

William McChesney Martin, Jr., Papers

Box 24/Folder 2

House Ways + Means

Series V, Subseries C

Martin's Statements, 1957-59

- (43) House Ways and Means Committee,
(Wilbur Mills, Chairman) President's request for increase
in ceiling of the public debt and
increase in interest rate ceiling
on savings bonds and new Treas-
ury bond issues.

Public hearing 6/11/59
Executive ses-
sions--June 15, June 16, June 17,
June 22, June 23, June 24, June
29, June 30, and July 8, and August 12.

(See next folder for Appearance No. 44)

Schedule of Mr. Martin's appearances before House Ways and Means Committee (in open hearings and executive session) considering President's request for increase in the ceiling of the public debt and increases in the interest rate ceiling on savings bonds and new Treasury bond issues. (Note: The Committee reported out the increase in the debt ceiling but reserved for separate consideration the President's recommendations with respect to interest rate ceilings which were the subject of executive meetings listed below:)

- 1. Thursday, June 11 .. Open hearing. Mr. Martin's prepared statement, and testimony. 10 a.m. to 12:30; and 1:30 to 2:30 p.m.
- 2. Monday, June 15 Executive Session (with Secretary Anderson and Under Secretary Baird). Mr. Martin accompanied by Young, Noyes, and Shay. 10 a.m. to 1 p.m.
- 3. Tuesday, June 16 ... Executive Session. (Same participants as above) 10 a.m. to 12:30.
- 4. Wednesday, June 17... Executive Session (Same participants as above, and Mr. Thomas.) 10 a.m. to 12:15 p.m.
- (June 18 Scheduled meeting in executive session called off by the committee because of "meeting of House at 11."
- 5. Monday, June 22 Executive Session (above group, including Thomas), 10 a.m. to 12:15.
- 6. Tuesday, June 23 ... Executive Session (above group, including Thomas), 10 a.m. to 12 noon.
- 7. Wednesday, June 24.. Executive Session (above group, including Thomas), 10 a.m. to 11.
- 8. Monday, June 29 Executive Session (above group, including Thomas), 10 to 11:30 a.m.
- 9. Tuesday, June 30 ... Executive Session (Young, Noyes, Shay, Thomas, Hackley and Farrell), 10 a.m. to 12 noon.
- (July 1 Scheduled session, executive, called off by Committee.)
- 0. Wednesday, July 8 Executive Session (Shay, Thomas and Young). 2 p.m. to 5:45 p.m. (Note: Committee approved bill giving President Eisenhower right to disregard interest-rate ceiling on Government bonds when he finds higher rates necessary "in the national interest," and added draft amendment expressing the "sense of the Congress" that the FRS should, in effect, buy Government bonds from time to time to help keep interest rate down and to assist the Treasury.
- 1. Wednesday, July 12.. Executive Session (Riefler and Shay accompanied Mr. Martin). 10 to 12 noon. (Note: Committee approved bill to give President authority to issue new Government bonds above the present interest rate ceiling for three years.)

House Committee on Ways and Means

Wilbur D. Mills, of Ark. (Chairman)

Aime J. Forand, of R. I.

Cecil R. King, of Calif.

Thomas J. O'Brien, of Ill.

Hale Boggs, of La.

Eugene J. Keogh, of N. Y.

Burr P. Harrison, of Va.

Frank M. Karsten, of Mo.

A. Sydney Herlong, Jr., of Fla.

Frank Ikard, of Tex.

Thaddeus M. Machrowicz, of Mich.

James B. Frazier, Jr. of Tenn.

William J. Green, Jr. of Penn.

John C. Watts, of Ky.

Lee Metcalf, of Montana

Richard M. Simpson, of Penn.

Noah M. Mason, of Ill.

John W. Byrnes, of Wis.

Howard H. Baker, of Tenn.

Thomas B. Curtis, of Mo.

Victor A. Knox, of Mich.

James B. Utt, of Calif.

Jackson E. Betts, of Ohio.

Bruce Alger, of Tex.

Albert H. Bosch, of N. Y.

Martin statement
& letters to Com.

For release on delivery

Statement of
William McChesney Martin, Jr.,
Chairman, Board of Governors of the Federal Reserve System

before the
Ways and Means Committee
House of Representatives

June 10, 1959

*10 am June 11 - until 12:30
1:30 pm June 11 until 2:00*

Mr. Chairman:

At the outset, I should like to state that the Board of Governors of the Federal Reserve System agrees that the debt management proposals transmitted to you by the President are necessary and desirable and we urge their favorable consideration.

There are only a few points that I would like to make, but before turning to them, I think it is important that you should understand that I come before you in connection with these proposals not as spokesman for the Administration, but as Chairman of the Board of Governors.

We are living today in a country of unprecedented wealth. It is wealthy, in part, because of abundant natural resources; and, in part, because of the energy and initiative of our people. An even more important distinction between the United States and most other countries is the size and quality of the accumulated stock of capital goods in the hands of producers and consumers. Due to past saving, we enjoy the benefits which flow from a reservoir of housing and durable goods in the hands of consumers, of public facilities, such as highways, school buildings, and waterways, and of industrial plant and equipment. The society in which we live has been popularly characterized as affluent, and despite our proper concern for certain depressed areas--both economic and geographic, I am sure that we can all agree with this characterization.

One consequence of affluence is exposure to instability in the pace of general activity and also in interest rates which rise in periods of boom and decline in periods of recession. In a very poor economy, where everyone must work as hard as he can to eke out a bare living, additions to stock of capital are largely made by diverting effort directly to production of capital goods. Such borrowing and lending as does take place, is effected at interest rates which we would regard as fantastically high. In this type of economy, there is little threat of instability except from natural causes. A drought or an unusually good season may produce relative poverty or plenty. But everyone is always fully employed and the range of economic fluctuation will tend to be fairly small.

The greater the accumulation of wealth the greater are the possibilities for economic fluctuation. These may stem from shifts in the peoples' preferences among the wide range of expenditure opportunities open to them, from changing attitudes toward saving and investment, from over-speculation which undermines the solvency of financial institutions, or, perhaps on some occasions, simply from the arrival at a point where even a high rate of technical innovation fails to induce investment decisions adequate to sustain capital expansion.

It is not surprising that, in a free and wealthy economy, we are unable to counterbalance perfectly, through changes in public policy, the wide shifts that can take place. We always have had, and, I think, always will have, changes in the pace of our economic progress. We can and should work to reduce these fluctuations and strive for the goal of stable growth. At the same time, however, we must recognize that it is highly unlikely that we shall ever achieve perfection.

Fluctuations in our economy express themselves in various ways, and we attempt to gauge them by various statistical measures. If we look at the movements in any of the broad measures of economic activity and compare them with fluctuations in interest rates, the conclusion is inescapable that interest rates tend generally to move upward in periods of prosperity and downward in times of recession or arrested growth. Hence, concerned as we may be about the impact of rising interest rates on the burden of the public debt or on necessitous borrowers, we must recognize that rising interest rates are, in fact, a symptom of broad prosperity and rapid economic growth.

Since the stabilization of monetary systems in key countries after World War II, interest rates have shown a rising trend throughout the industrial nations of the free world. This has been a period of great economic growth, very active demands for credit, further monetary expansion, and continuing, though perhaps abating, inflationary pressures. Throughout the period, interest rate levels in other industrial countries have been higher than in the United States. This past year's rise in interest rate levels here, accompanying economic recovery, has been in contrast to some decline in interest rate levels in Western European countries, where a modest recession came somewhat later than in the United States and Canada.

In the United States, the rise in interest rates has affected all types and maturities of debt instruments. Yields on long-term securities have generally risen by about 2 percentage points since the low point reached shortly after the end of the war. Yields now range

from 4 to 4-1/2 per cent on U. S. Government securities of long- and medium-term, over 4-1/2 per cent on many outstanding Aaa corporate bonds, and average over 5 per cent on outstanding Baa corporate bonds. New issues necessarily have to be offered to investors at higher rates.

Despite their recent upward movement, interest rates in the United States are still at levels comparable with those prevailing during much of our history. Long-term rate movements since last summer have been within the range of the period from the early part of this century through 1930. The level is still substantially lower than during most of the nineteenth century. From an historical viewpoint, the present level of rates can hardly be regarded as "out of line" for a period of wide prosperity and growth.

In comparing present rate levels with those of past periods, one of the important things sometimes overlooked is the effect of our necessarily high tax structure on the effective rate of interest. For example, if both the borrower and lender are subject to the 52 per cent tax on corporate profits the borrowers' net cost and the lenders' net return is a little less than half of the expressed rate. Thus, a market rate of say, 4 per cent, implies for both parties a net rate of a little less than 2 per cent. On its own taxable bonds, the Federal Government, through the income tax, recaptures a substantial share of the interest it pays. When we look at interest rates in long-term perspective, we must bear in mind that net yields after taxes are lower today than a comparison of market rates would suggest, because of the fact that taxes are higher.

Aggressive demands for financing, which, as I have said, are characteristic of prosperous times, represent efforts to attract resources away from current consumption in return for the payment of interest. In a free economy, no matter how affluent, it follows that, when borrowers attempt to attract a larger share of the total product for their purposes, they will have to pay for doing it.

The presence of strong demands on the credit markets from borrowers of all kinds does create a difficult financial problem. Recently credit demands have been pressing on the banking system, and the banks have been accommodating a growing volume of loans. As borrowers have sought accommodation, banks have raised their prime rate from 4 to 4-1/2 per cent. This is the interest rate that banks charge top-quality customers on short-term loans.

More recently, the discount rate of the Federal Reserve Banks has been raised from 3 to 3-1/2 per cent. The discount rate is the interest rate that is charged by a Federal Reserve Bank when a member bank borrows money from it. This money is often called high-powered money. It is high-powered because it is credited directly to the reserve account of a member bank, and, unless used to finance a payment of currency into public circulation or an outflow of gold or some other development which drains the member bank reserve base, it forms the basis for a multiple expansion of bank credit and money.

For some months, we have been having rapid expansion of bank credit and money, based largely on borrowed reserve funds. The seasonally adjusted money supply--demand deposits at banks plus

currency in circulation--has increased by more than \$2 billion in the last four months, an annual rate of growth of about 5 per cent. In the face of developing high-level prosperity and the potential threat of inflationary boom, the Federal Reserve should not be in the position of encouraging an undue expansion of bank credit and money. Hence, the appropriate discount rate under present circumstances is one that does not encourage member bank borrowing and is generally above current rates on short-term market obligations, such as bills.

It is sometimes asserted that the Federal Reserve System should step in and halt the upward trend of interest rates resulting from active demands for loans by supplying sufficient Federal Reserve credit in one form or another to keep interest rates from rising. This cannot be done without promoting inflation--indeed without converting the Federal Reserve System into an engine of inflation.

When such a program was adopted during and following the war, it did succeed for a time in actually pegging interest rates on Government obligations. But, at the same time it promoted and facilitated the dangerous bank credit and monetary expansion that developed under the harness of direct price, wage, and material controls. The suppressed inflation that resulted, we are now well aware, burst forth eventually in a very rapid depreciation of the dollar and even threatened to destroy our free economy.

This experience is very recent and the effects are widely and well remembered. It is now very doubtful whether the Federal Reserve System could, in fact, peg interest rates on Government obligations under today's conditions even if we accepted the inflationary costs, which

would be high and would eventually lead to severe collapse. It is certain that the Federal Reserve could not extend interest rate stability to all markets.

The trouble is that the world has learned from wartime inflationary experience. It now knows that inflation follows any effort to keep interest rates low through money creation as the night follows the day. Any attempt on the part of the Federal Reserve to peg rates today would be shortly followed by an acceleration of the outflow of gold in response to demands from abroad, by further diversion of savings from investment in bonds and other fixed interest obligations into stocks and other equities, and by a mounting of demands for borrowed funds in order to speculate in equities and to beat the higher prices and costs anticipated in the future.

Those familiar with the investment markets will confirm to you that such developments would inevitably follow a Federal Reserve attempt to peg interest rates. A simply tremendous volume of bank reserves would have to be thrown into the market through Federal Reserve open market purchases in the attempt to stem the upward pressure on interest rates. As these reserves enhanced inflationary pressures even further, the rush from money and fixed obligations into gold and physical property as well as the mounting demands for credit to reap speculative profits and to hedge against future inflation would overwhelm even the most heroic efforts to hold interest rates down. Ultimately, if the gold reserve requirements to which the Federal Reserve is now subject were

eliminated, the System might acquire a large proportion of publicly-held Government debt of over \$200 billion in this way. True, the interest rate on Government obligations might be said in some distorted sense to have been stabilized by such an operation. Interest rates generally, however, would spiral upward as they always have in every major inflation.

People who save will be unwilling to lend their money at low interest rates even when they expect the depreciation in the value of their dollars to be limited. This is understandable. Take, for example, a corporate financial institution subject to a 52 per cent tax. The after tax income from a bond yielding $4\frac{1}{4}$ per cent interest would amount to just a little over 2 per cent with the dollar stable in value. If this potential investor had reason to fear that the value of the dollar would depreciate even 1 per cent a year, his real return would be very low. If the investor had reason to expect a price rise of just over 2 per cent a year, his real return would become negative. Investors are alert today to this way of figuring interest returns.

It might be added that to suggest that holding interest rates down by supplying the banking system with reserves through Federal Reserve open market purchases of Government securities, on the one hand, and taking them away with higher reserve requirement increases, on the other, represents a fundamental misunderstanding of how the credit system functions. Obviously, if the net effects on the credit base are, in fact, offsetting, they make no net addition to the total supply of bank credit, nor do they reduce the demands of borrowers.

If they are not fully offsetting, the net result would be inflationary. We are all acutely aware of the gigantic size of the publicly-held debt that is outstanding and available to provide a basis for such monetary inflation. There is no magic formula by which we can eat our cake and have it too.

If the Federal Government should substitute artificially created money for savings in an effort to prevent interest rates from rising, it would have a reverse effect. It would worsen the very situation that the action was intended to relieve. If you really want to encourage rising interest rates, you have only to follow the prescription of those who argue that interest rates on Government or any other obligations can be pegged by inflating the money supply.

In connection with this discussion, it should be re-emphasized that the Federal Reserve System does not "like" high rates of interest. We are anxious, always, that interest levels be as low as is consistent with sustained high levels of economic activity, with a steady rise in our national well being, and with reasonable stability for value for the dollar. We cannot, moreover, put interest rates where we would whatever our "likes." Federal Reserve policies can, of course, influence interest rates to some extent through their influence on the rate at which the banking system can add to the credit and money supply. The effectiveness of Federal Reserve policies is always subject to the reaction of borrowers and savers as expressed through the market.

In an economy in which people are alert and sensitive to price changes, the only way to bring about a lower level of interest rates is to increase the flow of real savings or to decrease the amount of borrowing. One important way to do this is to reduce substantially the deficit at which the Government is operating. This will not only relieve immediately some of the demand pressures that are pushing interest rates up in credit markets, it will also reassure savers as to the future value of the money they put in bonds and savings institutions and thus increase the flow of savings into interest-bearing obligations.

The proposals before you do not relate to the levels of rates which will prevail in the market, but rather to whether or not the Government shall be able to use savings bonds and marketable bonds effectively as parts of its program of debt management. The forthright management of the public debt is an essential part of any program to encourage savings and lower interest rates. We should not force the Treasury to resort to undesirable expedients in order to comply with arbitrary ceilings on either the size of the debt or the rate of interest it pays.

International levels of interest rates among industrial countries are now more closely aligned than in earlier postwar years. This realignment, together with removal of most restrictions on the movement of capital, reflects progress towards a closer relationship among international money markets, which is the financial counterpart of progress toward sustained growth in output and trade in the free world generally. It also signifies a state of affairs in which capital demands are becoming

international in scope and in which they will converge rapidly on the market that is cheapest and most readily prepared to accommodate them. Under these circumstances, interest rates in this country must increasingly reflect world-wide as well as domestic conditions.

We need to remember that today the dollar is the anchor of international financial stability. That anchor must be solid. Realistic financial policies of Government are essential to that end as well as to the end of a wealthy and strong domestic economy. At this juncture of world development, the least evidence of an irresponsible attitude on the part of the United States toward its financial obligations or of its unwillingness to face squarely the issues which confront it in meeting greater demand pressures on resources and prices, would have very serious repercussions throughout the free world.

Note:

On Friday, June 5, John Martin of House Ways and Means phoned and talked to mnm re Mr. Martin's "availability" on Wednesday, June 10 for hearings on the debt ceiling. The Committee wants to schedule Secy Anderson, Budget Director Stans and Mr. Martin, if possible. John Martin said he would call and let us know definitely when hearing was scheduled--might possibly be Thursday, June 11. He was told that Chairman Martin would be available either day.

On Monday, June 8, Miss Donovan of the Committee phoned and said that public hearings had been scheduled for 10 a.m., Wednesday, June 10, with Secretary Anderson as the first witness and Mr. Martin as the second--it is possible Mr. Martin's appearance will not be until the afternoon.

mnm

PRESS RELEASE
FOR IMMEDIATE RELEASE
MONDAY, JUNE 8, 1959

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 NEW HOUSE OFFICE BUILDING

CHAIRMAN WILBUR D. MILLS (D.-ARK.), COMMITTEE ON WAYS
AND MEANS, HOUSE OF REPRESENTATIVES, ANNOUNCES PUBLIC
HEARINGS ON REQUEST OF THE PRESIDENT FOR AN INCREASE
IN THE CEILING OF THE PUBLIC DEBT AND FOR AN INCREASE
IN THE INTEREST RATE CEILING ON SAVINGS BONDS AND NEW
TREASURY BOND ISSUES

Chairman Wilbur D. Mills (D.-Ark.), Committee on Ways and Means, House of Representatives, today announced that the Committee on Ways and Means would conduct public hearings beginning Wednesday, June 10, 1959, on the request of the President for legislation to provide for an increase in the public debt ceiling and for legislation to remove the statutory ceiling on the interest rate payable on new Treasury bond issues and on savings bonds. Chairman Mills stated that the Honorable Robert B. Anderson, Secretary of the Treasury, would be the first witness to testify before the Committee, to be followed by the Honorable William McChesney Martin, Jr., Chairman of the Federal Reserve System, Board of Governors; and the Honorable Maurice H. Stans, Director of the Bureau of the Budget.

At the present time, the permanent statutory ceiling on the public debt is \$283 billion. In addition, there is an additional temporary increase of \$5 billion which expires June 30, 1959. The ceiling on the interest rate which can be paid on Treasury bonds presently is 4½ percent and the present interest rate ceiling on savings bonds is 3.26 percent. The President has requested the Congress to raise the permanent public debt ceiling from \$283 billion to \$288 billion, with an additional temporary increase to \$295 billion through June 30, 1960. The President requested that the interest rate ceilings on savings bonds and Treasury bonds be removed.

6/16

Mr. Irwin of House Ways and Means
requested that Chairman Mills be supplied
with something in writing on the point made
by Mr. Patman--re the \$15 billion reduction--
by 10 a. m. in the morning.

June 16, 1959.

The Honorable Wilbur D. Mills,
Chairman,
Committee on Ways and Means,
House of Representatives,
Washington, D. C.

Dear Mr. Chairman:

In his testimony before the House Ways and Means Committee on June 11 Mr. Patman stated that the Federal Reserve Board had reported to Congress that "its present holdings of \$25 billion of bonds and other interest-bearing obligations of the United States are a great deal more than the needs for all purposes and all possible contingencies." This alleged statement is a misreading of an analysis presented in a Board staff study dealing with member bank reserve requirements and their sources. I quote the relevant passages of this study:

"It may be concluded from this discussion of the appropriate level of reserves that, to permit effectuation of appropriate monetary policies, reserve requirements of member banks do not need to be as high as they have been in recent years. A lower level of requirements would improve the earning position of banks and aid them in building up their capital positions to levels commensurate with the more rapid expansion that has occurred in their liabilities during the past 30 years. Some reduction in reserve requirements would not necessarily impair the liquidity and safety of banks' assets if banks are prudent in the use of additional funds obtained. Any substantial reduction in requirements, however, might raise questions about the adequacy of safety or liquidity in the asset structure of banks, unless offset by other additions to liquidity.

"To the extent necessary to avoid undue credit expansion, reserves released by any reduction in requirements could be

absorbed by Federal Reserve sales of securities in the market. This would in effect shift earning assets from Federal Reserve banks to member banks. The present System portfolio is adequate to permit a substantial reduction and still leave enough to provide sufficient earnings to cover necessary expenses, as well as for current purposes of policy.

"Any decrease in requirements, however, should leave the Federal Reserve with a portfolio adequate to cover possible future contingencies, such as a large inflow of gold or economies in the use of currency that might add reserves in excess of appropriate needs. In view, moreover, of the growing international liabilities of this country, the reserve base of member banks, as well as that of Federal Reserve banks, should be maintained at a level that would permit further reduction of requirements if needed to cover a future drain on our gold reserves.

"While normal growth of the economy may require some increase in the supply of money and in needs for additional reserves, there may be large potentialities for economies in the use of money, which make any projections of future needs unreliable. Reserves should be released only as needs actually arise and not in anticipation of possible needs.

"Any substantial release of reserves within a short period of time can have disturbing effects on credit markets and on the economic system generally. Although the amount of any such release can be offset by absorption of the same amount through Federal Reserve sales of securities, the initial uses that might be made of the actual reserves released cannot be controlled. Increased leverage for credit expansion permitted by lower reserve requirements may also present problems of adjustment.

"For these various reasons, any reductions in reserve requirements have to be made in relatively small amounts over extended periods of time. They should be made only at times when money market and credit conditions are such that undue credit expansion in some lines would not occur

before it could be brought under control. The Federal Reserve should have no mandate or commitment to reduce requirements to some specific level within a definite period of time. Legislative authority should be sufficiently flexible that changes can be made in a manner, in amounts, and at times that do not conflict with the needs of monetary policy."

The above conclusions and observations relate to reserve requirement levels that might be established in the future. Given the present reserve requirement levels, the existing Federal Reserve portfolio of Government securities is essential to the System's operations. For instance, if \$15 billion of these obligations were cancelled immediately as Congressman Patman suggests, there would have to be \$15 billion extracted from the liability side of the Federal Reserve financial statement. This would have to be balanced by \$15 billion taken out of the reserve balances of member banks or \$15 billion taken out of Federal Reserve notes in circulation.

I may say that the statement above quoted from the staff study was preceded by a detailed analysis of the factors that may influence in the future the availability of and the needs for bank reserves. Its principal conclusions were that reserve requirements should not be substantially reduced in the near future and that the System should maintain an adequate portfolio of securities which might be sold to offset the effects of any substantial gold inflow or return flow of currency from circulation.

I trust this adequately covers the subject for your records.

Sincerely yours,

(SIGNED) WM. McC. MARTIN, Jr.

Wm. McC. Martin, Jr.

cc: Mr. Thomas
Mr. Shay
Mr. Martin

WMM:mnm

June 23, 1959.

The Honorable Richard M. Simpson,
Vice Chairman,
Committee on Ways and Means,
House of Representatives,
Washington, D. C.

Dear Mr. Simpson:

In his testimony before the House Ways and Means Committee on June 11 Mr. Patman stated that the Federal Reserve Board had reported to Congress that "its present holdings of \$25 billion of bonds and other interest-bearing obligations of the United States are a great deal more than the needs for all purposes and all possible contingencies." This alleged statement is a misreading of an analysis presented in a Board staff study dealing with member bank reserve requirements and their sources. I quote the relevant passages of this study:

"It may be concluded from this discussion of the appropriate level of reserves that, to permit effectuation of appropriate monetary policies, reserve requirements of member banks do not need to be as high as they have been in recent years. A lower level of requirements would improve the earning position of banks and aid them in building up their capital positions to levels commensurate with the more rapid expansion that has occurred in their liabilities during the past 30 years. Some reduction in reserve requirements would not necessarily impair the liquidity and safety of banks' assets if banks are prudent in the use of additional funds obtained. Any substantial reduction in requirements, however, might raise questions about the adequacy of safety or liquidity in the asset structure of banks, unless offset by other additions to liquidity.

"To the extent necessary to avoid undue credit expansion, reserves released by any reduction in

requirements could be absorbed by Federal Reserve sales of securities in the market. This would in effect shift earning assets from Federal Reserve banks to member banks. The present System portfolio is adequate to permit a substantial reduction and still leave enough to provide sufficient earnings to cover necessary expenses, as well as for current purposes of policy.

"Any decrease in requirements, however, should leave the Federal Reserve with a portfolio adequate to cover possible future contingencies, such as a large inflow of gold or economies in the use of currency that might add reserves in excess of appropriate needs. In view, moreover, of the growing international liabilities of this country, the reserve base of member banks, as well as that of Federal Reserve banks, should be maintained at a level that would permit further reduction of requirements if needed to cover a future drain on our gold reserves.

"While normal growth of the economy may require some increase in the supply of money and in needs for additional reserves, there may be large potentialities for economies in the use of money, which make any projections of future needs unreliable. Reserves should be released only as needs actually arise and not in anticipation of possible needs.

"Any substantial release of reserves within a short period of time can have disturbing effects on credit markets and on the economic system generally. Although the amount of any such release can be offset by absorption of the same amount through Federal Reserve sales of securities, the initial uses that might be made of the actual reserves released cannot be controlled. Increased leverage for credit expansion permitted by lower reserve requirements may also present problems of adjustment.

"For these various reasons, any reductions in reserve requirements have to be made in relatively small amounts over extended periods of time. They

should be made only at times when money market and credit conditions are such that undue credit expansion in some lines would not occur before it could be brought under control. The Federal Reserve should have no mandate or commitment to reduce requirements to some specific level within a definite period of time. Legislative authority should be sufficiently flexible that changes can be made in a manner, in amounts, and at times that do not conflict with the needs of monetary policy."

The above conclusions and observations relate to reserve requirement levels that might be established in the future. Given the present reserve requirement levels, the existing Federal Reserve portfolio of Government securities is essential to the System's operations. For instance, if \$15 billion of these obligations were cancelled immediately as Congressman Patman suggests, there would have to be \$15 billion extracted from the liability side of the Federal Reserve financial statement. This would have to be balanced by \$15 billion taken out of the reserve balances of member banks or \$15 billion taken out of Federal Reserve notes in circulation.

I may say that the statement above quoted from the staff study was preceded by a detailed analysis of the factors that may influence in the future the availability of and the needs for bank reserves. Its principal conclusions were that reserve requirements should not be substantially reduced in the near future and that the System should maintain an adequate portfolio of securities which might be sold to offset the effects of any substantial gold inflow or return flow of currency from circulation.

I trust this adequately covers the subject for your records.

Sincerely yours,

(SIGNED) WM. McC. MARTIN, Jr.

Wm. McC. Martin, Jr.

cc: Mr. Thomas
Mr. Shay
Mr. Martin

WMM:mnm

By Hand

June 24, 1959.

The Honorable Wilbur D. Mills,
Chairman,
Committee on Ways and Means,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request that I supply you and Mr. Simpson a statement on the effects of the proposal by Representative Patman to cancel \$15 billion of United States Government obligations presently held by the Federal Reserve Banks.

Up to the present time, the details of Representative Patman's proposal are not available to us. As you will recall, in the statement that he made to your Committee, he merely indicated that he would introduce an amendment to S. 1120, which would provide for the cancellation of \$15 billion of such securities.

The Government obligations owned by the Federal Reserve Banks have been purchased over the course of time in the process of supplying banks with sufficient currency to meet the public's demands and of maintaining the reserve balances that the banks are required to hold against their deposit liabilities. Broadly speaking, ignoring items of lesser importance, the Federal Reserve Banks' assets consist of \$26 billion of Government securities and about \$20 billion of gold certificate reserves. Their liabilities comprise \$27 billion of Federal Reserve notes and \$20 billion of deposits, mostly member bank reserve balances. The law provides that the Reserve Banks must set aside as collateral against Federal Reserve notes an equivalent aggregate amount of gold, eligible paper, and U. S. Government securities, and must maintain gold certificate reserves of at least 25 per cent against note and deposit liabilities.

Cancellation of \$15 billion of the System's holdings of Government securities would require a balancing reduction in its liabilities. As pointed out above, it was not clear in his statement to your Committee how Mr. Patman proposed to accomplish this second step. If no parallel provision were made simultaneously in the law, the net result would, of course, be to place the Federal Reserve System in bankruptcy.

There is no practical way by which \$15 billion of Federal Reserve notes could be taken out of circulation "immediately"; the amount in circulation is determined by the public's demands. One possible adjustment would be to simultaneously reduce the reserve balances of the member banks by \$15 billion through some form of assessment or tax. This in turn would create similar problems for member banks. As I pointed out, it would be highly deflationary, since it would require a drastic curtailment of credit to pull the banks' deposit structure down to the level permitted by their reduced reserve balances, even if reserve requirements were reduced to the present statutory minimum.

Subsequent to his appearance before your Committee, Mr. Patman has provided some further information as to the nature of his proposal. In his statement on the floor of the House, on the Public Debt Act of 1959 (H.R. 7749), Mr. Patman stated:

"I have proposed legislation which would cancel \$15 billion of these bonds. And the amendment I have proposed could also take care of the bookkeeping in a nice, tidy, orthodox way. It would transfer the \$15 billion of assets to the Treasury for cancellation, and at the same time it would transfer to the Treasury \$15 billion of liabilities for the outstanding Federal Reserve notes. This will keep the books in balance. And certainly the Treasury can have no objection to assuming the \$15 billion of liabilities for these Federal Reserve notes, because the fact is, as I have pointed out, these notes are already liabilities of the Treasury, all \$27 billion of them. And they are a convenient sort of liability to have because, as I have said, no one will ever try to redeem them, and if a holder of these notes should try to redeem them, the only thing he could demand in exchange would be another Federal Reserve note just like the one he wants to redeem. So this method of transfer would take care of the matter very nicely.

"Unfortunately, the Members of the House are meeting here under a gag rule. The Rules Committee has not seen fit to give Members of the House an opportunity to propose amendments to this debt-increase bill, otherwise I would offer an amendment which would substitute a figure permitting the \$12 billion increase in the debt limit for a figure which would bring about a net reduction of \$3 billion in the debt limit. And it would, furthermore, require the Federal Reserve Board to transfer to the Treasury for immediate cancellation \$15 billion of its unneeded debt obligations.

"I hope, however, to be able to offer this as an amendment to the bond give-away bill S. 1120 when we take that up. So that the Members may be informed, I will insert at the conclusions of my remarks a copy of the amendment I propose to make at that time, assuming that the House should make the unfortunate decision to approve this debt-increase bill."

So far as we are aware, the amendment has not been published in the Record, nor has any specific legislation been introduced. However, the substance of Mr. Patman's proposal now appears to involve the monetization of \$15 billion of the Government's outstanding debt. In essence, it would mean financing the Government through the issuance of fiat money. This raises the basic question of whether the United States Government should finance either past or current deficits by the issuance of currency; or whether it should, as it now does, finance its debt by borrowing on interest-bearing obligations, in order to minimize the inflationary impact of deficits by financing them with real savings.

Many years ago the Congress made the basic decision that it was not desirable for the Government to finance itself by the issuance of "greenbacks", or some other form of unsecured paper currency. Even in the direst periods of national emergency, we have not resorted to this expedient. While this option is always open to the Congress, and it would have the effect of reducing the nominal amount of the Government debt, the repercussions with respect to the soundness of the Government's credit would be far-reaching and possibly devastating.

The Honorable Wilbur D. Mills -4-

It appears that Mr. Patman would not propose, for the moment, to increase or decrease the total amount of money in circulation in the United States, but, rather, to substitute \$15 billion of currency, which would be an unsecured obligation of the Treasury, for \$15 billion of Federal Reserve notes, which are backed by interest-bearing obligations and a gold reserve of at least 25 per cent. In accordance with the Federal Reserve Act, Federal Reserve notes are only supplied in an amount sufficient to meet the public's needs for currency and in exchange for assets of equal value. They may not be issued to finance the expenditures of the Government.

Over the long span of history, the issuance of currency to finance government has invariably been associated with depreciation and devaluation of the currency, and there can be no doubt that such an action by the United States at this time would be so interpreted, both by our own citizens and by the world at large.

Sincerely yours,

Wm. McC. Martin, Jr.

WT:mcc

By hand

June 24, 1959.

The Honorable Richard M. Simpson,
House of Representatives,
Washington 25, D. C.

Dear Mr. Simpson:

This is in response to Chairman Mills' request that I supply to you and to him a statement on the effects of the proposal by Representative Patman to cancel \$15 billion of United States Government obligations presently held by the Federal Reserve Banks.

Up to the present time, the details of Representative Patman's proposal are not available to us. As you will recall, in the statement that he made to your Committee, he merely indicated that he would introduce an amendment to S. 1120, which would provide for the cancellation of \$15 billion of such securities.

The Government obligations owned by the Federal Reserve Banks have been purchased over the course of time in the process of supplying banks with sufficient currency to meet the public's demands and of maintaining the reserve balances that the banks are required to hold against their deposit liabilities. Broadly speaking, ignoring items of lesser importance, the Federal Reserve Banks' assets consist of \$26 billion of Government securities and about \$20 billion of gold certificate reserves. Their liabilities comprise \$27 billion of Federal Reserve notes and \$20 billion of deposits, mostly member bank reserve balances. The law provides that the Reserve Banks must set aside as collateral against Federal Reserve notes an equivalent aggregate amount of gold, eligible paper, and U. S. Government securities, and must maintain gold certificate reserves of at least 25 per cent against note and deposit liabilities.

Cancellation of \$15 billion of the System's holdings of Government securities would require a balancing reduction in its liabilities. As pointed out above, it was not clear in his statement to your Committee how Mr. Patman proposed to accomplish this second step. If no parallel provision were made simultaneously in the law, the net result would, of course, be to place the Federal Reserve System in bankruptcy.

There is no practical way by which \$15 billion of Federal Reserve notes could be taken out of circulation "immediately"; the amount in circulation is determined by the public's demands. One possible adjustment would be to simultaneously reduce the reserve balances of the member banks by \$15 billion through some form of assessment or tax. This in turn would create similar problems for member banks. As I pointed out, it would be highly deflationary, since it would require a drastic curtailment of credit to pull the banks' deposit structure down to the level permitted by their reduced reserve balances, even if reserve requirements were reduced to the present statutory minimum.

Subsequent to his appearance before your Committee, Mr. Patman has provided some further information as to the nature of his proposal. In his statement on the floor of the House, on the Public Debt Act of 1959 (H.R. 7749), Mr. Patman stated:

"I have proposed legislation which would cancel \$15 billion of these bonds. And the amendment I have proposed could also take care of the bookkeeping in a nice, tidy, orthodox way. It would transfer the \$15 billion of assets to the Treasury for cancellation, and at the same time it would transfer to the Treasury \$15 billion of liabilities for the outstanding Federal Reserve notes. This will keep the books in balance. And certainly the Treasury can have no objection to assuming the \$15 billion of liabilities for these Federal Reserve notes, because the fact is, as I have pointed out, these notes are already liabilities of the Treasury, all \$27 billion of them. And they are a convenient sort of liability to have because, as I have said, no one will ever try to redeem them, and if a holder of these notes should try to redeem them, the only thing he could demand in exchange would be another Federal Reserve note just like the one he wants to redeem. So this method of transfer would take care of the matter very nicely.

"Unfortunately, the Members of the House are meeting here under a gag rule. The Rules Committee has not seen fit to give Members of the House an opportunity to propose amendments to this debt-increase bill, otherwise I would offer an amendment which would substitute a figure permitting the \$12 billion increase in the debt limit for a figure which would bring about a net reduction of \$3 billion in the debt limit. And it would, furthermore, require the Federal Reserve Board to transfer to the Treasury for immediate cancellation \$15 billion of its unneeded debt obligations.

"I hope, however, to be able to offer this as an amendment to the bond give-away bill S. 1120 when we take that up. So that the Members may be informed, I will insert at the conclusions of my remarks a copy of the amendment I propose to make at that time, assuming that the House should make the unfortunate decision to approve this debt-increase bill."

So far as we are aware, the amendment has not been published in the Record, nor has any specific legislation been introduced. However, the substance of Mr. Patman's proposal now appears to involve the monetization of \$15 billion of the Government's outstanding debt. In essence, it would mean financing the Government through the issuance of fiat money. This raises the basic question of whether the United States Government should finance either past or current deficits by the issuance of currency; or whether it should, as it now does, finance its debt by borrowing on interest-bearing obligations, in order to minimize the inflationary impact of deficits by financing them with real savings.

Many years ago the Congress made the basic decision that it was not desirable for the Government to finance itself by the issuance of "greenbacks", or some other form of unsecured paper currency. Even in the direst periods of national emergency, we have not resorted to this expedient. While this option is always open to the Congress, and it would have the effect of reducing the nominal amount of the Government debt, the repercussions with respect to the soundness of the Government's credit would be far-reaching and possibly devastating.

The Honorable Richard M. Simpson -4-

It appears that Mr. Patman would not propose, for the moment, to increase or decrease the total amount of money in circulation in the United States, but, rather, to substitute \$15 billion of currency, which would be an unsecured obligation of the Treasury, for \$15 billion of Federal Reserve notes, which are backed by interest-bearing obligations and a gold reserve of at least 25 per cent. In accordance with the Federal Reserve Act, Federal Reserve notes are only supplied in an amount sufficient to meet the public's needs for currency and in exchange for assets of equal value. They may not be issued to finance the expenditures of the Government.

Over the long span of history, the issuance of currency to finance government has invariably been associated with depreciation and devaluation of the currency, and there can be no doubt that such an action by the United States at this time would be so interpreted, both by our own citizens and by the world at large.

Sincerely yours,

Wm. McC. Martin, Jr.

WT:mcc

Dear Mr. Simpson:

(11)

In response to your letter of July 13th I am glad to comment for the record on ~~put in writing the~~ comments made in the Executive Session meetings of the Ways and Means Committee on the amendments to the legislative proposals originally offered by the Administration. They follow:

~~It was my considered judgement that we were~~
~~in a serious~~ facing a serious financial situation. It was a matter of basic confidence in the will and capacity of the Government to manage its finances. The limitation on interest rates was unrealistic and denied the U.S. Treasury the tools essential to effective and economical handling of its borrowing needs. The Committee was not being asked to vote on whether interest rates should or would go up or down but merely to recognize an existing problem and grant the Treasury the ~~tools~~ ^{authority} necessary to cope with it.

Not used

and placed it under the direction of another Member of the Board of Governors. Furthermore, from the time the proceedings in this case were instituted, and in view of the allegations aforementioned, I have taken great pains to avoid discussions of any phase of this case with other Members of the Board or with the Board's staff, in order to make certain there never would be a valid basis for a charge that I had attempted to influence their judgment - even though it is quite certain that any attempt by me in that direction would have been futile.

I trust that my action in withdrawing will contribute to some extent to the Board's resolution of the issues framed by this extended hearing.

They follow:

(7)
It ~~was~~ ^{is} my considered judgement we ~~are~~ ^{are} facing a serious financial situation. The limitation on interest rates ~~is~~ ^{is} unrealistic in the light of present market quotations and denied the U.S. Treasury the tools essential to effective, balanced handling of its borrowing needs. By statute they ~~were~~ ^{are} now limited to short term securities which under present conditions of rising prosperity ~~is~~ ^{is} dangerous. These short term obligations could be converted into money at the option of the holder and thus swell the flow of money far beyond the need to purchase available goods and services at current price levels. The threat of a money supply out of hand has a major impact on the cost of living and places a burden on all of us.

It served no useful purpose at the moment to argue whose fault it ~~is~~ ^{is} we were in our present predicament. The fact of the matter ~~is~~ ^{is} we were in it and the Congress could no more legislate it away than King Canute could order the tides to stand back. The Committee ~~was~~ ^{is} not being asked to vote whether interest rates should or would go up or down but merely to grant the Treasury authority to exercise its best judgment in meeting an existing problem. ~~The credit of the U.S. is a very serious matter and this is what we are discussing our concern.~~
~~Failure to~~ We are discussing a very serious matter - the credit of the U.S. Failure to deal with this could (and I was careful not to threaten or assert it necessarily would) cause a run on the dollar. It was my duty to warn

prejudice and animosity against Respondent and its principal officer, Mr. Cosgriff.

In my judgment, each letter individually and all letters taken as a whole represented an impersonal analysis of the bank's condition, and a statement of reasonable requirement for change in certain banking practices looking toward an ultimate change in the unsound condition then found to exist. Thus, they constituted an effort on my part to fulfill the obligation imposed upon me as a representative of a bank supervisory authority to request and, if necessary, compel correction of what was deemed to be unsound banking practices. I am personally satisfied, and the correspondence in question bears me out, that the action taken in respect to the condition and practices of Respondent bank was in no measure impelled by prejudice or partiality, but rather by a sense of responsibility in reference to the banking institution itself and to that bank's depositors.

As to the testimony of record, referred to and incorporated by reference in the affidavit attached to the motion to disqualify, I submit that a reading thereof

of this, much ³ I disliked the last. These were the basic facts with which we were dealing and any amendments must be considered in this light.

The amendment to retain the statutory ceilings but permit them to be disregarded if the President found the national interest so required did not seem to me to ~~be a way to undermine the concept of the statute~~ to present unworkable problems. Accordingly I did not raise objection, although I preferred the original.

"The sense of the Committee" amendment is quite a different matter. I object to this on principle.

~~A house of another color.~~ The Open Market Committee and the F.R. Board are given the responsibility under the F.R. Act for operating in the money market regulating the money supply. If the Congress wishes to spell out the means of doing this it should amend the F.R. Act and not tack this on to a debt management bill.

Furthermore it is my conviction that in the light of the above mentioned characteristics, regardless of whether this sense of the Congress is permissive or mandatory

~~is one of the discussions in the Committee~~ under present conditions, and particularly I am convinced that this will be construed as an "easy money" amendment. I reluctantly

In the Matter of

THE CONTINENTAL BANK
AND TRUST COMPANY
Salt Lake City, Utah

Statement by Governor J. L. Robertson

I am advised that, having fully considered the facts and circumstances alleged to have given rise to the filing on June 3, 1959, by Respondent in the above entitled matter of its motion to disqualify me as a Member of the Board of Governors to review the Report and Recommended Decision of the Trial Examiner, or from otherwise participating in the decision of this case, my associates on the Board have denied that motion.

I have undertaken to review the record pertaining to this matter in as impartial a frame of mind as I believe a judicial officer would do were a challenge to his qualification raised in a court of law. I have carefully reviewed the correspondence on the subject of the Respondent bank's condition directed to the Respondent and its Board of Directors and signed by me at a time when I was serving as Acting Comptroller of the Currency and Deputy Comptroller of the Currency. That correspondence is alleged, in part, to form the basis for the belief that I have a personal

came to the view this was so regard is of whether
 the language was permissive or mandatory, ~~if~~
~~permissive in~~ ~~Some~~ ~~Committee~~ ~~members~~ ~~doubtless~~ ~~feel~~
 I am unreasonable in this since admittedly in large
 measure the policies generally being pursued are
 those stated. ~~Apparantly~~ ~~that~~ ~~they~~ ~~state~~ ~~it~~ ~~and~~
 if meaningful it should be clear and made a part
 of the F. R. Act. I want to make it clear, however,
 that in my judgement

Whether this is justified or not is beyond
 the point as we are here dealing with trust
 and confidence which is the lifeblood of sound currency

Stripped of all technicalities I am convinced that
 both at home and abroad this will be ^{cause} ~~construed~~
 as an ~~intentional~~ ~~neglect~~ ~~of~~ ~~our~~ ~~Government~~ ~~to~~ ~~manage~~
 its financial affairs without recourse to the
 printing press. ^{To me this is serious.} Therefore I must oppose ~~the~~
 as vigorously as I am able.

The ~~last~~ amendment limiting the President's
 authority to two years is in my judgement,
 thoroughly unsound. It could be a source of
 serious embarrassment to both the next President
 and whoever is Secretary of the Treasury at that
 time.

May I in closing thank all the
 members of the Committee for the

The aforementioned affidavit, correspondence, portions of testimony, and finding of the Hearing Examiner having been carefully considered by the Board (Governor Robertson not participating), the Board finds that the respondent has failed to establish a personal bias, prejudice, or animosity against respondent or affiant on the part of Governor Robertson.

The Board finds nothing in the evidence to support affiant's assertion that Governor Robertson would be prevented from considering the evidence and issues in this proceeding in a fair and impartial manner.

ORDER

In accordance with the foregoing statement, IT IS ORDERED, That respondent's motion to disqualify be, and the same hereby is, denied.

This 30th day of June 1959.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Washington, D. C.
June 30, 1959.

It served no useful purpose at the moment to argue whose fault it was we were in our present predicament. The fact of the matter was we were in it and the Congress could no more legislate it away than King Canute could successfully order the Tides to stand back.

~~And ~~thus~~ swell the flow of money far beyond the levels of available goods and services at ~~our~~ current price levels~~

~~Since these short term securities could be converted into money at the option of the holder they posed a threat to proper control of the money supply and were ~~thus~~ highly inflationary.~~

that of any judicial body that may hereafter review any portion of the Board's determination in this case.

I have also been mindful of the precedent of my withdrawal and the possibility that in another case similar charges might be made against several or even all Members of the Board. However, I am satisfied that each case must be decided in its own setting and in this case my withdrawal will deprive the Board of only one-seventh of its membership. Had the problem of precedent loomed sufficiently large before me, my decision might be different.

In withdrawing, in order to clearly eliminate the contention of "bad blood" from this case, I wish to state for the record that shortly after I became a Member of the Board of Governors and was asked to assume primary responsibility for the Board's bank supervisory functions, I requested the Board to exclude from this assignment the Continental Bank and Trust Company of Salt Lake City, Utah, because of the allegations of prejudice and dislike that had been made by Mr. Cosgriff from time to time over the years. The Board did exclude this case from my assignment

EIGHTY-SIXTH CONGRESS

WILBUR D. MILLS, ARK., CHAIRMAN

AIME J. FORAND, R.I.
CECIL R. KING, CALIF.
THOMAS J. O'BRIEN, ILL.
HALE BOGGS, LA.
EUGENE J. KEOGH, N.Y.
BURR P. HARRISON, VA.
FRANK M. KARSTEN, MO.
A. S. HERLONG, JR., FLA.
FRANK IKARD, TEX.
THADDEUS M. MACHROWICZ, MICH.
JAMES B. FRAZIER, JR., TENN.
WILLIAM J. GREEN, JR., PA.
JOHN C. WATTS, KY.
LEE METCALF, MONT.

RICHARD M. SIMPSON, PA.
NOAH M. MASON, ILL.
JOHN W. BYRNES, WIS.
HOWARD H. BAKER, TENN.
THOMAS B. CURTIS, MO.
VICTOR A. KNOX, MICH.
JAMES B. UTT, CALIF.
JACKSON E. BETTS, OHIO
BRUCE ALGER, TEX.
ALBERT H. BOSCH, N.Y.

THOMAS A. MARTIN,
MINORITY COUNSEL

LEO H. IRWIN, CHIEF COUNSEL

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

July 13, 1959.

JOHN M. MARTIN, JR.,
ASSISTANT CHIEF COUNSEL
GERARD M. BRANNON,
PROFESSIONAL STAFF

The Honorable
Robert B. Anderson
Secretary of the Treasury
Washington 25, D. C.

Dear Mr. Secretary:

I am writing this letter as the ranking Republican Member of the Committee on Ways and Means at the direction of my Republican Committee Colleagues in regard to the Committee action taken with respect to the Administration's legislative proposal affecting the interest rate ceilings on securities of the Federal Government.

It is requested that you make available to me at your earliest possible convenience a letter expressing your evaluation of the Committee approved amendments and the impact the Committee action will have in the carrying out of your responsibility to manage the Federal financing in the most economic and efficient manner possible. I would appreciate your comments being in the context of evaluating these Committee amendments as contrasted with the original legislative recommendations submitted to the Congress by the Administration.

It is possible that the decision will be made by the Republican Members of the Committee to include your response to this request in whatever supplemental or minority views may be filed in connection with the Committee report on the legislation. To this end it is desired that your communication be stated in terms that will not necessitate an informed knowledge of either public finance or economic theory in order to comprehend its meaning.

Mr. Secretary

-2-

July 13, 1959.

I am deeply concerned that if the legislation passes the House in the form in which it has tentatively been approved by the Committee, further restricting and harmful amendments will be approved during its consideration in the Senate with the result that a conference compromise would be less helpful than the House version. It is my own conviction that we might be better off to make the strongest possible endeavor in the House to achieve legislation without undesirable encumbrances.

I know that I express the view of the entire membership of the Committee on Ways and Means when I commend the forthrightness and knowledge that you have brought to the difficult executive sessions that the Committee on Ways and Means has held on this subject.

Sincerely yours,



Richard M. Simpson, M. C.

CC: Honorable William McChesney Martin, Jr.
Chairman, Board of Governors
Federal Reserve System

Handwritten notes:
7/13/59
P. H. H.
H. H. H.

EIGHTY-SIXTH CONGRESS
WILBUR D. MILLS, ARK., CHAIRMAN

AIME J. FORAND, R.I.
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THOMAS A. MARTIN,
MINORITY COUNSEL

LEO H. IRWIN, CHIEF COUNSEL

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

July 13, 1959.

JOHN M. MARTIN, JR.,
ASSISTANT CHIEF COUNSEL
GERARD M. BRANNON,
PROFESSIONAL STAFF

The Honorable
William McChesney Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Mr. Chairman:

I am writing with respect to the legislation which has been prepared by the Committee on Ways and Means and which the Chairman of the Committee has been instructed to introduce in the House of Representatives pertaining to interest rate ceilings on securities of the Federal Government.

Several Members of the Committee on Ways and Means have expressed grave concern about the Committee approved amendments to the legislative proposal originally offered by the Administration. As you know from your able participation in the Committee deliberations on this subject these amendments in general terms would (1) retain the statutory ceilings but permit them to be disregarded if the President found that the national interest so required, (2) express the sense of Congress with respect to Federal Reserve policy in monetary affairs, and (3) provide a 2-year effective period for the legislation. The second of these enumerated amendments is of the most serious concern and is of direct interest to the Board of Governors of the Federal Reserve System. Accordingly, I would appreciate receiving from you at your earliest possible convenience a letter setting forth your evaluation of this expression of the Congress affecting the Federal Reserve monetary operations. I would like to know your evaluation in terms of what the consequences would be if the amendment is mandatory on the Federal Reserve and if it is merely permissive.

Mr. Martin

-2-

I am making this request to you as the ranking Republican Member of the Committee on Ways and Means at the direction of my fellow Republican Colleagues. It may be desirable that your reply be included as a part of any supplemental or minority views that we may decide to file in connection with the Committee report on this subject. I would appreciate it if your expression of views could be couched in such a way as to be readily understood by a person who is not possessed of informed knowledge about economic and monetary theory.

The other two amendments that I have enumerated in this letter are of more immediate concern to the Treasury Department than to the Federal Reserve, but you may be assured that any comment you may care to make on these amendments would be of the utmost benefit to the Congress and to the Nation.

In closing I would like to commend you and your associates for the outstanding and patriotic contribution you made to our Committee deliberations on this subject. Your activities on this occasion have been totally consistent with the distinguished public service that is such a commendable part of your illustrious career.

Sincerely yours,



Richard M. Simpson, M. C.

CC: Honorable Robert V. Anderson
Secretary of the Treasury

July 14, 1959

The Honorable Wilbur D. Mills,
Chairman,
Ways and Means Committee,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

Enclosed is a copy of a letter I am sending today to the Honorable Richard N. Simpson in response to his letter of July 13, a copy of which is also enclosed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

Miss Muehlhaus

July 14, 1959

The Honorable Richard M. Simpson,
House of Representatives,
Washington 25, D.C.

Dear Mr. Simpson:

This response to the request contained in your letter of July 13 puts in writing the gist of the comments I made in the Executive session meetings of the Ways and Means Committee on the amendments to the legislative proposals originally offered by the Administration.

It is my considered judgment we are facing a serious financial situation. The limitation on interest rates is unrealistic in the light of present market quotations and denies the U. S. Treasury the tools essential to effective balanced handling of its borrowing needs. By statute the Treasury is now limited, because of the ceilings, to the issue of short-term securities which under present conditions of rising prosperity is dangerous. These short-term obligations can readily be converted into money at the option of the holder. In effect, they are a substitute for money, and thus could swell the flow of money far beyond that needed to purchase available goods and services at current price levels. The threat of a money flow out of hand has a major impact on the cost of living and places a burden on all of us.

It serves no useful purpose at the moment to argue whose fault it is that we are in our present predicament. The fact of the matter is we are in it. The Committee is not being asked to vote whether interest rates should or would go up or down, but merely to grant the Treasury authority to exercise its best judgment in meeting an existing problem. We are discussing a crucial matter--the credit of the United States. Failure to deal with this could (and I was careful not to threaten or assert that it necessarily would) have the most serious implications. It was my duty to warn of this, such as I disliked the task. These are the basic facts with which we were dealing and any amendments must be considered in this light.

The amendment to retain the statutory ceilings but permit them to be disregarded if the President found the national interest so required did not seem to me to present unworkable problems. Accordingly, I did not raise objections, although I prefer the original.

The "sense of the Committee" amendment is quite a different matter. I object to this on principle. The Open Market Committee and the Federal Reserve Board are given the responsibility under the Federal Reserve Act for regulating the money supply. If the Congress wishes to spell out the means of doing this, it should amend the Federal Reserve Act and not tack this on to a debt management bill.

Furthermore, under present conditions, I am convinced that this amendment, when stripped of all technicalities, and regardless of whether the language is permissive or mandatory, will cause many thoughtful people both at home and abroad to question the will of our Government to manage its financial affairs without recourse to the printing press. To me this is a grave matter. We are here dealing with trust and confidence which is the keystone of sound currency. Therefore, I must oppose this proposal as vigorously as possible, as I did during the hearings.

The amendment limiting the President's authority to two years is, in my judgment, unsound. It could be a source of embarrassment to both the next President and the then Secretary of the Treasury.

I have tried as faithfully as possible to summarize what I actually said during the hearings, and not to introduce new ideas. May I, in conclusion, thank you and all the members of the Committee for the courtesy and consideration shown me and my associates throughout the meetings. I am taking the liberty of sending a copy of this letter to Chairman Mills.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date July 15, 1959

To Chairman Martin

From Mr. Sherman

MESSAGE:

Attached for your information is
a copy of a letter delivered to
Congressman Simpson yesterday.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

July 14, 1959

The Honorable Richard H. Simpson,
House of Representatives,
Washington 25, D. C.

Dear Mr. Simpson:

This response to the request contained in your letter of July 13 puts in writing the gist of the comments I made in the Executive session meetings of the Ways and Means Committee on the amendments to the legislative proposals originally offered by the Administration

It is my considered judgment we are facing a serious financial situation. The limitation on interest rates is unrealistic in the light of present market quotations and denies the U. S. Treasury the tools essential to effective balanced handling of its borrowing needs. By statute the Treasury is now limited, because of the ceilings, to the issue of short-term securities which under present conditions of rising prosperity is dangerous. These short-term obligations can readily be converted into money at the option of the holder. In effect, they are a substitute for money, and thus could swell the flow of money far beyond that needed to purchase available goods and services at current price levels. The threat of a money flow out of hand has a major impact on the cost of living and places a burden on all of us.

It serves no useful purpose at the moment to argue whose fault it is that we are in our present predicament. The fact of the matter is we are in it. The Committee is not being asked to vote whether interest rates should or would go up or down, but merely to grant the Treasury authority to exercise its best judgment in meeting an existing problem. We are discussing a crucial matter—the credit of the United States. Failure to deal with this could (and I was careful not to threaten or assert that it necessarily would) have the most serious implications. It was my duty to warn of this, much as I disliked the task. These are the basic facts with which

we were dealing and any amendments must be considered in this light.

The amendment to retain the statutory ceilings but permit them to be disregarded if the President found the national interest so required did not seem to me to present unworkable problems. Accordingly, I did not raise objections, although I prefer the original.

The "sense of the Committee" amendment is quite a different matter. I object to this on principle. The Open Market Committee and the Federal Reserve Board are given the responsibility under the Federal Reserve Act for regulating the money supply. If the Congress wishes to spell out the means of doing this, it should amend the Federal Reserve Act and not tack this on to a debt management bill.

Furthermore, under present conditions, I am convinced that this amendment, when stripped of all technicalities, and regardless of whether the language is permissive or mandatory, will cause many thoughtful people both at home and abroad to question the will of our Government to manage its financial affairs without recourse to the printing press. To me this is a grave matter. We are here dealing with trust and confidence which is the keystone of sound currency. Therefore, I must oppose this proposal as vigorously as possible, as I did during the hearings.


The amendment limiting the President's authority to two years is, in my judgment, unsound. It could be a source of embarrassment to both the next President and the then Secretary of the Treasury.

I have tried as faithfully as possible to summarize what I actually said during the hearings, and not to introduce new ideas. May I, in conclusion, thank you and all the members of the Committee for the courtesy and consideration shown me and my associates throughout the meetings. I am taking the liberty of sending a copy of this letter to Chairman Mills.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



From the office of
The Hon. Richard M. Simpson, M. C.
U. S. House of Representatives

For Immediate Release
July 16, 1959.

The Honorable Richard M. Simpson (R-Pa.) ranking Republican Member of the Committee on Ways and Means, today charged that the failure of the House Democrat leadership to clear for House consideration President Eisenhower's legislative recommendations concerning Government interest rates is a political act that threatens our national credit and impairs the ability of our Federal Government to fulfill its obligations to our citizens.

Congressman Simpson characterized the Democrat failure to act as "another example of the Democrat leadership's inability to provide responsible legislative guidance". He said, "The Democrat Party is seeking bigger and better ways of spending more and more of the taxpayer's dollars while turning its back on measures that would bar inflation and preserve the purchasing power of our citizens' income and savings". Mr. Simpson asserted that the Democrat delay has already added to the cost of Debt management as evidenced by the rising yields on weekly issues of Treasury bills during the prolonged period that the Committee on Ways and Means has been working on this legislation on an "on-again off-again basis".

Mr. Simpson called on the Democrat leadership to stop straddling the political fence and deal forthrightly with this important problem without further delay. He asserted that the cleavage in the ranks of the Democrat majority had prompted the majority leadership to sit on the legislation while casting about for an escape hatch from reality.

Mr. Simpson pointed out that financial writers and experts are virtually unanimous in recognizing the need for the legislation as recommended by the President. Long-term financing of our huge public debt would tend to ease money problems of small business and other short term private borrowers and would be less inflationary than the methods of debt management that would follow from Democrat inaction.

Congressman Simpson said, "The Administration has shown the way to fiscal responsibility. All that remains is for the Democrat leadership to make the difficult political decision to be fiscally responsible and support the passage of this urgent legislation."

From the office of
The Honorable Richard M. Simpson, M. C.
United States House of Representatives

For Release P. M. Papers
July 23, 1959.

The Honorable Richard M. Simpson (R.-Pa.), ranking Republican Member of the House Committee on Ways and Means, today announced that the 10 Republican Members of the House Committee on Ways and Means have acted unanimously to urge the House Democratic leadership to permit consideration of the Administration's request for legislation to facilitate the most economical and efficient management of the Public Debt.

It will be recalled that on June 8, 1959, the President transmitted to the Congress a request for legislation removing the statutory ceilings on rates of interest on Government securities. The Republican Members of the Committee in their concern over the gravity of the fiscal problems confronting the United States joined in addressing a letter to the Speaker of the House urging that he bring the prestige and persuasion of his office to ending the existing stalemate that has caused this legislation to be bottled up in committee for more than 6 weeks.

The Administration proposal has received the overwhelming support of financial writers and monetary experts. These writers and experts have pointed out the danger inherent in not acting promptly to deal forthrightly with the present situation. They have also referred to the serious trouble that could result from preventing the Federal Government from marketing bonds with maturities in excess of 5 years. Under existing law the statutory interest rate ceiling does not apply to bills, notes, or certificates having a maturity of 5 years or less. To limit the Federal Government to the short-term money market would force the Government to compete for credit and savings in the same market that small business and consumers resort to for financing business expansion and consumer articles such as automobiles and household appliances. Failure to act favorably on this legislation would add substantially to the credit problems of the small businessman and the American public.

The text of the letter to the Speaker follows:

July 22, 1959.

The Honorable
Sam Rayburn
The Speaker
House of Representatives

Dear Mr. Speaker:

The President of the United States sent a communication to the Congress on June 8, 1959, outlining a legislative program to assist in the successful management of the Debt of the Federal Government. Included in the program set forth by the President were proposals for removing the present 3.26 percent interest rate ceiling on savings bonds and for the removal of the present 4-1/4 percent interest rate ceiling on new issues of Treasury bonds.

In his communication the President stated:

"The Public Debt must be managed so as to safeguard the public credit. It must be managed in a way that is consistent with economic growth and stability. It must also be managed as economically as possible in terms of interest costs. * * * The enactment of this program is essential to sound conduct of the Government's financial affairs."

Since the transmission of this communication on June 8 the Committee on Ways and Means has held 3 days of public hearings and has met in executive session many times. Through the able and constructive participation by the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System in the work of the Committee we have obtained answers to the policy questions raised in regard to this proposal. The Committee on Ways and Means has focused its attention to the exhaustive consideration of all aspects of this legislative request.

We are confident you are mindful that the United States is now confronted with a serious fiscal situation. This situation has the gravest import in its domestic and international implications with respect to confidence in the soundness of the dollar. The delay that has occurred to date in bringing this legislation before the House has created market uncertainties which have contributed to increasing the cost of the Public Debt.

We are addressing this letter to you with a copy to Chairman Mills in view of Press statements attributed to you to the effect that the legislation will not receive House consideration in the absence of Administration concurrence in the amendments tentatively approved by the Majority Members of the Committee. We are confident that the Committee on Ways and Means would complete its action on this legislation if you would indicate your willingness to have the matter presented to the House. It is essential that the House be allowed to work its will by the action of the entire House membership.

The 10 Republican Members of the Committee on Ways and Means pledge their wholehearted support to the Administration proposed legislation on this subject. We firmly believe that at least 140 Republicans in the House would vote in favor of the Administration's request. Our Party's membership in the House of Representatives is willing to accept the responsibility for removing the statutory ceilings on interest rates for Government securities to facilitate the economical management of the Public Debt. If no House action is taken on this legislation, the Democratic Majority in the House must accept the responsibility for the consequences of failure to act. The soundness of our Nation's currency and the integrity of our Nation's credit are at stake.

From the office of
The Hon. Richard M. Simpson, M.C.
U. S. House of Representatives

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July 23, 1959

One of the objectives to be accomplished by the enactment of the legislation urged by the Administration is to make it clear that the United States Government fully intends to manage its monetary affairs in a sound and responsible manner. It is essential if we are to avoid catastrophic aftermaths that we retain the confidence at home and abroad in the fiscal strength of the United States.

During its deliberations on this legislation the Majority Members of the Committee on Ways and Means have tentatively approved two amendments to the bill which in our judgment could impair that confidence and interfere with efficient Debt management. One of these amendments would limit for an effective period of 2 years the authority to exceed the interest rate ceilings. This amendment could be construed to indicate an expectation that there will be a contraction in America's economic expansion by that time. Such an interpretation would not be conducive to the building of public confidence. We cannot agree that such a contraction in economic growth is inevitable in the next 2 years.

The second amendment to which we object would express the sense of Congress that the Federal Reserve System should return to the discredited war-time practice of supporting the price of Government bonds. As evidenced by comments on the floor of the House by Members of your own Party, there is confusion as to whether this amendment would be mandatory or permissive on the Federal Reserve System. Regardless of its intent in this respect, its inflationary implications would tend to destroy the public confidence we seek to maintain.

These amendments would be injurious to proper Debt management and would tend to deprive the Federal Reserve System of the discretionary flexibility in monetary affairs that the Congress has historically recognized the need for it to have. We are categorically opposed to any amendments that would serve to destroy the very public confidence that we are seeking to protect by this legislation.

The Administration's request is already in legislative form and is pending in the House of Representatives as set forth in a bill, H. R. 8304, introduced by the ranking Republican Member of our Committee. While we are opposed to any amendments that have been considered to date to the Administration's request, we are firm in the conviction that legislation dealing with this subject should and must be considered in the House of Representatives.

From the office of
The Hon. Richard M. Simpson, M. C.
U. S. House of Representatives

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Accordingly, we respectfully request your support of our endeavors to have prompt House consideration of legislation dealing forthrightly with this important fiscal problem.

Sincerely yours,

/s/ Richard M. Simpson
Noah M. Mason
John W. Byrnes
Howard H. Baker
Thomas B. Curtis
Victor A. Knox
James B. Utt
Jackson E. Betts
Bruce Alger
Albert H. Bosch.

SPEAKER RAYBURNS'S STATEMENT IN REPLY TO THE LETTER
SIGNED BY REPRESENTATIVE SIMPSON AND OTHER REPUBLICAN
MEMBERS OF THE COMMITTEE ON WAYS AND MEANS.

July 23, 1959

The Committee on Ways and Means moved promptly on the legislation to remove the statutory ceiling on the interest rate of long-term bonds, because it was aware that the request of the President deals with one of the most important issues facing us. Both the Committee and I are fully aware of the gravity of the problems involved.

In substance, the Committee gave the President the flexibility which he requested in the management of the public debt. The Committee added two provisions to the legislation requested by the President.

First, instead of removing the ceiling permanently, the Committee placed a two-year limitation on the authority granted to the President.

Second, the Committee required that before bonds could be issued at rates of interest above the existing ceiling, the President must make a finding that it is in the national interest to do so.

The only other provision which the Committee added to the legislation was a declaration of the sense of Congress relative to the management of the public debt. This section states the concern of the Congress over the continuing rising costs of financing the public debt. It expresses the hope that further increases in interest rates can be avoided or minimized without interfering with efficient debt management and the Federal Reserve's efforts to preserve a sound currency.

Here is the language in question:

"It is the sense of Congress that the Federal Reserve System, while pursuing its primary mission of administering sound monetary policy, should, to the maximum extent consistent therewith, utilize such means as will assist in the economical and efficient management of the public debt and in so doing the System should where feasible bring about needed future monetary expansion by purchasing United States securities, of varying maturities."

This is what the language does. It expresses the sense of Congress that the Federal Reserve System should assist the Treasury in the management of the public debt in a way that is consistent with the System's primary mission of administering a sound money policy. This language further expresses the preference of Congress that when it is necessary for the Board to carry out its function of expanding the supply of money and credit, this could be done whenever feasible by its purchase of United States securities. This language does not require or even urge any expansion of the credit supply that would not be desirable and necessary for economic growth. The language of the bill says simply that it is the sense of the Congress that wherever feasible this needed growth of the money supply could be provided through the purchase of Government securities. There is nothing new, unreasonable or irresponsible in this procedure. I need only to point out that the Federal Reserve Banks already hold \$26 billions of United States Government securities.

I have been forced to the conclusion that the Federal Reserve authorities have reached a point in their thinking where they consider

themselves immune to any direction or suggestion by the Congress, let alone a simple expression of the sense of Congress. It appears that the fault of the suggested Committee bill was not that the language itself was wrong, but that the Congress dared even to speak to the Federal Reserve, a creature of Congress.

The failure to move this bill is the failure on the part of the Administration to understand that the Congress cannot be expected to be unconcerned about what might happen in the exercise of the authority granted to the President under the bill. It is the failure of the Administration to accept the right of the Congress to express its concern within the statute, that this authority should not be exercised in ways which are not in the public interest. It is the failure of the Administration to accept the right of Congress to place a time limit upon the exercise of this very substantial authority so that the Congress may, from time to time, re-examine the way that the authority is being exercised.

Since the responsible solution of this problem is of great importance to the country, it is disappointing that the Republican Members of the Committee on Ways and Means have decided to play politics with it, particularly at a time when conferences were being held with responsible Administration officials in an effort to resolve this problem. Every Republican Member of the Committee on Ways and Means must have known of the efforts on the part of the leadership of the Congress and the Democratic Members of the Committee on Ways and

Means in meeting with representatives of the Administration seeking a solution to this problem. They must have known that I, along with others, have been making every effort to resolve this problem in a way that is of the best interest to our country. We are not wedded to the language suggested by the Committee, and despite the political activities of the Committee minority, we will continue to make every effort to develop an effective solution to this problem. In my opinion, this is a matter far too important to get involved in partisan politics.

From the office of
Hon. Richard M. Simpson, M. C.
U. S. House of Representatives

For Immediate Release
July 24, 1959.

The Honorable Richard M. Simpson, (R-Pa.), ranking Republican Member of the House Committee on Ways and Means, today expressed regret that the Speaker of the House of Representatives had "unwarrantedly chosen to characterize as a 'political play' the pledge of support from the 10 Republican Members of the Committee on Ways and Means to assist in obtaining favorable House action on the Administration's request for legislation to remove statutory interest rate ceilings to facilitate economical Public Debt management".

Mr. Simpson stated that the Speaker's reaction to the Republican joint letter of July 22, 1959, is an indication of the Democratic House leadership's vulnerability to the charge that if the Democratic leadership continues to thwart House action on this measure "the Democratic Majority in the House must accept the responsibility for the consequences of failure to Act" on a measure that involves the soundness of the Nation's currency and the integrity of the Nation's credit. Mr. Simpson noted that while neither he nor any other Republican Member of the Committee on Ways and Means had received a reply from the Speaker to their letter of July 22, the Speaker had claimed in a press statement "the leadership of the Congress and the Democratic Members of the Committee on Ways and Means are seeking a solution to this problem." Mr. Simpson acknowledged encouragement from the fact that the Democratic House leadership recognized the matter as a problem but he said "I find difficulty in reconciling that statement by the Speaker to a Press statement of July 16, 1959, attributed to the Speaker saying 'we can sit here and wait'."

Mr. Simpson said that one of the considerations that had prompted the Committee Republican Members to urge action on this important legislation is their concern that the Democratic House leadership had decided to "sit and wait" in taking action on this important measure in the same way "the Democratic leadership has been sitting and waiting on effective farm legislation, a suitable housing bill, and a labor bill that will protect the rights of all American citizens". He went on to say, "The Democratic leadership in the Congress seems to have effectively adjourned the Congress without the awareness of the Members".

Mr. Simpson said "I presume if and when the Democratic House leadership makes its decision as to what is good for the Nation with respect to Public Debt management, it will permit the entire House membership to vote on legislation meeting the approval of that leadership without regard to the President's recommendation."

Mr. Simpson noted that the Speaker's criticism of the Federal Reserve Board was totally unwarranted and constituted a rebuke by a highly placed Government official of other Government officials who are earnestly doing their patriotic best to fulfill their responsibility as

prescribed by law.

In connection with his statement Congressman Simpson released the text of a letter he had received from the Honorable William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System on the Democratic proposed amendments to the Administration's legislative proposal.

The complete text of Mr. Simpson's statement follows along with the text of Mr. Martin's letter.

(Text of the Statement by the Hon. Richard M. Simpson)

I sincerely regret that the Speaker of the House of Representatives has unwarrantedly chosen to characterize as a "political play" the pledge of support from the 10 Republican Members of the Committee on Ways and Means to assist in obtaining favorable House action on the Administration's request for legislation to remove statutory interest rate ceilings to facilitate economical Public Debt management.

It is a matter of public record that a substantial cleavage exists among House Democrats on this legislative proposal and our pledge of unanimous support by Republican Committee Members and the expression of expected support from at least 140 Republican Members of the House were intended to give encouragement to the House Democratic leadership to break the existing stalemate and deal forthrightly with this important issue involving confidence in the soundness of our dollar and in the integrity of our credit.

While neither I, nor to my knowledge any other Republican Member of the Committee on Ways and Means, has received a reply from the Speaker to our letter of July 22, the Speaker apparently has said to the Press that "the leadership of the Congress and the Democratic Members of the Committee on Ways and Means are seeking a solution to this problem". I am encouraged that the Democratic House leadership has recognized and is seeking a solution to this problem, but I find difficulty in reconciling that statement by the Speaker with a Press statement of July 16, 1959, attributed to the Speaker saying "we can sit here and wait".

One of the considerations that weighed persuasively with the Republican Membership of the Committee on Ways and Means in urging the Speaker to end the Committee bottleneck was our concern that the Democratic House leadership had adopted a "sit and wait" policy on this important matter in the same way that the Democratic leadership has been "sitting and waiting" on effective farm legislation, a suitable housing bill, and a labor bill that will protect the rights of all American

citizens. The Democratic leadership in the Congress seems to have effectively adjourned the Congress without the awareness of the Members. I presume if and when the Democratic House leadership makes its decision as to what is good for the Nation with respect to Public Debt management, it will permit the entire House membership to vote on legislation meeting the approval of that leadership without regard to the President's recommendation.

The Speaker has unjustly expressed criticism of Federal Reserve authorities. This criticism is totally unwarranted and constitutes a rebuke by a highly placed Government official of other Government officials who are earnestly doing their patriotic best to fulfill their responsibility as prescribed by law. The Speaker in seeking to cast responsibility for this Democratic caused stalemate on the Federal Reserve authorities is criticizing recognized monetary authorities who are conducting themselves with impeccable propriety on this important issue. In his criticism of the Federal Reserve the Speaker seems unmindful of the virtually unanimous criticism expressed by financial writers of the amendments tentatively approved by the Democratic Majority on the Committee on Ways and Means. An example of such criticism appears in the July 13, 1959, publication of Aubrey G. Lanston & Co. Inc., who are foremost specialists in Government securities. An excerpt from that publication states the following with respect to the amendment which would require the Federal Reserve to peg Government bond prices:

"Some things, however, are clear. The management of money, credit and debt is an art the practice of which is replete with complexities. The means by which these arts are practiced very definitely are not matters in which Congress can afford to meddle whimsically or for purposes of advancing partisan objectives. The manner in which, and the methods by which Federal Reserve open market operations are conducted may not be subjected to black-and-white analyses. But, certainly, the national interest dictates that the choice of methods be left to the experts, and that the actual decisions with respect to these matters be left to the experts who are charged with the responsibility. Certainly, too, Federal Reserve officials know better than the House Ways and Means Committee what the Fed can and cannot do in the Government market if the public interest is to be served."

The Speaker in stressing what he interprets as the permissive character of the proposed amendment also seems unmindful of statements made on the House floor by Democratic House Members indicating that perhaps the amendment would be mandatory on the Federal Reserve.

On July 13, 1959, I addressed a letter to the Chairman of the Board of Governors of the Federal Reserve System, the Honorable William McChesney Martin, Jr., at the request of several Members of the Committee on Ways and Means asking the Chairman to evaluate the amendments that had

been tentatively adopted by the House Committee Majority. Because I was uncertain as to the scheduling of subsequent activity by the Committee on this legislation, I asked that Chairman Martin expedite his reply. His answer contained nothing that he had not previously brought to the attention of the Committee before the Democratic Majority had approved these amendments. I consider that his answer contained his earnest and patriotically expressed views on this very serious matter.

In view of the aspersions that have been cast upon the Federal Reserve authorities, I feel it only proper that the text of Chairman Martin's reply to me should be released at this time. It is appropriate that the American people should be permitted to judge whether he is acting as an obstructionist as has been alleged or instead is constructively working as a responsible Government official who is knowledgeable in monetary affairs to find a correct solution to a very grave national issue.

(There is attached the text of the letter to the Honorable Richard M. Simpson from the Honorable William McChesney Martin, Jr., Chairman, Board of Governors, Federal Reserve System).

September 16, 1959.

Dear Mr. Mason:

In rereading the record of my appearance before the Ways and Means Committee on June 11 I note that you made some reference to my testimony and that I made no response. This was definitely an oversight on my part and I wanted you to know that I appreciate what you said and, however belatedly, want to say "thank you."

I trust you will get a little vacation now that the Congress is adjourned, and I hope our paths will cross again before too long.

Sincerely yours,

(Signed) Bill 

Wm. McC. Martin, Jr.

The Honorable Noah M. Mason,
House of Representatives,
Washington, D. C.

WMM:mnm