMAN. Yes, sir. And there is hardly any limit to the amount of Federal Reserve notes that you can actually put out.

Mr. MARTIN. Well, there is a limit, but—

Mr. PATMAN. But it is not in the foreseeable future, if there should be any trouble, is it?

Mr. MARTIN. Not in the foreseeable future.

Mr. PATMAN. Now the regional banks, Mr. Martin, do they have any power over re-discount rates now, or is that all fixed by the Federal Reserve Board?

Mr. MARTIN. The 12 banks have the power of initiating, to the Board, suggestion with respect to the discount rate, but—

Mr. PATMAN. The Board passes on it?

Mr. MARTIN. The responsibility is of the Board.

Mr. PATMAN. The responsibility is the Board's?

Mr. MARTIN. Yes, sir.

Mr. PATMAN. And the open market committee has complete control of the buying and selling of United States Government securities for the 12 banks, has it not?

Mr. MARTIN. The open market committee is the statutory body having that authority; yes, sir.

Mr. PATMAN. Now it is often referred to as the 12 men having so much power, Mr. Martin. I know you have heard that expression a lot—12 men having so much power.

Is it not a fact, though, that the Board of 12 is composed of 7 members of the Board of Governors of the Federal Reserve System, and 5 presidents of regional Federal Reserve banks? That is correct, isn't it?

Mr. MARTIN. That is correct, sir.

Mr. PATMAN. Is it not true, too, that the Board has the power to accept or reject? In other words, to hire the presidents of the Federal Reserve banks, the regional banks? That is correct, is it not?

Mr. MARTIN. The Board has to pass on the salaries and qualifications.

Mr. PATMAN. In other words, they pass on whether or not they will accept them. You determine whether or not you will accept a person as president of a Federal Reserve bank, New York or Dallas, Tex., isn't that correct, Mr. Martin?

Mr. MARTIN. We pass on the salaries.

Mr. PATMAN. Well, now, do you not think you are just limiting your power just a little too much there? Do you not have the power to say whether or not that person is acceptable?

Mr. MARTIN. In practice each bank has its own board of directors.

Mr. PATMAN. I am not talking about in practice. I am talking about the powers. Under the Federal Reserve Act, is it not true that you have the power to say whether a person is a president of a bank or whether he is not a president of a bank?

Mr. MARTIN. The president and first vice president, insofar as their salary is concerned—

Mr. PATMAN. Well, I am not talking about that, Mr. Martin.

Mr. MARTIN. Well, now—

Mr. PATMAN. I wish you would just answer. It should not be any trouble. You either know or you do not know. Or it is true or not true. But is it not a fact that the Federal Reserve Board has the power to accept or reject any person for president, of a regional Federal Reserve bank? Now that seems to be a plain simple question? You either have the power or you do not. It is true or not true?

Mr. MARTIN. We have the power to accept or reject any person for a Federal Reserve bank, but I do not think we would have the power to initiate putting in an individual.

Mr. PATMAN. Well, I did not even ask you that, Mr. Martin. You are putting words in my mouth that I did not say at all.

Mr. MARTIN. I just wanted it clear, Mr. Patman.

Mr. PATMAN. At any rate, you have really answered the question now. You do have the power to accept or reject?

Mr. MARTIN. That is correct. Under the law the president and the first vice president are appointed by the board of directors of the bank subject to the approval of the Federal Reserve Board.

Mr. PATMAN. All right. We got that nailed down. Now these five fellows, you also have the power to fire them, do you not, Mr. Martin?

Mr. MARTIN. There is always the authority to get rid of anybody for malfeasance in office.

Mr. PATMAN. Well, either it is true or not true. You tell me. Do you have the power to remove, or do you not have that power?

Mr. MARTIN. I would question whether we had the power to remove.

Mr. PATMAN. To make it specific, do you have the power to remove a president of a Federal Reserve bank? Is that power in the Board of Governors of the Federal Reserve System?

Mr. MARTIN. In my judgment we would not have the power.

Mr. PATMAN. Well, now, you are bringing up something that I did not ask you about, Mr. Martin. Please pardon me for that intrusion, but you are bringing up something that I did not ask you. You either know that it is true or not true, correct or incorrect, that the Board of Governors has the power to remove a president of a Federal Reserve bank?

Mr. MARTIN. It could remove only, in my judgment——

Mr. PATMAN. Well, is it remove or not remove? It can remove, can it not, for cause?

Mr. MARTIN. Well, for cause, yes, that is right.

Mr. PATMAN. Well, you can determine the cause.

Mr. MARTIN. Let us emphasize the cause.

Mr. PATMAN. There is no limitation on the cause, though, is there?

Mr. MARTIN. Yes; I think there is.

Mr. KILBURN. He is trying to answer, but you don't let him answer.

Mr. PATMAN. Certainly I am willing to have an answer.

Mr. KILBURN. Well, let him answer.

Mr. PATMAN. Well, I am waiting for an answer.

Mr. MARTIN. The cause would have to be a cause not of judgment but of malfeasance in office.

Mr. PATMAN. Well, anyway, the Board has the power to hire and fire, in the language of the street, directors and particularly the presidents of Federal Reserve banks.

Mr. MARTIN. The Board does not have any authority with respect to directors. 6 of the 9 directors of the banks are elected by the banks from the business and banking elements of the community.

Mr. PATMAN. You are correct. I accept your amendment and correction. You are absolutely correct about that. But the person that I am talking about, the president, you do have that power?

Mr. MARTIN. We appoint three directors.

Mr. PATMAN. That is right; you appoint three.

Mr. MARTIN. That is right.

Mr. PATMAN. Now you appoint three. That includes the president, does it not?

Mr. MARTIN. No; it includes the Chairman of the Board.

Mr. PATMAN. The Chairman of the Board of the Federal Reserve bank?

Mr. MARTIN. Yes, sir.

Mr. PATMAN. Doesn't the president have to be 1 of those 3, or not?

Mr. MARTIN. Oh, no.

Mr. PATMAN. He can be 1 of the 6?

Mr. MARTIN. No; the president is selected by the Board of Directors.

Mr. PATMAN. It could be 1 of the 6 or 1 of the 3, or could be outside entirely?

Mr. MARTIN. Almost entirely outside.

Mr. PATMAN. Almost entirely outside.

Mr. MARTIN. The president is not a director.

Mr. PATMAN. All right. Now, then, this interest increase which has been going on, who put that into effect? Did the regional banks initiate that or did the Board of Governors of the Federal Reserve System?

Mr. MARTIN. You refer to what specific interest increase?

Mr. PATMAN. What the bankers call "firming up the interest rates," really increasing the interest rates. It has been going on since March of 1951.

Mr. MARTIN. That increase in interest rates has been achieved largely by the market.

Mr. PATMAN. Under the direction of whom?

Mr. MARTIN. Under the direction of the composite of individuals—

Mr. PATMAN. By the tolerance of whom?

Mr. MARTIN. Well, unless we are going to print money—

Mr. PATMAN. Well, I say, by the tolerance of the Federal Board of Governors, is it not, because you could have put volume in there.

Mr. MARTIN. We unquestionably could have printed money; yes, sir.

Mr. PATMAN. Of course you call it printing money when you don't want to do it, but you do print a lot of money.

Mr. MARTIN. We have tried to let the market forces play their role in the credit function.

When the decision was made to unpeg the Government market, there was returned to the market the price mechanism of the market.

A decision in the market place that had been preempted for a number of years by Government policy.

And the idea was that the credit mechanism would begin to function again as a governor on the flywheel of the economy.

Mr. PATMAN. Yes, sir. Now this morning's paper carries a startling statement. It says, "Marketable United States Government bonds drop to record depths today." They have gone down to 91.

Now how far will those bonds have to go before the Federal Reserve steps in and stabilizes the market and say that they shall not go any further?

Mr. MARTIN. I will not make any prediction on prices, sir.

Mr. PATMAN. You will not make any prediction?

Mr. MARTIN. No, sir.

Mr. PATMAN. In your speech at Detroit, last week or the week before, you made some statements there that caused me to gain the impression—I just want to ask you if my impression is a correct one—that although in the past you have said that the Board of Governors, through the open-market committee, would step in in the case of a disorderly market, or I believe you said if the market was not orderly, but in this statement in Detroit, this speech, you said you had been unsuccessful in your efforts to explain what a disorderly market was, and left the impression with me that you would not try to find out, and you had no intentions of supporting the market regardless of how disorderly the market might become.

Mr. MARTIN. What I said in that speech, Mr. Patman, was that I had difficulty in explaining to your committee, and in several other places, just what a definition of an orderly market was.

Mr. PATMAN. Yes.

Mr. MARTIN. And that the more we had studied the question and watched the evolution of a freer market for Government securities, the more we had been impressed with the fact that the emphasis should be shifted toward correcting disorderly conditions rather than our establishing an orderly level. It is just a change in emphasis.

Mr. PATMAN. I see your explanation there. I realize what you are attempting to do.

But now I would like to know—and of course you have always said, properly, I think, Mr. Chairman, that you are an agency of Congress and that you want to carry out the will of Congress, and particularly that of the members of the Banking and Currency Committee—and as one member of that committee, and I believe the other members would be interested in knowing also, I would like to know just how low you will permit that market to go, before you step in and support it. Would you be willing to say that you would let it go down to 88?

Mr. MARTIN. I simply would not comment on prices.

Mr. PATMAN. Well, would you let it go down to 80?

Mr. MARTIN. I will not make any comment.

Mr. PATMAN. What about 75? Suppose it dropped to 75, would you step in?

Mr. MARTIN. I will not make any comment on prices.

Mr. PATMAN. You would not make any comment.

The CHAIRMAN. Mr. Patman, I do not think you should ask these questions of Mr. Martin. I suppose that is a matter of Board policy and Mr. Martin may not want to put a particular figure in the record.

Mr. PATMAN. I accept your reasoning and logic, Mr. Chairman, and I will not press him on that.

Now, you have a public-relations man. His name is Walter Williams, is it not? Is he not the public-relations man for the Federal Reserve System?

Mr. MARTIN. No, sir; there must be an error there.

Mr. PATMAN. Oh, he is with the Secretary of Commerce; yes. He says that business slumps, recessions, and depressions, are a part of our economy, a price we pay for having a vigorous, dynamic, expanding economy.

Williams outlined the Eisenhower administration's philosophy, adding a list of methods to combat downturns. Do you agree with what Mr. Williams says that we must accept as inevitable booms and busts in our economy?

Mr. MARTIN. Part of the purpose of the Federal Reserve Act was to minimize booms and busts, in that sense you work toward equilibrium, but there was never any intention to destroy flexibility of the economy.

Mr. PATMAN. Do you mean to the extent that we would continue to have booms and busts?

Mr. MARTIN. No, sir, the matter of flexibility has to do with dynamism. There is always an element of judgment in what is a bust and what is a boom.

Now our purpose recently in trying, over the last 18 months, to restrain inflation, has been directed entirely toward achieving what I am sure you and I are in agreement in achieving, which is a sustainable prosperity, and to making improbable disastrous deflation.

Now that is our objective in all of our work.

Mr. PATMAN. This committee would like to know—I know I would like to know, as one member of it—if this program of yours, of the Board of Governors of the Federal Reserve System, if this program fails to work, and it should cause a ruinous deflation, where will this committee put the blame in who will be to blame for that? Are you to blame for it? Or is Mr. Williams? Or is the Administration to blame for it?

Mr. MARTIN. Mr. Patman, we must not exaggerate the role of monetary policy. We do not want to underestimate it, but we do not want to exaggerate it, either.

Now the lot of a central banker will never be a happy one, because you have to lean against the breeze, whichever way it is blowing.

But to blame the Federal Reserve for a depression, or to give it credit for a boom, would be a complete, in my judgment, misrepresentation of the limits and possibilities of monetary policy.

One of the things that contributes to a high level of activity, and high level of employment, among those items, is a stable dollar, and the ultimate achievement of it is the use of raw materials and initiative and energy and workmanship in turning out products that are salable at stable values.

Now if we run our business all the time at the rate of a hundred-yard dash, there comes a limit to how far you can sustain that type of drive.

The head of our Division of Research and Statistics, Mr. Ralph Young, who is not here today, has referred sometimes to this present economy as an "overtime economy," because we have been under forced draft a good part of the time.

We have got to have some normalcy, in the sense of recognizing the fact that we cannot always be having new records at the cash register every week. We have got to level this thing out, and we have got to prevent monetizing the debt in such a way that we induce inflationary pressures.

As I testified before your subcommittee of the joint committee, I would like to have as low interest rates as it is possible to have, without inducing those inflationary pressures, and that is the objective of our policy.

We are not interested in promoting higher interest rates.

Mr. BROWN. Will you yield, Mr. Patman.

Mr. PATMAN. I yield.

Mr. BROWN. Is it your position that if we did not have the Federal Reserve System, that these bonds that you are speaking of would not go down as low as they have?

Mr. MARTIN. I do not know.

Mr. PATMAN. But, having the Reserve System, we are fortunate enough to have a system that can support them.

Had you finished, Mr. Martin?

Mr. MARTIN. Yes, sir.

Mr. PATMAN. Now, I am about to get ahead of myself here a little bit. How long has it been, not counting this period since the so-called Treasury-Federal Reserve accord, not counting that period, how long has it been since Government bonds, long-term, went below par?

Mr. MARTIN. I think the last time was World War I.

Mr. PATMAN. Right after World War II?

Mr. MARTIN. No, World War I.

Mr. PATMAN. I mean World War I.

Mr. MARTIN. Yes, sir.

Mr. PATMAN. When they went down to about 80, according to the market and in some places out in the country they went down to 75, to my knowledge.

But that was about 1919, was it not, Mr. Martin?

Mr. MARTIN. I should think that would be about right.

Mr. PATMAN. Now from that time, when the market was stabilized, of course, those bonds very quickly came up, and it didn't last long. About how long was it before they got back to par?

Mr. MARTIN. I would have to check it.

Mr. PATMAN. Do you have any statistics with you that could quickly give us that information?

Mr. MARTIN. I do not think we have. I will get that information and forward it to you.

(The information requested above is as follows:)

#### PRICES OF GOVERNMENT BONDS

With respect to prices of Government bonds, the record since World War I shows that, except for periods of supported Government securities markets, Government bond prices fluctuated in accordance with general money market developments. In periods of active demands for money, interest rates generally rose, and bond prices declined. As a consequence, any outstanding bonds issued with lower coupons than called for by the prevailing level of interest rates tended to decline below par. For example, the Liberty bonds issued during World War I, when the market was indirectly supported by Federal Reserve action, declined sharply late in 1919 and early in 1920, when commodity price inflation was rampant. Prices of some of these issues reached low points of 81 or 82 in May 1920 and continued in the 80's until the latter part of 1921.

From 1921 until early 1928, bond yields tended to decline, partly in response to reduction in the public debt and partly because of additions to the credit base from a gold inflow and other factors. Prices of outstanding bonds rose, with Liberty bonds reaching premiums of 2 to 4 points above par. New refunding issues of Government bonds were floated at gradually declining coupon rates—the lowest for long-term bonds was 3½ percent in 1927 and 1928.

With tightening credit conditions, accompanying the stock market boom of 1928-29, bond yields rose somewhat. Prices of a number of outstanding bonds fell below par—the Victory bonds with a 4¼ percent coupon to 98 and a fraction and the more recently issued 3½ percent bonds to 95 and a fraction.

With the development of easier money markets during the recession of 1930 and 1931, bond prices again rose to substantial premiums. In September 1931 the Treasury floated an issue of 20 year bonds with a 3 percent coupon. This trend was interrupted in the latter part of 1931 because of pressures on United States money markets resulting from depreciation of the pound sterling and also from currency runs on United States banks. The new 3 percent bonds declined to around 82 and other issues fell below par.

This tight situation was relieved somewhat by Federal Reserve open market operations, following passage of the Glass-Steagall Act early in 1932, permitting Government securities to be pledged against Federal Reserve notes. Money markets, however, continued chaotic until after the bank holiday.

During the 1930's and early 1940's, with easy money conditions resulting from the large gold inflow and the generally reduced demand for credit, bond yields generally declined with but minor interruptions. Prices of outstanding bonds rose to substantial premiums and new issues were floated at consistently lower coupon rates. Long-term issues were floated with coupon rates of 2½ percent and medium-term bond issues at as low as 2 percent. Bond prices fluctuated some during this period in response to market forces, and at times some of the lower coupon issues dipped temporarily below par.

*High and low prices of long-term U. S. Government bonds in selected periods, 1917-34*

[Quotations in thirty-second]

Issue and coupon	Dates out-standing	1917-24		1925-29		1930-34						
		Low	High	Low	High	Low	High					
1st Liberty converted 4½s	1918-35	84.0	102.24	Aug. 1924	98.40	May 1929	103.30	Mar. 1927	97.22	Feb. 1932	104.12	May 1934
2d Liberty 4½s	1918-27	81.3	102.00	July 1924	100.10	Nov. 1927	101.50	Dec. 1926	98.80	Jan. 1932	105.60	May 1931
4th Liberty 4½s	1918-35	82.0	103.00	Aug. 1924	98.60	Aug. 1929	104.12	Mar. 1927	98.30	Jan. 1932	114.80	June 1931
4½s 1947-52	1922-47	98.1	107.70	Nov. 1924	104.13	Mar. 1925	116.60	Jan. 1928	98.16	Jan. 1932	108.20	July 1934
3¾s 1946-56	1926-46				98.28	Mar. 1929	108.10	Jan. 1928	87.20	Jan. 1932	105.18	July 1934
3¾s 1943-47	1927-43				95.12	Mar. 1929	103.10	Jan. 1928	83.00	Jan. 1932	103.19	July 1934
3½s 1946-49	1931-46								82.30	Jan. 1932	102.14	July 1934
3's 1951-55	1931-51											

Source: C. F. Childs, Concerning U. S. Government Securities, C. F. Childs & Co., Chicago 1947.

Mr. PATMAN. At any rate, so far as you know, after that adjustment, which probably was not over a year, was it? Just as a rough estimate, it was not over a year or two, was it?

Mr. MARTIN. No, sir, I do not think so.

Mr. PATMAN. They got back to par?

Mr. MARTIN. That is right.

Mr. PATMAN. From then on, say 1920 to 1951, it became traditional that the Federal Reserve System would protect the bonds from going below par, did it not? It became traditional that the Federal Reserve System would protect those bonds from going below par?

Mr. MARTIN. Whatever there was in that tradition, there was nothing in the law that specified it.

Mr. PATMAN. I know there was nothing in the law, but people buying bonds could look to the past and say, "Why they have not gone down in 20 years." "They have not gone down in 25 years." "They have not gone below par in 30 years. Certainly we are justified in buying long-term Government bonds, because with that knowledge and background and tradition behind us we know that our Government will not let us down, and that the Federal Reserve System will protect those bonds as they have always done." Do you now think the people would be justified in believing that?

Mr. MARTIN. No, I do not think they would.

Mr. PATMAN. You do not think so. Now, then, this open market committee, composed of 7 Board members and 5 presidents of Federal Reserve banks, let us visualize that board. Seven Board of Governors members on one side of the table, and 5 presidents of Federal Reserve banks on the other side.

These 5 fellows on the other side, you certainly ought to have a lot of influence with them. You can hire them and you can fire them. So in truth and in fact, the open market committee is composed of the Board of Governors of the Federal Reserve System. Do you not think in practice that is true?

Mr. MARTIN. No, sir. In practice I am certain that that is not true.

In theory, it might be conceived that way, but in practice it certainly is not true.

The 5 members of the open market committee coming from the presidents' group, which is a statutory body, have equal status with the Board of Governor members in reaching a decision on market policy.

Mr. PATMAN. Do they take an oath like the governors to support the Constitution, in other words the statutory oath?

Mr. MARTIN. They do.

Mr. PATMAN. And the Board of Governors take the statutory oath of a Federal official, do they not?

Mr. MARTIN. We do; yes, sir.

Mr. PATMAN. All of them do?

Mr. MARTIN. Yes.

Mr. PATMAN. Now, then, do the presidents of banks take an oath of office as a Federal official?

Mr. MARTIN. Not as a Federal official; no, sir.

Mr. PATMAN. Well, since the Federal Reserve agent is the person who really is the go-between between the Government and the bank,

in other words, he pulls out the money from the Bureau of Engraving, and he keeps it in his possession, in his lockbox, and he delivers it to the bank when and if the bank is qualified to receive it, do you not think that makes him a public official to the extent that he should be under the same oath as the members of the Board of Governors?

Mr. MARTIN. I will have to check on this, Mr. Patman, but I understand the Federal Reserve agent does take an oath.

Mr. PATMAN. He does take an oath?

Mr. MARTIN. That is my understanding.

Mr. PATMAN. As a Federal official?

Mr. MARTIN. As a Federal official.

Mr. PATMAN. In other words, the statutory oath, prescribed by the Statutes of the United States, that all Federal officials take?

Mr. MARTIN. I will check that to be absolutely certain, but I think that is correct.

Mr. PATMAN. Well, you think he should take it if he does not; do you not?

Mr. MARTIN. Well, I would have to study it. My impression is he should.

(Additional comment supplied by Mr. Martin: "After checking the matter, I find that Federal Reserve agents execute the statutory oath prescribed by law for Federal officials.")

Mr. PATMAN. He handles millions of dollars, direct from the Bureau of Engraving, which is the Government Printing Office for money. The Board of Governors—

Mr. KILBURN. Mr. Chairman, is this a single inquiry?

The CHAIRMAN. Well, we will permit the gentleman to go on a little longer.

Mr. PATMAN. I assure the gentleman there is no use in making a point of order, because I am not going to ask any questions—

Mr. KILBURN. I am just wondering if it is the privilege of one single member of the committee to go ahead and ask questions.

Mr. PATMAN. Does not the representative of any district have certain rights, including the right to interrogate the witness?

Mr. KILBURN. I have got the same right.

Mr. PATMAN. Certainly you have. And I will not object to it.

Mr. KILBURN. All right.

Mr. PATMAN. The regional banks of the Federal Reserve System do not have much power now, do they, Mr. Chairman?

Mr. MARTIN. Do not have what?

Mr. PATMAN. They do not have too much power to control the economic affairs of the country, do they?

Mr. MARTIN. Well, the regional banks can pass on discounts.

Mr. PATMAN. Well, now, do you not think you have overstated it by saying "pass on discounts?" They can initiate a rediscount rate but it is up to the Board to say whether it can be put into effect.

But your discounts do not amount to hardly anything, do they?

Mr. MARTIN. Recently they have been up as high as \$2 billion.

Mr. PATMAN. Over the years, though, they have run down to even less than, sometimes, a million dollars, have they not?

Mr. MARTIN. Until this recent period, the discount facilities had fallen into almost, I might say, disuse.

Mr. PATMAN. Well, now, with all due respect to the regional banks, and I do respect all the officials and I appreciate the fact that they

are ready, on the alert, to do anything that would be necessary that would demand their services, or would permit their services to be of assistance, they do not have a great deal of power. They do not have the power to fix the rediscount rates, and this passing on discounts for banks, that is more of a slide-rule proposition, is it not? You have got your standard there to go by. You know exactly what you will take and what you will not take.

There is never any close question involved in that, is there?

Mr. MARTIN. There is a very real question involved at times, particularly in times like these, Mr. Patman, because it means a great deal to certain banks to have the borrowing privilege, and it is a privilege, not a right, borrowing for excess profits tax purposes, or for something that is not a temporary matter. They cannot be sure that they can always come into the discount window and get their reserves.

Mr. PATMAN. But the Board of Governors lays down certain rules for these banks to follow, does it not?

Mr. MARTIN. The Board of Governors does not lay down precise rules on that. The Board of Governors recognizes that as a function of the regional bank, because the regional bank is closer to the credit problems of the area than is the Board of Governors.

Mr. PATMAN. But it would be your duty to step in, if in any particular area, they were just giving banks money without question and permitting the reserves to be increased to such an unhealthy level that it would be disturbing to the economy of the Nation? You would step in then, I assume?

Mr. MARTIN. Well, as a coordinating body we would confer with them.

Mr. PATMAN. You would naturally step in; yes.

Publicity was given recently to the Fort Knox gold. I know it has been said in the recent past that we should check the gold to make sure it is all there, and that gold has been checked, I understand, and it has been found to be exactly as it has always been and thought to be. It was there in place, in the good old hills of Kentucky, at Fort Knox, the amount that the books record as having to be there. There is no question about that, is there?

Mr. MARTIN. Well, that was certified by the two Secretaries of the Treasury, the outgoing and incoming.

Mr. PATMAN. Yes. Now what has been done about checking the Federal Reserve System's holdings of gold certificates? Has any governmental agency ever checked the holdings of your money, that you have gotten from the Bureau of Engraving and Printing, and the gold certificates that you have received? Has any government audit ever been made of that?

Mr. MARTIN. We have an audit that is made, and we have had our procedures passed on by Arthur Anderson & Co., certified public accountants.

Mr. PATMAN. Is it not a fact, Mr. Martin, that the Federal Reserve Act is 40 years old this year, 1953, and that during that time the United States Government has never made any audit of the Federal Reserve System, or any Federal Reserve bank?

Mr. MARTIN. Well, the Board of Governors is part of the Government of the United States.

Mr. PATMAN. I know, but it is part of the Federal Reserve System, too.

Mr. MARTIN. It is part of the Federal Reserve System.

Mr. PATMAN. But I am talking about any independent audit. No independent audit has ever been made by any agency of the Federal Government—that is independent audit. Of course you are a part of the Federal Reserve System. I am speaking about Lindsay Warren's group, or anybody like that?

Mr. MARTIN. If you are talking about the Board, that is correct, sir.

Mr. PATMAN. Or the Federal Reserve banks, either, I mean the regional banks.

Mr. MARTIN. That is correct.

Mr. PATMAN. Never in 40 years.

Now, although we know that that gold is over there in Fort Knox, and we have no reason to believe that the gold certificates and the money is not just exactly as it should be, just like the gold, yet we have had no audit of them, have we?

Mr. MARTIN. There has been no audit.

Mr. PATMAN. In 40 years.

Mr. MARTIN. No audit of the Federal Reserve banks.

Mr. PATMAN. That is right, I mean the regional banks or the Board of Governors.

Mr. MARTIN. In my opinion they are the best audited group of banks in the world.

Mr. PATMAN. Well, how often do you audit the 12 Federal Reserve banks and their branches?

Mr. MARTIN. They are audited once a year.

Mr. PATMAN. By whom?

Mr. MARTIN. They have been audited by us, and recently, the Board has been audited by Arthur Anderson & Co.

Mr. PATMAN. Well, was it only after the Joint Committee on the Economic Report complained about that, that you had an outside auditor?

Mr. MARTIN. I recognized that as one of the achievements of your committee, Mr. Patman.

Mr. PATMAN. I know, but that is the first time you ever had an auditor from the outside?

Mr. MARTIN. No, that is not the first time.

We did have Price Waterhouse some years before that.

Mr. PATMAN. You have had audits annually, haven't you?

Mr. MARTIN. We are required by law to have annual audits.

Mr. PATMAN. That is right, but the reports are made to you. Do you not think it would be within our discretion as members of this committee to have access over those audits over the past few years, and let us see what the situation is? We think everything is all right, and you think it is, too, but you know, as an agency of this body, do you not think those audits should be made available to the members of this committee?

Mr. MARTIN. Would you care to come down and look at them?

Mr. PATMAN. No; why not bring them up here?

Mr. MARTIN. Because there are so many confidential items in there, and I question very much whether they should be made a matter of public record.

Mr. PATMAN. But the members of this committee are responsible persons, and the chairman is certainly a very responsible person, and

they would be in the charge of the chairman and the clerk, who is also a very responsible person.

Mr. MARTIN. We went all through this with your committee. I would be very glad to have you or the whole committee come down and look at the audits.

Mr. PATMAN. What about bringing them up here, Mr. Chairman, do you not think that would be a reasonable request?

The CHAIRMAN. I doubt very much whether it is germane to this bill.

Mr. PATMAN. I know, but they are asking for \$20 million. We want an audit to find out whether or not we are justified in doing that.

The CHAIRMAN. I think if we get into the field of fiscal and financial relationships, before the Joint Committee on the Economic Report, we might suggest to the chairman that he might request such an audit, and then serious consideration would be given to it.

Mr. KILBURN. Who is the chairman, Mr. Patman?

Mr. PATMAN. The Chairman is the distinguished member from Michigan, Mr. Wolcott. And a good one, too. But the Committee on the Economic Report does not have the responsibility that the Banking and Currency Committee has.

The joint committee cannot initiate legislation.

This committee initiates legislation. Therefore, the inquiry should be made right here, and here is the proposition. Although \$20 million is at three and a quarter percent interest, it amounts to over \$2,000 a day, and the question is whether or not we should pay this \$20 million on the national debt and save over \$2,000 a day or whether or not we will let them spend it for more buildings. That is why we should have an audit.

Mr. KILBURN. Mr. Chairman, is Mr. Patman through here?

Mr. PATMAN. No, I am not through.

Mr. KILBURN. May I interrupt you for a minute?

Mr. PATMAN. Surely.

Mr. KILBURN. Is it all right?

Mr. PATMAN. Certainly, sir.

Mr. KILBURN. Mr. Martin, don't you think the Federal Reserve System has done a great service to this country?

Mr. MARTIN. I certainly do, sir.

Mr. KILBURN. So do I. And if you get the impression that Mr. Patman is against it, don't get the impression that Congress is against it, because they are not.

Mr. MARTIN. I am sure of that, sir.

Mr. KILBURN. All right.

Mr. PATMAN. I hope the gentleman doesn't get the inference that I am against the Federal Reserve System, properly administered.

Mr. KILBURN. I just want you to know that, Mr. Martin.

Mr. MARTIN. Thank you.

Mr. KILBURN. This committee is for you and against Patman.

Mr. PATMAN. I didn't know that this committee had voted itself against me.

Mr. KILBURN. We are voting now.

Mr. PATMAN. It is all right for a member of the committee to consider me obnoxious. If the other members want to do likewise, they can, but it won't deter me.

Mr. KILBURN. Not obnoxious, Mr. Patman.

Mr. GEORGE. Mr. Chairman, I came in late and I am slightly confused. I find in front of me a bill, and I can't get the connection between what we are considering and what is being discussed. I wish the chairman would straighten me out, please.

The CHAIRMAN. Well, I assume Mr. Patman is inquiring into the functions of the Federal Reserve System to determine whether or not these branches are necessary, and whether the Federal Reserve System is being operated as an efficient agency. He also takes the position that although this comes out of the capital account, he contends that certain amounts could be used otherwise by the Federal Treasury, so I assume Mr. Patman thinks, anyway, that his questions are germane to the bill.

Mr. GEORGE. Thank you.

The CHAIRMAN. That is an assumption.

Mr. PATMAN. May I finish now, Mr. Chairman?

Mr. KILBURN. I still say that the other members—still ask whether any other members of the committee have a right to question besides Mr. Patman.

The CHAIRMAN. The members of the committee will have an opportunity.

Mr. PATMAN. In fact, I have not refused to yield, so that complaint is not justified.

Mr. KILBURN. It is not a complaint. Except why should we have a field day, with you attacking the Federal Reserve Board?

Mr. PATMAN. That is one man's opinion. I have a right to it.

Mr. BOLLING. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield.

Mr. BOLLING. I would like to point out to the gentleman from New York, Mr. Kilburn, that the gentleman from Texas, Mr. Patman, was the chairman of a subcommittee of the Joint Committee on the Economic Report and was highly commended by all the participants and all observers, for the absolute fairness of hearings over which he presided and which involved at some length the Federal Reserve.

Mr. KILBURN. But he isn't chairman any more.

Mr. PATMAN. Not for the present. You can't tell about the next election.

Mr. KILBURN. That is right.

Mr. PATMAN. Now, about the weakness of the regional banks. I mentioned that.

Charges have also been made that the large eastern banks have been getting too much power in the Federal Reserve System. You will recall in the discussions of the Federal Reserve System, back prior to the time it became law—December 23, 1913—that it was made very plain that although it was referred to as a banker's bank, that the bankers should never get control of it. That is right, is it not, Mr. Martin?

Mr. MARTIN. That is correct.

Mr. PATMAN. Illustrations were given, I believe, by Senator Glass at the time, that it would be no more right for the bankers to have control of the Federal Reserve System than it would be right for the railroads to control the Interstate Commerce Commission, or business to control the Federal Trade Commission. I believe that illustration was given.

Now, there are a lot of people that believe, judging from the letters that I receive and the statements that I hear made that the eastern bankers have moved in too much recently on the Federal Reserve System, and that they have initiated and caused all these increases in interest rates. I know you would deny that, naturally. I know that you don't feel that that is the case at all. I am not impugning your motives. I am saying that you would certainly not permit that knowingly to be done.

Mr. MARTIN. I accept your statement.

Mr. PATMAN. But the directors of the New York Federal Reserve Bank are 9 or 10.

Mr. MARTIN. Nine directors.

Mr. PATMAN. And one of the directors is president?

Mr. MARTIN. No.

Mr. PATMAN. Sproul.

Mr. MARTIN. Sproul is not a director.

Mr. PATMAN. He is the president of the board?

Mr. MARTIN. He is president of the bank.

Mr. PATMAN. That makes 10.

Mr. MARTIN. No, he is not on the board.

Mr. PATMAN. He is president, and there are nine directors.

Mr. MARTIN. That is right.

Mr. PATMAN. Now, of those nine directors, Mr. Burgess was on that board, was he not?

Mr. MARTIN. Mr. Burgess would have been on that board if he had not come to Washington.

Mr. PATMAN. How many of that board have been used for places in Washington in the last few months?

Mr. MARTIN. Well, I couldn't give you a tabulation. Mr. Folsom was a member of the board.

Mr. PATMAN. I really want it for information. I am not trying to be spectacular or anything like that. I just wanted it for the record. Would you mind looking over your directors and presidents of Federal Reserve banks all over the country, and file with a revision of your remarks a statement of those that have been brought in from the Federal Reserve Bank System to administrative agencies of the executive department, and state the positions they held with the Federal Reserve and the positions that they were selected to fill in the executive departments.

Mr. McDONOUGH. Will the gentleman yield?

Mr. PATMAN. I will be glad to.

Mr. McDONOUGH. Over what period of time?

Mr. PATMAN. Well, in the last 6 months.

The CHAIRMAN. You mean since January 20?

Mr. PATMAN. That is all right.

Mr. MARTIN. Since January 20.

Mr. KILBURN. Will the gentleman yield?

Mr. PATMAN. I will be glad to yield.

Mr. KILBURN. Put in there, too, who was put in in the last 20 years.

Mr. PATMAN. I am going to object to that. It doesn't relate to the inquiry I am making at all.

Mr. KILBURN. Why not?

Mr. PATMAN. Suppose the gentleman waits until I get through.

Mr. KILBURN. Well, I can't wait.

(The information requested above is as follows:)

*R. B. Anderson*

At the time of his appointment by the President as Secretary of the Navy, Mr. Anderson was a class C director and deputy chairman of the Federal Reserve Bank of Dallas and was general manager of W. T. Waggoner estate, Vernon, Tex.

*W. Randolph Burgess*

At the time of his appointment by the Secretary of the Treasury as Deputy to the Secretary of the Treasury, Mr. Burgess had been elected by the member banks as a class A director of the Federal Reserve Bank of New York but did not assume office because of his appointment as Deputy to the Secretary of the Treasury. At that time he was chairman of the executive committee, the National City Bank of New York, New York, N. Y.

*Joseph M. Dodge*

At the time of his appointment by the President as Director of the Bureau of the Budget, Mr. Dodge was a director of the Detroit Branch of the Federal Reserve Bank of Chicago (appointed by the board of directors of the Federal Reserve Bank of Chicago) and was president, the Detroit Bank, Detroit, Mich.

*Marion B. Folsom*

At the time of his appointment by the President as Under Secretary of the Treasury, Mr. Folsom was a class B director of the Federal Reserve Bank of New York and was treasurer, Eastman Kodak Co., Rochester, N. Y.

*Ray M. Gidney*

At the time of his appointment by the President as Comptroller of the Currency, Mr. Gidney was president of the Federal Reserve Bank of Cleveland.

*Dr. John A. Hannah*

At the time of his appointment by the President as Assistant Secretary of Defense, Dr. Hannah was a director of the Detroit branch of the Federal Reserve Bank of Chicago (appointed by the Board of Governors of the Federal Reserve System) and was president of Michigan State College, East Lansing, Mich.

*W. I. Myers*

Mr. Myers was appointed by the President as Chairman of the National Agricultural Advisory Committee and is a class C director of the Federal Reserve Bank of New York and dean of the New York State College of Agriculture at Cornell University, Ithaca, N. Y.

*Robert T. Stevens*

At the time of his appointment by the President as Secretary of the Army, Mr. Stevens was a class C director and chairman of the Federal Reserve Bank of New York and was chairman of the board, J. P. Stevens & Co., Inc., New York, N. Y.

*Philip Young*

At the time of his appointment by the President as Chairman of the Civil Service Commission, Mr. Young was a class C director of the Federal Reserve Bank of New York and was dean, Graduate School of Business, Columbia University, New York, N. Y.

NOTE.—All of these appointees, with the exception of Mr. Myers, have resigned from their positions in the Federal Reserve System.

Mr. PATMAN. Mr. Martin, about this Treasury and Federal Reserve accord: That was announced March 4, as I remember it, 1951. Isn't it a fact that farm prices commenced going down almost immediately after that?

Mr. MARTIN. Governor Evans here is a farmer. I couldn't give you the precise time that farm prices began to go down.

Mr. PATMAN. They have been in a slump, though, in the last couple of years; haven't they?

Mr. MARTIN. They have been declining; yes.

Mr. PATMAN. Isn't it a fact that that decline started after that accord, when notice was given that you were not going to support

Government bonds, and you were going to tighten up on the money, and make it scarce, which would cause interest rates to go higher, and isn't it a fact that farm prices more quickly respond to monetary changes than any other group of commodities?

Mr. MARTIN. No, I wouldn't accept that.

Mr. PATMAN. What other groups of commodities would you say would respond more quickly?

Mr. MARTIN. To monetary policy?

Mr. PATMAN. Yes.

Mr. MARTIN. I wouldn't want to list any group.

Mr. PATMAN. You wouldn't want to list any, but do you know of any group that responds more quickly, either up or down?

Mr. MARTIN. I won't accept monetary policy as starting a decline in any set of prices, per se.

Mr. PATMAN. But you will admit that the Treasury-Federal Reserve accord was a definite monetary policy, being promulgated; will you not?

Mr. MARTIN. The Treasury-Federal Reserve accord was just what it purported to be.

Mr. PATMAN. Well, it was a policy being promulgated?

Mr. MARTIN. It was an understanding between the Treasury and the Federal Reserve Board, that we would do what we could to see that the requirements of the Treasury were fully met, in accord with the processes of the market, while minimizing monetization of the debt. That was a joint working relationship between the Treasury and the Federal Reserve Board.

Mr. PATMAN. Well, I am not going to go into the question as to whether or not it was really an accord, or whether somebody jumped the gun on the accord. I am not going into that. But the question is, when that accord was announced, farm prices commenced going down, and have been going down ever since, except just a few of them now and then. Generally, though, they have been going down.

Mr. MARTIN. Well, I won't accept an inference that it was the accord that started farm prices going down.

Mr. PATMAN. What is that?

Mr. MARTIN. I said I won't accept an inference, if that is what you are driving at, that it was the accord that started farm prices declining.

Mr. PATMAN. Well, they did commence declining right after that.

Mr. MARTIN. The forces of the market, supply and demand, are the controlling elements in prices.

Mr. PATMAN. You didn't put that accord into effect right away, did you? Didn't you continue to support Government bonds for a long time after that?

Mr. MARTIN. The agreement with the Treasury was that we would work closely with them, and we did, step by step, with respect to—

Mr. PATMAN. But you had in mind eventually withdrawing entirely from the support of Government bonds?

Mr. MARTIN. We hoped that we would not have to decree prices. That prices would stand on their own, and not be a matter of King Canute saying to the ocean "stand back."

Mr. PATMAN. Now during that time, Mr. Martin—of course, I don't claim that the Board of Governors selected the time for that reason—but that was at the point of lowest popularity of the then

President of the United States, Mr. Truman. And the fact that he was low in popularity, and the fact that the MacArthur firing and all that trouble came on right after that, when he got a little bit lower in popularity, that didn't cause the Board to have more courage in defying the President and failing to support the Government bond market; did it?

Mr. MARTIN. Mr. Patman, I cannot accept your earlier statement imputing motives to me. There were no motives in the part that I played in the Federal-Reserve-Treasury accord.

Mr. PATMAN. You were in the Treasury at the time. You were not then Chairman. But you know the President was insisting that the Open Market Committee should continue to support Government bonds and in fact after having a meeting with the Open Market Committee announced in the press, that they were all in agreement, that they were going to continue to support the Government bond market.

Mr. MARTIN. I was not at that meeting.

Mr. PATMAN. You were then Assistant Secretary of the Treasury. I overlooked that.

Mr. Chairman, I thank you very much for your indulgence, also the members of the committee, and I don't believe I have any more questions.

The CHAIRMAN. Are there other questions?

Mr. SPENCE. Mr. Martin, I want to say that I have a very profound respect for you and your ability and your modesty.

There is one question I would like to ask. The interest rate is a very sensitive mechanism because it has a very great effect on our national economy; isn't that true?

Mr. MARTIN. That is correct, sir.

Mr. SPENCE. The rise in the interest rate on recently issued long-term Government securities would have an inevitable effect upon securities outstanding. Didn't that increase depress the price of outstanding bonds in the market?

Mr. MARTIN. That unquestionably depresses them; yes.

Mr. SPENCE. That wasn't done by the Open Market Committee. That was done by act of Government. Now, what effect does that have upon the future sales of our Government securities to the people. Everywhere, through the Nation, it was advertised that it was the safest investment in the world. "Invest in the bonds of your Government."

Now, when you come to sell securities to the people again, what effect is that going to have?

Mr. MARTIN. If we can make progress toward balancing the budget, and putting our monetary and debt-management problems on a sane basis, there isn't any question in my mind but what it will cause Government securities to rise ultimately and sell at premiums.

Mr. SPENCE. Well, don't securities respond to the interest rates?

Mr. MARTIN. Well, let me state clearly that when the maturity arrives, you don't have any risk in a United States Government bond. There is nothing sounder in the world. But you don't want to kid the people of the country about the purchasing power of their currency. If their bonds sell at 101½, but the purchasing power of their currency is reduced in half, in the course of it, you are just

kidding the American people with respect to purchasing those securities.

Mr. SPENCE. I am afraid that when the maturity date arises, I will not be here. So it is very essential to a great number of Americans that the bond would have a continuing value; isn't it? And that we wouldn't have to wait until maturity?

Mr. MARTIN. Well, the continuing value will be there, Mr. Spence.

Mr. SPENCE. I know that, of course, the market depreciation of the bonds has depreciated the assets of all banks holding long-term Governments, but the banks, by reason of the increased interest rate, will have a corresponding opportunity to offset it. But the people who bought these bonds and put them away as an investment, they don't have any such corresponding benefit, because they are not the beneficiaries of any interest except that on their bonds.

Mr. MARTIN. That is correct. They have been penalized because of the decline.

Mr. SPENCE. What psychological effect will that have on future issues? Of course, a man ought to be willing to sacrifice himself for his country. A man on the battlefield does sacrifice himself, and maybe a man ought to have the same spirit when he buys securities, but as a matter of fact he doesn't have that same spirit in buying securities. What effect will that have on future issues?

Mr. MARTIN. When we get a sound fiscal-debt management program, it will ultimately benefit all Government securities.

Mr. SPENCE. You think that the bonds that are now depressed, that are down to 91, you think before long they will go back to par?

Mr. MARTIN. I don't want to make any predictions on prices as I said to Mr. Patman, but I want to make that point that interest rates can go down as well as up.

Mr. SPENCE. I am not criticizing you in the least. I know you are a very good Government servant and you are trying to do your best. But those things disturbed me. It seems to me they are fraught with danger for the future of the country.

The CHAIRMAN. In connection with Mr. Patman's questioning concerning the prices of all commodities, the accord was in February 1951.

Mr. MARTIN. March 4, 1951.

The CHAIRMAN. Yes, and in March 1951, the commodity price index for all items stood at 111.

February, 1953, it stood at 113.4.

Mr. PATMAN. Is that just farm prices?

The CHAIRMAN. All commodities.

Mr. PATMAN. What about farm prices?

The CHAIRMAN. January 13, they came down to 111.5. About 1 point lower in February of 1953 than they were at the time of the accord.

Mr. PATMAN. Suppose we ask the chairman to submit a table on the different commodities and to indicate how they have reacted since the accord.

The CHAIRMAN. That table would be in the Economic Indicators for April 1952.

Mr. PATMAN. I have seen that, but it doesn't seem to break it down.

The CHAIRMAN. It breaks it down to apparel, transportation, and so forth.

Mr. PATMAN. May I see it, please?

The CHAIRMAN. Surely.

Mr. DEANE. Mr. Chairman.

The CHAIRMAN. Mr. Deane.

Mr. DEANE. I would like to commend Mr. Martin. I recall last year that I had the opportunity of visiting the Federal Reserve headquarters here in Washington, and I think it would be of interest to each member of the committee to take time off and go through the Federal Reserve headquarters.

The thought I would express now is that concerning the factors of interest rates, debt management, causes and effects. I am a complete novice. I have recently gone into my district and I was concerned about business conditions. One furniture dealer who spoke to me said, "You fellows made a mistake in eliminating this downpayment. It is very difficult for me to compete with big stores who require no downpayment."

And I realize that some of these questions are not related to this bill, which I support, but at the same time, we seldom have an opportunity of having an able witness like you, who can probably help us in solving these perplexing problems of our constituents. I wonder if you have a comment to make on the general credit trends. Should we begin to tighten our belts? Should business firms do so? Should we encourage people to continue to go into debt?

What is the policy and thinking of the Federal Reserve System?

Mr. MARTIN. Well Mr. Deane, I welcome that question. I have commented on it a number of times.

I say with due deference to the committee that I think the Congress did make a mistake in removing regulations W and X at the time that they did.

You will remember that I testified so at that time.

Subsequent to the removal of regulation W there has been a very substantial increase in consumer installment credit.

The CHAIRMAN. At that point, would you yield to me?

What has been the increase in bank credit during the same period?

Mr. MARTIN. The increase in bank credit has been very substantial also, Mr. Chairman, but it is not quite as easy to put the finger on consumer credit, Mr. Chairman, as it is, through general controls, on bank credit, through general controls.

Now, as I said before the Senate committee, my own thinking on this matter has changed somewhat since I came into the system. I would think that, with the mass production, mass consumption economy, of the type that we have today, that it might be desirable for the Federal Reserve Board, as a part of the Federal Reserve Act, free from the political pressures on one side and the private pressures on the other, that Mr. Patman has rightly said, the role that we should play would be to have this authority invokable from time to time, in the same way that open market operations, reserve requirements, and the discount rate are invokable.

However, that is all water over the dam and we are not seeking that authority at the present time. That is something in the future, and I could conceivably be wrong in that judgment.

The CHAIRMAN. Well, this committee will have it before it when we take up the Defense Production Act.

Mr. MARTIN. That is right. But what I am saying to Mr. Deane is that leaving past history out of it, it is not the volume of consumer

credit that has alarmed us, because relating it to the gross national production, I am not convinced that it is excessive, but the terms of the credit, as reported to us, from time to time—granted that our information is not quite as precise as we would like to have it—have not always been prudent, and I question, as a matter of prudence, making sales with no downpayments, or whether it is completely fair to the consumer if the downpayment is obscured in the body of the terms.

That is a matter of prudence, not of credit policy, however.

Mr. DEANE. Stepping forward and bringing in the interest factor, to what extent do you think will mortgage bankers and lending agencies begin to participate now in the FHA and VA programs, so far as extending further credit on the basis of higher interest rates now that they have been granted?

Mr. MARTIN. I think there is an additional incentive for them.

Mr. DEANE. I have here before me an editorial by one of our country editors. I think sometimes it helps us to get back to the grassroots. I want to read just what he has to say here. He is a gentleman that has gone through some of the depressions of the past, a man advanced in years, but a keen student of practical economics. This is what he says:

The value of money is measured not by commodity prices, but by the rate of interest it will bring. Cheap money or dear money, in relation to commodity prices, is a misnomer. It is true, of course, that high prices are a hardship to people whose income does not respond to the higher movement. It is an economic general law that when interest is high, labor and commodities are cheap, and conversely, where wages and commodities are high, interest is cheap.

We have lived through the year when interest was high, and commodities were cheap. If our contemporary—

and he was referring to an editorial in a neighboring daily newspaper—if our contemporary wishes to reverse this and have cheap labor and high interest, we cannot go along with our neighbor.

To what extent do you think that this old gentleman is correct in his analysis?

Mr. MARTIN. I don't think he is correct at all, in terms of cheap labor and his high prices. I think that the whole purpose of our policy is to protect the job of the laborer—not protect it in the sense of cheapening the value, but putting the sustainability of his labor on a basis through the competitive processes, so that he will have permanent employment, and so that you can have an improving standard of living through increased production and productivity. Not through monetary policy.

Mr. DEANE. I understood you earlier to say that the success of the program now being followed, so far as interest rates and debt management are concerned, will depend upon a balanced national budget.

Mr. MARTIN. That is correct.

Mr. DEANE. Well, now, assuming that we do not have a balanced national budget, which is likely, in view of the national emergency in which we still find ourselves; the current thinking, in the minds of some, of a tax cut; and if you proceed on the basis that we are now going, so far as interest rates and debt management, don't you think this gentleman is correct?

Mr. MARTIN. If we don't manage it, there would be an element of truth in it, but I may say that the management of these things is very difficult.

Mr. DEANE. Thank you.

Mr. PATMAN. Mr. Chairman, may I interrupt for just one thing?

You mentioned about prices, and I have looked at it. We have here Washington bank trends by Mr. Wilcox. He has wholesale commodity prices, issued May 1953, indicating that in January 1951, at the time of the so-called accord, farm products were 112.3, whereas last week, the current week, they were 99.3, down a little more than 12 points. Processed foods are also down, and meats particularly are down—from 113.6 in January 1951 to 94.7 in the current week.

I think that in view of that difference of information, Mr. Chairman, we would be justified in asking Chairman Martin to prepare a statement to show how farm prices have reacted since the accord.

Mr. MARTIN. I will be very glad to have a statement of prices prepared.

The CHAIRMAN. Perhaps we should have it, but I wonder if we don't want to break it down further.

Mr. PATMAN. My point is that they have gone down as a result of the failure to support Government bonds.

Mr. MARTIN. I want to be on record as disclaiming any connection between the accord and the decline in farm prices.

Mr. PATMAN. Of course, they are not the only prices. Some other prices went down, too.

The CHAIRMAN. Well, aren't we charged with the responsibility of establishing, or of stabilizing the economy, as opposed to accepting inflation as a matter of Government policy? Isn't that what you are trying to do, trying to go from an inflation to a stable economy?

Mr. MARTIN. That is correct.

The CHAIRMAN. Isn't that what you are engaged in now?

Mr. MARTIN. That is correct.

The CHAIRMAN. So that you, and I assume we also here in the Congress, don't want to accept inflation as a matter of Government policy, interminably.

Mr. MARTIN. That is correct.

The CHAIRMAN. We are going through this transition period now, of stabilizing the economy.

Mr. MARTIN. Right.

The CHAIRMAN. Was there any room by which we could decrease interest rates as a means of offsetting a depression or recession, previous to the time you adopted this new policy for combatting inflation? Did you have any room in there where you could stabilize interest rates? You had them down as low as 1 percent at one time. That rate is pretty low.

Mr. MARTIN. Well, at the first appearance of a downtrend, certainly we would do everything, and use all of our resources to lean against the opposite trend.

The CHAIRMAN. You didn't have much to lean against, did you, when interest rates were down as low as they were? You were treading on rather thin ice.

Mr. MARTIN. That is correct.

The CHAIRMAN. Are there other questions?

Mr. MUMMA. Mr. Chairman.

Mr. McVEY. Mr. Chairman, I wish to commend the steps which Mr. Martin has taken in his efforts to stabilize our economy. I think that we are not through with inflation yet. We certainly do not have any signs of deflation, and I think we should recognize the fact that inflationary spirals can be more damaging to a country than deflationary tendencies.

Many of the countries of the world have been ruined by unbridled inflation.

I note at the present time that consumer industries are operating at 40 percent above a year ago, heavy industries at 7 percent above a year ago, and electric power output 10 percent above a year ago.

Certainly those figures do not indicate that we are in a deflationary spiral.

What we need to have, it seems to me, and I agree with Mr. Martin, is a balance. I believe that is what his Board of Governors is striving for, a balance between the forces of inflation and deflation, and inflation is more of a danger today than deflation, despite the fears that are expressed occasionally, that we may be going into a deflationary spiral.

I think there are many problems entering into the farm situation besides the failure to support Government bonds. Supply and demand has a great deal to do with a situation of that kind. So, it seems to me that we ought to support the action of Mr. Martin's group in trying to strike this balance between inflation and deflation.

There is a question I should like to ask. When your examiners enter banks, for the purpose of examining the banks, are the banks allowed to list there Government bonds at par?

Mr. MARTIN. That is substantially correct. However, to be somewhat more accurate, banks are permitted to carry their United States Government obligations at amortized cost.

Mr. McVEY. What about insurance companies?

Mr. PATMAN. They are all under State law.

Mr. MARTIN. I think they can also, but I would have to check on it.

Mr. McVEY. Insurance companies are large holders of Government bonds. It seems to me they might be in a rather bad position were they required to carry Government bonds at 91 cents on the dollar.

Mr. MARTIN. It is my understanding that, under the valuation procedure approved by the National Association of Insurance Commissioners, insurance companies are permitted to carry Government securities, as well as certain other securities, at amortized cost.

Mr. PATMAN. Will the gentleman permit an interruption?

Mr. McVEY. Yes.

Mr. PATMAN. The insurance business is one business that we all know doesn't come under the Federal Government at all, and I think the gentleman will find that all these insurance companies can, under State law, that the State will require them to carry their bonds at the listed value at the time, and, of course, as far as the Federal Government is concerned, they have a right to just say, to carry them at par, which they do and have done. But I have never heard of an insurance company being allowed to carry a bond at more than its actual value at the time, at the time of the investigation or audit.

Mr. MUMMA. Will the gentleman yield?

Mr. PATMAN. Yes.

Mr. MUMMA. Wasn't there a ruling somewhere in 1932, where the Government was credited with saving a lot of insurance companies by allowing them to put their assets in bond items at par value rather than at market value?

Mr. PATMAN. Yes, in dealing with the RFC. But one insurance company actually went broke. I put the facts in the Congressional Record at one time. That actually broke one insurance company.

Mr. McVEY. That is all I have, Mr. Chairman.

Mr. HIESTAND. We have been discussing the price of bonds, and their marketability, which is determined by the demand.

Mr. MARTIN, in your opinion, would the inclusion of the gold clause make the bonds more attractive, to consumers, let us say, or to purchasers?

Mr. MARTIN. It might. It is a matter of judgment, Mr. Hiestand. I wouldn't have any strong feeling on it.

Mr. McVEY. Mr. Chairman, may I ask one more question?

The CHAIRMAN. Mr. McVey.

Mr. McVEY. Isn't it true that the public has been purchasing savings bonds in greater amounts than they have been retired in recent months, in the last few months?

Mr. MARTIN. Recently, that is correct, sir. I don't have the figures right up to date.

Mr. McVEY. Up until a few months ago, they were cashing in their bonds faster than they were buying them, isn't that true?

Mr. MARTIN. That is correct.

Mr. McVEY. Do you think that the principles under which you are operating at present might have some influence in that matter, that is your efforts to stabilize the dollar?

Mr. MARTIN. I wouldn't want to claim too much with respect to those sales, but I am quite confident that it hasn't hurt sales any.

Mr. McVEY. For some reason the public has more confidence in those bonds than it had a few months ago.

Mr. GEORGE. Do you consider that we have operated under a sound fiscal policy in the last 10 years?

Mr. MARTIN. That is a pretty hard question to answer. I think there have been some questionable aspects of our policy in the last 10 years.

Mr. GEORGE. Well, I would like to develop a little further the value of bonds.

I personally know some individuals that bought bonds in 1941, from money obtained by sale of a brick house. At the end of the 10-year period, they cashed in the bonds and tried to buy the house back, and they lacked \$5,000 of having enough money to do it at the going market price.

It seems to me that in a 10-year period, our fiscal policy destroyed the value of that person's actual earned and saved profit. What is your opinion of that?

Mr. MARTIN. There was depreciation of the dollar during that period.

Mr. GEORGE. About 50 percent, wasn't it?

Mr. MARTIN. Well, I wouldn't want to put a precise figure on it, but I would say that it was about 50 percent; yes.

Mr. GEORGE. Didn't that in actual effect cut the savings of everybody's life insurance, everybody's annuities, retirement, in like amount?

Mr. MARTIN. In purchasing power materials; yes.

Mr. GEORGE. Well, after all, a dollar is only worth what it will buy.

Mr. MARTIN. That is right.

The CHAIRMAN. Are there further questions?

Mr. McDONOUGH. Mr. Chairman.

The CHAIRMAN. Mr. McDonough.

Mr. McDONOUGH. Mr. Martin, could you inform the committee whether the purchasing power of the dollar has increased, and how much it has increased, as a result of the fiscal policy of the Government in the last several months?

Mr. MARTIN. No, I couldn't inform you on that. I would say that there has been no further depreciation of the dollar in the last 18 months.

I would say further, with respect to monetary policy, as I pointed out earlier, that it has limited power. You can't restore purchasing power of the dollar after it is lost, by monetary policy. That can only be restored by productivity and production.

Mr. McDONOUGH. What do you consider the purchasing power of the dollar today?

Mr. MARTIN. Well, I don't have the figure, but—

Mr. McDONOUGH. That is—

The CHAIRMAN. 52.85, isn't that right?

Mr. PATMAN. Based on 1939.

The CHAIRMAN. 1935-1939.

Mr. McDONOUGH. And you maintain, to increase that above 52.85, that productivity and demand will increase the purchasing power of the dollar?

Mr. MARTIN. That is the only way in which it can be increased, in my judgment. It can't be done by monetary policy, unless you just want to produce needless unemployment and waste.

Mr. McDONOUGH. Well, if we service the public debt, that is part of the monetary policy. Wouldn't that increase the value of the dollar?

Mr. MARTIN. You service the public debt?

Mr. McDONOUGH. Well, provide means for retiring it. We are not doing much about that now.

Mr. MARTIN. I still don't think that that will restore the purchasing power of the dollar. That is my judgment on it. Not unless you go a great distance, and I don't think that is practical. I think that theoretically you could say, "We will create such a surplus that we will retire the entire debt," but I don't think it is practically possible.

Mr. McDONOUGH. Do you think that the increase to 4½ percent on GI loans, which is now in effect and has been for the last 24 hours, has reduced the purchasing power of the GI loan dollar for buying a home?

Mr. MULTER. Would you yield? Don't you think that question is loaded? Why not ask him about the buying value of the dollar generally. If he is going to pay more money for interest, he is going to have less money for food and clothing.

Mr. McDONOUGH. That is what I am asking.

Mr. MULTER. Would you reframe that question?

The CHAIRMAN. Let's stay away from that because I think to answer that question Mr. Martin has to take into consideration the actions of the Housing and Home Finance Agency in eliminating

the last vestiges of regulation X, such as eliminating down payments on GI loans, extending maturities, and the like. So, all of those things have to be taken into account to determine whether you are going to have more money to buy goods. So, perhaps we had better not take that up at this time.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. I want to explain to Chairman Martin, and my fellow Iowan, Mr. Evans, of the Federal Reserve Board, the reason I came in late was that I had a legislative matter to attend to, the House meeting at 10.

Since this appears to be a period of confession, I want to say to you that I approve of what you are doing. It seems to me the Treasury has acted wisely in setting up an orderly program of finance.

I remember Mr. Eccles, and how disturbed he was because such large lumps of debt fell due at a particular time. It seems to me the Treasury is setting up an orderly program of finance.

Now, it costs money, doesn't it, to refinance debt?

Mr. MARTIN. It does.

Mr. TALLE. And it seems to me that too much of our debt was in short-term obligations. To be sure the rate was low, but the term was short, requiring frequent refinancing, and as I examine the present program of the Treasury, and observe the conduct of the Federal Reserve, you are moving toward an orderly method of financing that brings confidence to the people who are trying to save, and I know for a certainty that people in my State, Iowa, have greater confidence in E bonds now than they have had for quite some time.

Savings are increasing, and the sales of E bonds are going up and the cashing-in's are going down. So, the buyers exceed the sellers. So, I want to say I approve of what the Federal Reserve and the Treasury are doing. You are putting some backbone in the dollar.

Mr. MULTER. Mr. Chairman.

The CHAIRMAN. Mr. Multer.

Mr. MULTER. I appreciate that we are dealing with a rather sensitive subject here.

The CHAIRMAN. The subject is whether they should be authorized to have an increase in authorization from \$10 million to \$30 million.

Mr. MULTER. I am interested, Mr. Chairman, in the more sensitive offsprings or tangents that we have gone off on the subject. If the Board is going to spend money, we should know where it is going to come from and whether they are going to remain solvent after they spend this money.

You were asked awhile ago about the fiscal policy of the administration during the last 10 years and declined to answer, and I can understand why you would rather not comment upon it and can go along with you on your desire not to comment upon it.

Let me ask you about this: How about the fiscal policy of the Federal Reserve Board during the last 10 years. In your opinion, has that been in the best interests of the country?

Mr. MARTIN. Well, I would like to say that I have been in the Federal Reserve since April 2, 1951. I wouldn't attempt to pass judgment, one way or the other, on previous administrations of the Federal Reserve Board.

Mr. MULTER. I don't blame you for that, either. Suppose we confine it to the time you have been there. Since 1951, do you believe the fiscal policy of the Federal Reserve Board has been in the best interests of the country?

Mr. MARTIN. In my judgment, insofar as human beings can handle it, it has been in the best interests of the country.

Mr. MULTER. Has the increased interest rate, by the Treasury Department, on its last bond issue of a billion dollars, been recommended by the Federal Reserve Board?

Mr. MARTIN. The Federal Reserve and the Treasury work very closely together in these problems. It isn't possible to completely separate, in my judgment, debt management and monetary and credit policy, but we have worked, since the accord, toward a mutual understanding with respect to the problems of each other, the Treasury having the primary responsibility for debt management and the Federal Reserve for monetary and credit policy.

Now, we have not been making specific recommendations. That wouldn't be our province, with respect to Treasury debt management, but we have been informing them fully of our monetary and credit problem, and we have been trying to work for a mutual understanding on how best to handle both.

Mr. MULTER. May I ask whether or not the Federal Reserve Board has disapproved of the increased interest rate as announced by the Treasury Department?

Mr. MARTIN. The Federal Reserve has said that in terms of monetary and credit policy it has seen no objection to the course that the Treasury debt management is pursuing.

Mr. MULTER. You remember, as I do, that a great hue and cry went up all through the country only a short time ago under the previous administration that the administration was trying to take over and dictate policy to the Federal Reserve Board and the Federal Reserve Board was answerable only to the Congress and the Federal Reserve Board ought not to sit down and talk to the Treasury Department about its policies. You recall that, do you not?

Mr. MARTIN. I do.

Mr. MULTER. Has that changed today, so far as you know? Is it perfectly all right under this administration for the Federal Reserve Board to sit down and talk to Treasury about these policies and arrive at a good policy for the country?

Mr. MARTIN. There has been no change at all in the position that I can see.

At the time of Mr. Patman's hearings—which I might say Mr. Patman has constructively handled and which I thoroughly enjoyed participating in—Secretary Snyder testified to the desirability of the independence of the System and in this administration Mr. Humphrey testified that the System should have its independence. So that the working relationship has been maintained in accordance with that understanding.

Mr. MULTER. I would like to have you clarify some misunderstandings or confused thoughts that I have on the subject of bonds and interest rates.

We hear a great deal about this great law of supply and demand, and when the demand is in excess of the supply, the price goes up.

How do you reconcile it, or can you reconcile it, or do you care to make any comment on the fact that the prices of outstanding bonds of the United States Government are constantly going down. We are told on the one hand that the people are holding their bonds, and they are not being offered for sale, and in that kind of a market we would expect if bonds were held off the market, that the price would go up? What accounts for the fact that day after day the price of these bonds is going down?

Mr. MARTIN. I don't want to make any comment on prices, but I will say that the market has been freed.

Mr. MULTER. Has been what, sir?

Mr. MARTIN. Has been freed.

Mr. MULTER. Has been freed?

Mr. MARTIN. We have not intervened in it. It has been a market determination.

Mr. MULTER. Yes, but in a free market, supply and demand govern price. That is what we are told. Is that theory to be discarded?

Mr. MARTIN. As far as I know, supply and demand govern price at the moment.

Mr. MULTER. Have you any explanation then as to why the price of Government bonds is going down? Is there any more reason for those bonds to sell at 89, or 90 and 91 cents on the dollar than selling the United States currency at 89, or 90 cents, on the dollar?

Mr. MARTIN. There is a difference between currency and bonds. One of them is a marketable security and the other is transferable money.

Mr. MULTER. But fundamentally there is no difference. That piece of paper that the Government issues as currency, that dollar bill, the Government guarantees the holder of that will get a dollar for every dollar of currency. And your bond is guaranteed by the United States so that for every dollar of par value you have a dollar plus interest. So what is the difference?

Mr. MARTIN. The maturity date. One is marketable security and the other isn't.

Mr. MULTER. When you are supporting the market you are getting a dollar for dollar on those bonds.

Mr. MARTIN. If you are supporting the market on it, if you are advocating a return to the peg, on those bonds, why you are decreeing a price that is not valid.

Mr. MULTER. You mean you no longer have a free market?

Mr. MARTIN. Exactly.

Mr. MULTER. But don't you destroy the free market when the Government issues bonds at a higher interest rate than those outstanding?

Mr. MARTIN. Because the Treasury, in going to market, attempts to evaluate what the market is. It can't pinpoint the price exactly, but the market determination is the important focal point, and I want to emphasize, on this point, that this matter of interest rates going up or down is really at the heart of the free-enterprise system, because if you are going to say that you should not pay to receive this money X amount, you are driven, ultimately, to the conclusion that perhaps you should not pay any interest on money, and if you don't pay any interest on money, why, then you have a completely socialistic economy. That is really what the heart of the problem is.

Mr. MULTER. We get a socialistic economy by the Government supporting the price of its bonds?

Mr. MARTIN. If the Government is going to decree a given rate of interest, why isn't the ultimate not to pay any interest at all? If you say, for example—

Mr. MULTER. Is that any more socialistic than the Government taking that money from you by taxes? If the Government needs the money and wants it, and wants to be arbitrary, it simply takes your money away. It can let you have the interest on one hand and take it away from you on the other hand in taxes.

Mr. MARTIN. Taxes are voted by a free people.

Mr. MULTER. You haven't been around Congress long.

Mr. TALLE. Mr. Multer, will you yield?

Mr. MULTER. In a moment. Let me pursue this first, please.

You said a few moments ago, or you agreed with Dr. Talle's statement that it costs money to refinance. Isn't the usual custom for refinancing whether it is industry or Government, to try to refinance for the purpose of saving money? When you have got outstanding loans at low interest rates, you let them run. You don't refinance ordinarily at a higher interest rate. You will refinance to get a lower interest rate. Isn't that the usual way of refinancing, if you are not in trouble?

Mr. MARTIN. It would be very nice if that were the usual way, but unfortunately sometimes the Government needs the money.

The CHAIRMAN. He qualified his question by saying "if you are not in trouble."

Mr. MULTER. Yes, hasn't it always been the practice, industrial-wise, in big industries, and utilities, and in Government, that when you have loans outstanding at low interest rate you do not refinance them, but if you have loans outstanding at a high interest rate, you will try to refinance and get a lower interest rate. Hasn't that been historical in this country?

Mr. MARTIN. That is good business practice, and very desirable to do if you can do it.

Mr. MULTER. And we have done it, haven't we, during the last 20 years, both business and Government?

Mr. MARTIN. We have done it to some extent, but to the extent that it has been done by pegging markets, it has caused erosion of savings, and the pension funds, and the social security of all the people of the country.

Mr. MULTER. Now let me ask one other thing, sir—

Mr. TALLE. Will you yield?

Mr. MULTER. Yes.

Mr. TALLE. Something important is surely being overlooked here, and that is that a person who has money to invest, doesn't have to invest in Government bonds. He has a lot of other choices. He may buy State bonds, municipal bonds, corporation bonds, or invest his money in many other things. That is always true in a free market.

So, of course, Government bonds must compete with other investments. That is pretty important in the price of the bonds.

Mr. MULTER. It is very important and that is precisely the next point I was going to make. When the Government comes along and raises its interest rate by three-quarters of 1 percent and permits veterans' loans to go up another half of 1 percent, that same man

with money in his pocket, who wants to invest, is going to look around for investments, and he is going to look for the high interest rate, which means that the business which wants to float a bond issue, or get a loan, has got to pay more, and he must push his interest rates up. Isn't that so? If he wants to catch some of that free money that the man has in his pocket, the minute the Government raises the interest rate, industry must raise its interest rate in order to get that money, isn't that so?

Mr. MARTIN. That is what the process of saving and investment is. Now, at some point he has to make the decision as to whether he couldn't postpone the expansion that he wants to go into.

Mr. MULTER. As long as his loan is coming due, he can't postpone it. He must then float a new bond issue or take it up. If he doesn't have the money to take up the issue coming due, he has to meet the market, and for private interest to meet the market they have to pay more interest than the guaranteed bonds of the United States Government, isn't that so?

Mr. MARTIN. They can make an attack on their cost-price structure also.

Mr. MULTER. You mean cut the price?

Mr. MARTIN. Well certainly, we won't always have a seller's market. It isn't normal to say that you are always going to have a seller's market where the salesman is doing you a favor to sell you any commodity or item or automobile. It is more normal by and large to have buyers' markets.

Mr. MULTER. Do you have a seller's market today?

Mr. MARTIN. In a great many items we do still.

Mr. MULTER. Isn't it a fact that in most items we do not have a seller's market?

Mr. MARTIN. I am not going to make a judgment on the degree, but I would say that there are still many items in which there is a seller's market.

Mr. MULTER. But I think in order to be fair and arrive at your policy, is it necessary for you and your Board to determine that very question, whether this is a buyer's or a seller's market, is that not so?

Mr. MARTIN. If it—

Mr. MULTER. If you are doing this to beat inflation, you must make a determination that we are in inflation, and that prices are going up, which means a seller's market.

Mr. MARTIN. That is what we are doing 24 hours a day.

Mr. MULTER. Right. I am not being critical.

Mr. MARTIN. I understand.

Mr. MULTER. But I think in all fairness to this committee, you must say to us that you have evaluated the market as to whether there is a buyer's or seller's market, and whether we are going into inflation or deflation, and as a result of that determination, you have said that this is a good thing to do, this increased interest rate, isn't that so?

Mr. MARTIN. I have said that it is a mixed operation today. There are inflationary and deflationary factors, but by and large we have been trying to restrain the inflationary factors because we think that will minimize distortions and balance out the economy in a way that will lead to a higher level of activity ultimately.

Mr. MULTER. And although most of the general public seem to be of the impression that we are in a deflationary cycle at the moment or at the beginning of it, that there is going to be no more inflation but rather that we are going to have deflation from here in, the determination of your Board and the Treasury Department, in arriving at the conclusion that this is a good time to increase rates, must have come to the conclusion that the inflationary pressures are greater than the deflationary pressures.

Mr. McVEY. On what basis do you assume that we are in a deflationary spiral now?

Mr. MULTER. On the basis of my travels since election day, over 10,000 miles in this country, from talking to people on the street and to businessmen throughout the country.

Mr. McVEY. Have you been reading statistics on production throughout the country?

Mr. MULTER. Yes; and talking about statistics, Professor Harris, of Harvard University, says:

Since early 1951, the inflation has been a minimum, less than 3 cents a year in the cost of living, and a decline in wholesale prices, and since that time the decline has been even greater, and the inflationary increase has practically disappeared, with the exception of 1 or 2 items here and there.

Mr. McVEY. My inquiry concerns index of production. In some lines it is 40 percent above a year ago. Seven percent in heavy industry.

Mr. MULTER. You are talking about production?

Mr. McVEY. I am talking about production.

Mr. MULTER. What about prices? If you are going to go along with the theory of supply and demand, then this very production you are talking about, this increase in production, is pushing prices down. That proves that I am right and these people are right who have been telling me what I report back to you, that we are now in a deflation cycle. The inflationary spiral has reached its stop and we are on the way down again and the overproduction is bringing it about.

Mr. McVEY. Wholesale price index is 7 percent below a year ago.

Mr. MULTER. And your retail prices are dropping, too, and dropping fast.

The CHAIRMAN. Will you yield?

Mr. MULTER. Surely.

The CHAIRMAN. Last year the total production stood, in February 1952, at \$222 billion. This year, March, \$241 billion.

Mr. MULTER. That is right. And with that increase in production, we are getting decreases in prices, wholesale and retail prices, are we not?

Mr. MARTIN. Well, is that necessarily a bad thing?

Mr. MULTER. I am not talking about whether it is a bad thing. I am trying to find out this information for this committee: If we are now in the beginning of deflation, if inflation is behind us, why has anyone in the Federal Reserve Board or in the Treasury Department, or together, arrived at the conclusion that we have got to stop inflation by increasing the interest rates? That is the explanation I am trying to get at.

Mr. MARTIN. Well, I didn't mean to bypass that. I don't know. I have tried to make it clear to you that I don't know whether it is.

inflation or deflation, but I am not impressed with the talk that goes on around the country.

I have got to have more than the impressions of people for the Board to want to act on it. Now, it is a very difficult thing with the economy we have today, to really measure it, but we have been experiencing about as good business as I have ever seen in my lifetime, despite the fact that there are conflicting crosscurrents of it.

Now we have had some adjustments. You had the textile industry make adjustment a year or so ago, and it has come back. Right now it is still coming back. But it had a period of doldrums.

In a flexible economy those adjustments are going to have to be made. We hope they will be made on a serial basis, and not in an aggregate. But the flexibility of the economy requires that we face up to the situation as we see it from day to day.

Now, I am not trying to say which is in the ascendancy at the moment, inflation or deflation. With respect to the rise in interest rates, I am not seeking an increase in interest rates. Our whole problem is to let the market forces determine. Now, this trend can reverse itself very quickly. Interest rates can go down as well as up. And they often reverse themselves when you least expect it, and nobody can gage or forecast precisely which or when these turns will be, but it is our job to work 24 hours a day on this, and to weigh carefully—and I am very glad to have your opinion this morning—this problem of inflation and deflation.

But as a policy matter, we have got to go on all the data we have and make the best judgment we can. But there is no disagreement whatever in our ultimate purpose, yours and mine.

Mr. MULTER. Do you think, sir, that there will be more GI loans made in the next 6 months with the 4½-percent rate, than were made in the last 6 months at the 4-percent rate?

Mr. MARTIN. Well, I haven't got a very strong view on it. Because of the special restrictions I am inclined to think that there may be an increase of them. But that is just a guess.

Mr. MULTER. What restrictions do you refer to?

Mr. MARTIN. The fact that as of June 30 this year there will be no downpayment required. Now, you are out of my field here. I am not a veterans' administrator or a housing man, but I think I am correct in that, am I not? I am told it is in effect now.

Mr. MULTER. Do you think the amount of money available for those loans has increased in the last 6 months?

Mr. MARTIN. I wouldn't want to hazard a guess. The money supply has generally tightened. I will make that point. But there it is a choice of items, you see, and the choices across the board are what bring about the problems.

As long as you have money flowing easily, without any problem whatever, then nobody has to make a conscious choice about anything.

Mr. DEANE. Will you yield?

Mr. MULTER. Yes.

Mr. DEANE. Mr. Martin, I appreciate your views as you expressed them a little while ago, that it would show a feeling back yonder that this downpayment on time purchases should be retained. Wouldn't that be equally true so far as real estate, that some downpayment is sound business operation?

Mr. MARTIN. In my judgment, personally, it is, yes, sir.

Mr. DEANE. I want to see our veterans have the homes they need, but I would question whether or not we are not contributing to this deflation by forcing on the market, one of these days, a great many homes. I am thinking of a veteran who can go out and rent a house for \$35 a month, whereas his mortgage payments are \$65 to \$70. What is your view there?

Mr. MARTIN. Well, my view wouldn't be worth very much, Mr. Deane, but I think we may easily be. I think we have got a sort of a crazy quilt of all of these things together, and I don't think we are going to come out of this thing completely scot free. I don't think it is possible for everybody to come out scot free.

Mr. MULTER. As part of that crazy quilt, I think this record ought to show this: Yesterday, United States bonds sank to a new low, the lowest they had sold for in 20 years.

Mr. PATMAN. Really, to be correct, that should be 30 years.

Mr. MULTER. I will accept that correction.

This is a quotation from the Washington Post of yesterday:

Security dealers blamed the losses in bond prices today on the Government-sponsored rise in interest rates, and the continuing flood of new financing.

Taking that statement, and the fact that bonds sold at their lowest, and taking also this statement, that yesterday borrowing costs were the highest in 20 years—that is the reason for the 20-year comparison—bonds selling at the lowest in 20 years, and the Government costs of financing, the highest in 20 years—do you care to make a comment about that?

Mr. MARTIN. No, I don't want to make any comment on prices of Government securities.

Mr. MULTER. Or the interest rate?

Mr. MARTIN. Or the interest rate.

Mr. MULTER. Thank you, sir.

Mr. MARTIN. Other than what I have made.

Mr. TALLE (acting chairman). Are there further questions?

Mr. BETTS. Before we leave, I would like to ask this question: What is the name of the fund, this \$30 million fund? What do you call it?

Mr. MULTER. It is \$20 million extra, added to \$10 million.

Mr. BETTS. And what is the name of the fund that you get this \$20 million from? Is that called surplus?

Mr. MARTIN. Yes, that is out of the capital account.

Mr. BETTS. How much is currently in that fund now?

Mr. MARTIN. I will ask Mr. Leonard who handles our bank operations to answer that question.

Mr. LEONARD. The paid-in capital stock at the present time is \$257 million, and the surplus about \$585 million. The surplus is built up through earnings. The capital stock is wholly paid in by the member banks.

Mr. BETTS. So there is sufficient money to meet the request made in the bill, isn't that true?

Mr. MARTIN. No question about it.

Mr. BETTS. I knew that was true, Mr. Martin, but I asked the question because I think the record shows everything else but that point, and as a lawyer I thought before we passed on the bill, that the record ought to show the answer to that question.

Mr. GEORGE. Isn't it true that money only gets into the surplus or capital account after the Government gets their 90 percent out of the current earnings? I understood Mr. Patman to say that the Government gets 90 percent.

Mr. MARTIN. Mr. Leonard will take up that question.

Mr. GEORGE. That would be out of current earnings. At least that is the way we keep books.

Mr. LEONARD. Yes, sir.

Mr. GEORGE. Do you want the question again?

Mr. LEONARD. Please.

Mr. GEORGE. The money is only put into the surplus account after the earnings are divided between the Federal Reserve and the Government?

Mr. LEONARD. That is correct.

Mr. GEORGE. So there is no big drain on the Government. You may be paying out rent for buildings that you need for the purpose, and it is a case of where you don't have your own property?

Mr. LEONARD. That is correct.

Mr. MARTIN. I would like permission to insert in the record a brief statement explaining the capitalization of the account.

Mr. TALLE. It is so ordered.

(The information is as follows:)

**DOES THE COST OF CONSTRUCTION OF A FEDERAL RESERVE BRANCH BUILDING REDUCE THE AMOUNT OF EARNINGS AVAILABLE FOR DISTRIBUTION, SPECIFICALLY THE AMOUNT PAID TO THE TREASURY?**

In accordance with business practice, the cost of a Federal Reserve branch building is not charged to expense but is capitalized and charged to bank premises account, which is an asset of the bank. The cost of the building, therefore, does not reduce the amount of earnings currently payable to the Treasury. In accordance with customary business practice, provision for depreciation is made regularly and such charges are included in expenses over the years.

Expenditures made by Federal Reserve banks, and other banks and businesses, are of two kinds:

1. Those immediately charged to expenses. Such expenditures reduce the amount of net earnings available for distribution. Examples: Salaries, rent, supplies, etc.
2. Those representing fixed assets or investments. These expenditures are not charged to expenses and do not, therefore, reduce the amount of net earnings available for distribution. The properties acquired through these expenditures are carried as assets on the books of the Federal Reserve banks. Examples: United States Government securities, bank buildings, etc.

There is a difference between business practice and the Government practice in the treatment of building costs, and this may be responsible for some misunderstanding. Under Government practice, accounting generally is on a cash receipts and expenditures basis, buildings are paid for out of appropriated funds, and the costs therefore reduce the amount available for any other current use. To this extent they are treated in a manner similar to expenses in business practice. As indicated above, in business the purchase or construction of a building results in the acquisition of an asset, and the amount of earnings available for distribution is not reduced.

Mr. BETTS. I think that is a fine point, Mr. Martin. I didn't want to be facetious, but I think the record has shown everything else except that you had the money for the purpose.

Mr. MARTIN. I welcome that suggestion and would like that in the record.

Mr. PATMAN. May I suggest to the gentleman if our Chairman pursues the policy that he has pursued, in another bill, and announced for future action, it is possible he will want this surplus fund to pay off

the national debt. You see, there is over \$500 million in the Federal Reserve surplus fund, which is a lot of money. And they don't need it. If the chairman of the committee carries out his policy of recapturing some of this surplus money that is not needed, he might ask that all, or ask for the surplus of the Federal Reserve banks to apply to national debt and I think he would be logical.

Mr. O'HARA. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield.

Mr. O'HARA. Do I understand, Mr. Patman, that if that were done following a pattern previously established here, that it would reduce the national debt \$2,000 a day?

Mr. PATMAN. No, I said that if you were to pay the \$20 million on the national debt instead of letting them build these new buildings, it would save, at 3¼ percent interest, \$2,000 a day for the taxpayers.

Mr. O'HARA. Doesn't the gentleman think that would be more agreeable to the American people than spending the money to build some nice new buildings for bankers?

Mr. PATMAN. Well, that is the question.

Mr. MUMMA. Well, you would have to rent this space.

Mr. O'HARA. I am wondering, Mr. Chairman, what I can say to my constituents if I should vote authorizing the spending of \$20 million for these new buildings, even though they are nice buildings, when we have been practicing the most rigid economy in matters that more intimately reach into the public welfare.

Mr. BETTS. Is it not true, Mr. Martin, that this money is not taxpayers money, but has been accumulated by the banks?

Mr. PATMAN. May I answer that? You see just because they are keeping 10 percent does not mean anything. We could have them turn that in tomorrow, if we wanted to.

Mr. MARTIN. I want to make one basic point on this. I do not think Mr. Patman you are suggesting that we liquidate the Federal Reserve System and turn the assets over to the Treasury?

Mr. PATMAN. Not at all.

Mr. MARTIN. Well, it is the earning process that is the thing that we are concerned with here.

Mr. PATMAN. But you are privileged to buy bonds, and you get most of your earnings from that. In other words, you convert a non-interest-bearing Government obligation, to an interest-bearing obligation, and hold the interest-bearing obligation and collect interest on it.

Mr. OAKMAN. Why not earmark it for education? I ask facetiously.

Mr. PATMAN. Of course that is being suggested all over the place.

Mr. MARTIN. Well, I would just like to say to Mr. O'Hara, for your constituents, that if checks do not clear, and the banking system breaks down, you have something to explain to your constituents also.

Mr. O'HARA. Yes, and I hope, against my fears, that my constituents will still be, after another year or two, in the possession of checks.

Mr. MARTIN. Well, we are trying to fix it so they will be.

Mr. O'HARA. And you are trying to fix it by raising the amount of money they have to pay in interest. I cannot go along with you. It is too much on the pattern of the reasoning in the late twenties.

Mr. MARTIN. I just want to make this point over again. I am not trying to boost interest rates. I am letting the forces of the market determine what these interest rates should be.

Mr. O'HARA. Did I not understand, Mr. Martin, that you approved of the action of the Treasury in raising the interest rate?

Mr. MARTIN. In answer to Mr. Multer, I said that so far as monetary and credit policy was concerned, that I did not object to the course the Treasury was pursuing.

We did not recommend to them the issue, and that is not our prerogative, to handle debt management.

Mr. O'HARA. By telling them that you did not object, was that not tantamount to telling them that what they proposed was agreeable to you? I am merely seeking information.

Mr. MARTIN. Well, I think that the distinction may be fine, but if we are going to run debt management, we ought to make our judgment on what the market is. The Treasury made its own judgment on the market. That is the point I am trying to make, and the Treasury is in control of debt management.

Now so far as monetary and credit policy is concerned, we consulted with them and we did not raise any objection to the course that they were pursuing.

Mr. O'HARA. Has there ever been a time when you have objected to anything the Treasury was considering?

Mr. MARTIN. The Federal Reserve objected to pegging bonds at a fixed rate.

Mr. O'HARA. Having objected on a previous occasion, was there any ethical or procedural reason why you could not have objected in the present instance provided you actually were not in agreement?

Mr. MARTIN. We could have objected but that does not mean—then we try to have a meeting of the minds. That is the problem between the Treasury and the Federal Reserve.

Mr. O'HARA. What I am saying is by not objecting you agreed to it.

Mr. MARTIN. We were acquiescing, let's put it that way. I am not trying to engage in semantics, Mr. O'Hara.

There is a difference.

Mr. O'HARA. I am not trying to be dramatic. I happen to be a younger member. I do not mean in years, but in period of service on this committee and I am seeking information.

Mr. MARTIN. I didn't say dramatics, I said semantics; sorry.

Mr. O'HARA. I am sorry. I misunderstood you.

Mr. MUMMA. Will you yield?

Mr. O'HARA. I yield.

Mr. MUMMA. Is not the basis of this whole problem that the Treasury has an enormous job to refinance these short-term securities and that they have to either refinance or find the money somewhere to make good their promise to the American people, and when they have to do that, don't they have to go out and pay the market price for money, considering the stability of the Federal Government? You would not be raising the interest rate, if you could get it cheaper; is that not a correct statement?

Mr. MARTIN. That is correct.

Mr. MUMMA. You must redeem those short-term loans this year, \$40 billion worth, I believe.

Mr. MARTIN. We would hope that the time would come, which Mr. Multer refers to, when each Treasury issue could be refinanced at a lower rate.

Mr. MUMMA. Business people do not refinance at lower rates unless they are sure the market affords them the opportunity of getting the money.

Mr. MARTIN. They cannot.

Mr. MUMMA. It is not always in that shape; is it?

Mr. MARTIN. That is right.

Mr. MUMMA. We just happened to hit a bad time. Thank you.

Mr. O'HARA. Mr. Martin, I was late in getting here today, being unavoidably detained. Is there a pressing need for this new construction?

Mr. MARTIN. There is a very pressing need, Mr. O'Hara. You see, we came forward with this bill in 1950.

At that time the volume of money was increasing, and facilities were being pressed, space was very difficult, but Korea struck. The bill had passed the Senate at that time, and there was a shortage of materials; and for 3 years, in the period when the supply of money has increased, a great deal, and the volume of checks cleared has increased, we have had difficulty managing. Now the material problem is not the problem.

Mr. O'HARA. As I have interpreted it, the policy of the administration seems to be to hold off, pretty generally in all lines, for a year, pending a study of conditions. I am wondering if this could not wait another year?

Mr. MARTIN. In our judgment, no, sir; because we have a number of banks that are so crowded, and the facilities so limited that we question seriously whether we are going to be able to carry on efficiently and effectively, unless some changes are made.

Mr. O'HARA. And after this authorization is given, will there, in the immediate future, be other requirements, for other construction?

Mr. MARTIN. Well, this is what we can see.

Mr. O'HARA. This will clean it all up?

Mr. MARTIN. Well, if 15 years ago you had asked us about the expansion in, let's say, the Southwest, I would have told you you were crazy to think that we would need additional facilities, but I would not want to forecast what it may be 20 years from now.

Mr. O'HARA. No; I mean the immediate foreseeable future.

Mr. MARTIN. Oh, in the foreseeable future; yes, sir.

Mr. O'HARA. Thank you.

The CHAIRMAN. Are there further questions?

Mr. MULTER. One question, Mr. Chairman.

The CHAIRMAN. Mr. Multer.

Mr. MULTER. Can you tell us whether or not you know of a single other instance in the history of this country when Government jumped its interest rate as much as three quarters of 1 percent at one time? On long-term bonds? Hasn't the history been one of refinancing by the Government, to jump a quarter of a percent and an eighth of a percent at a time, and never as much as a three-quarters of 1 percent at one time as on this last issue?

Mr. MARTIN. I cannot answer that, Mr. Multer, without looking it up, but I would like to counter by saying, Has there ever been a period in the history of the country that has been really parallel to this?

Mr. MULTER. I do not think anybody has ever tested, before putting out this issue, whether they could get it at a lower interest rate. I think the Treasury Department decided they were going to issue this bond issue at 3¼ percent and that is what they did. If I am wrong, I would like to have somebody tell me so.

Mr. MARTIN. I think you would have to direct your question there to Secretary Humphrey and Mr. Burgess.

I am inclined to think that they tested the market, and surveyed the market as thoroughly and as carefully as any individuals could. However, I cannot speak for them.

Mr. OAKMAN. Isn't the answer, Mr. Multer, that if we think that somebody has taken advantage of the Government by getting this unduly high interest rate, that they could not have taken very bad advantage of the Government when one can go in and buy the bonds today for less than was paid for them a fortnight ago, or less.

Mr. MULTER. That just points up that there is no such thing as a free market in Government bonds. It is a manipulated market, and this Government is doing the manipulation today.

Mr. OAKMAN. I think it proves the country. The allegation was that the rate of 3¼ percent was not a realistic rate, that it was an inflated rate, and no need for it. The very fact that you can go out and buy these bonds with a 3¼-percent coupon at less than par, shows that it was a pretty good, realistic rate.

Mr. MULTER. I think you miss the point. The bond that is selling at less than par, these bonds that are selling at 90 and 91 are the bonds paying 2½-percent interest, and they are being bought in at less than par, not only to make a capital gain, but in order to equalize the rate to bring it up to the new 3¼-percent interest rate.

The man who owns that low interest rate, if he needs his money, must sacrifice it, and the buyer is now going to buy it at a discount so as to get the same net return as the new 3¼-percent rate fields and that is what happens all across the country, with this new rate. Everybody who must borrow money is going to have to pay more, and everybody lending money is going to charge more, because they are going to meet the rate fixed by the Government.

The CHAIRMAN. I do not think it is quite generally understood that we have a credit inflation.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Mr. Chairman, I should like to volunteer the categorical statement that there has never been a time in the history of our country when we have had so much short-term financing as we have had in the past 20 years, and I might cut that down to 10, and the idea of borrowing money on short term at a low rate, requiring constant refinancing, and having large sums coming due at frequent intervals, is simply bad policy, and therefore I commend the Government for setting up an orderly arrangement in finance.

So I have no criticism against either the Treasury or the Federal Reserve System.

These gigantic sums, on short term, are simply not good financing.

The CHAIRMAN. Are there further questions of Mr. Martin or Mr. Evans?

Without objection, the letter from Mr. Martin to the chairman will go into the record, together with the statement accompanying the letter.

(The information referred to is as follows:)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,  
*Washington, April 14, 1953.*

HON. JESSE P. WOLCOTT,  
*Chairman, Committee on Banking and Currency,  
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: The Board of Governors wishes to recommend for the consideration of your committee legislation to modify the limitations now contained in the Federal Reserve Act upon the cost of buildings for branches of the Federal Reserve banks. The amount which may be used for this purpose under the provisions of existing law has been fully utilized or allocated, and new buildings or substantial improvements are urgently needed for the branches of Federal Reserve banks in a number of cities. I am enclosing a memorandum which fully describes the need for this legislation, together with a draft of a bill for this purpose. The Bureau of the Budget has advised that there is no objection to the submission of this proposal to the Congress, and we trust that the matter will have your favorable consideration.

Sincerely yours,

WM. McC. MARTIN, Jr.

#### ADDITIONAL BUILDING FACILITIES FOR BRANCHES OF FEDERAL RESERVE BANKS

At many of the 24 branches of the Federal Reserve banks construction of additional building facilities is urgently needed to take care of the increased volume of work. This need cannot be met, however, because of a provision of the law which placed a limit of \$250,000 upon the cost of any building for a branch of a Federal Reserve bank (exclusive of the cost of vaults, permanent equipment, furnishings and fixtures, and also exclusive of the cost of the land). In 1947, in order to take care of what were then the most urgent needs for Federal Reserve branch building construction, Congress amended the law to provide that this limitation should not apply as long as the aggregate of such costs thereafter incurred for all branch bank buildings of Federal Reserve banks, with the approval of the Board of Governors, was not in excess of \$10 million. This amount, however, has now been utilized or allocated, and a further amendment to the law is needed to permit the use of additional funds for the Federal Reserve branch buildings which are now necessary.

Under the \$10 million authorization provided by the 1947 amendment, the building occupied by the Cincinnati branch was purchased, new buildings have been constructed for the branches at Jacksonville, Portland, and Seattle, a major addition to the building at the Detroit branch has been constructed, and funds have been earmarked for the erection of a major addition to the Los Angeles branch building, plans for which have been prepared.

Additional space is now required at many branches other than those mentioned. In particular, new buildings or substantial improvements are needed for the branch Federal Reserve banks located at Buffalo, Pittsburgh, Baltimore, Charlotte, Birmingham, Nashville, New Orleans, Louisville, Denver, Oklahoma City, Omaha, El Paso, Houston, San Antonio, Los Angeles, and Salt Lake City. The need for additional building facilities at many of these branches is urgent, and a number of them are emergency situations.

Most of the Federal Reserve bank branch buildings were built or acquired over 25 years ago, and since that time there has been a great expansion in the volume of business handled. The greatest increases in volume of work have come in handling of currency and coin and the collection of checks. Money in circulation, around \$30 billion, practically all of which flows through the Federal Reserve banks and branches, is more than three times what it was before World War II. Since 1940 the number of coins received and counted by the Federal Reserve branches has more than tripled, the number of pieces of paper currency received and counted has more than doubled, and the number of checks handled by the branches has nearly tripled. Moreover, much larger vault facilities are required because of the necessity for larger reserve supplies of currency.

The estimates for the cost of the buildings and improvements at the several branches mentioned above are necessarily rough at this time, but, after allowance for a 10 percent margin, the total estimated cost is about \$18,500,000 (after the exclusions provided by the law). This amount does not take into account needs that may later develop.

The Board wishes to emphasize that Federal Reserve banks use their own funds in the construction or improvement of their buildings. No appropriation of Government funds is involved. Costs of these buildings are capitalized; that is, carried as assets of the bank. Moreover, under specific requirement of the law, all construction projects with respect to branch bank buildings, having first been considered by the boards of directors of the branch and of the Federal Reserve bank, come before the Board of Governors for its approval. In each case the Board considers the proposal in the light of the needs of the branch, the type of building to be constructed, the reasonableness of the costs, the availability of materials, and whether the construction at this time is generally in keeping with the prevailing economic situation.

In 1950 the Board recommended to Congress an increase in the authorization for expenditure for branch Federal Reserve bank buildings above the amount authorized in 1947; and a bill for this purpose was passed by the Senate and favorably reported by the House Banking and Currency Committee. At about that time, however, the Korean invasion took place and the legislation was not enacted. Because of the urgent needs above described, the Board now recommends that Congress increase the amount authorized for construction of Federal Reserve branch buildings by an additional amount sufficient to meet the present situation, with a continuation of the requirement of the present law that the Board approve such expenditures. A draft of a bill for this purpose is attached.

The CHAIRMAN. If there are no further questions, we are very appreciative of your coming down here and giving us so much information on so many subjects, Mr. Martin, and Mr. Evans.

This afternoon the House will be in the Committee of the Whole on general debate on an appropriations bill, and if it develops that we can, perhaps we should arrange to meet this afternoon at 3 o'clock to go into executive session on this bill. We have some other matters coming up tomorrow.

So we will recess to reconvene at 3 o'clock this afternoon. If we cannot meet this afternoon, the committee members will be notified and the committee will stand in recess until 3 o'clock this afternoon, or subject to the call of the Chair.

(Whereupon, at 12:31 p. m., the committee recessed.)

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