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Statement of

William McChesney Martin, Jr.,

Chairman, Board of Governors of the Federal Reserve System

before the

Joint Economic Committee

February 2, 1960
Mr. Chairman:

It seems to me that perhaps the most helpful contribution I can provide to your Committee's annual review of the President's economic report is to make some supplementary comments on financial and monetary developments over the last year.

Our financial environment changes constantly, as this Committee knows well, but some of the changes that took place last year were dramatic indeed.

During 1959, credit expanded by $60 billion in all—one-third more than the previous peacetime record. Mortgage debt, most of it for housing, increased by a record $19 billion. Consumer credit outstanding rose about $6.5 billion, equalling the previous record of 1955. New borrowing by State and local governments continued in near-record volume, and new borrowing by the Federal Government exceeded all peacetime records. At the end of the year public and private debt was at the highest level in history.

The American economy and the American people would be in a very different and a vastly worse position today if this enormous expansion of credit had been financed by the large-scale creation of additional funds by the banking system and a consequent rapid and inflationary increase in the money supply.

Fortunately, that danger was averted—1959 at least. To date, the task of supplying this huge demand for credit without severe inflationary consequences has been accomplished chiefly by the sound and democratic process of letting those who would borrow provide those who would save
with an inducement to risk voluntarily the loan of their savings. The role of the banking system, which obviously is influenced greatly by Federal Reserve policy and operations, has been held to that of an intermediary between borrowers and savers.

Let me illustrate the working of this process by referring briefly to the events of 1959 as they are reflected in the Federal Reserve's flow-of-funds accounts, a body of quarterly published data developed in part as an outgrowth of investigations set in motion by one of your subcommittees into the need for improved statistical information.

The commercial banks, it is true, did expand their loans in 1959 by almost $12 billion—thereby equalling the previous record of 1955. The important thing for the economy, however, is that the banks raised the funds for this lending in large part by selling Government securities they owned to the nonbank public.

Thus, the banks performed an intermediary service by obtaining funds from savers, to whom they transferred investment securities, and by passing the funds on to others who had a need to borrow. This flow of funds from savers to banks to borrowers did much to assure that the need for credit was met without a dangerous increase in the money supply. It did, however, bring about an increase in the turnover or rate of use of the existing money supply and, by so doing, produced much the same economic and financial effect as would have been produced by a modest increase in the money supply without the accompaniment of a faster rate of use.
The activity last year of the nonbank public—meaning for the most part consumers and business concerns—in supplying borrowers with funds through the process of investment was truly extraordinary, and it did not stop with the purchase of Government securities sold by the banking system. The upswing in this activity shows up strikingly in the flow-of-funds data that I mentioned earlier. There, it appears that consumer and business investors increased the net amount of their purchases made directly in securities markets from about $4 billion in 1958 to almost $20 billion in 1959—a jump of 400 per cent in a single year.

The efficient and economically healthy flow of funds from savers to borrowers, directly and through intermediaries, did not come about without a price. The price was, of course, a rise in interest rates. These rates, representing a penalty to those who use someone else's money and a reward to those who save and risk their funds in loans and investments, rose in some instances to the highest levels in three decades. What happened is readily apparent: the pressure of demand for funds arising from a combination of forces—a large Federal budget deficit, high residential construction activity, rising expenditures for consumer durables and for inventories and to some extent fixed capital, plus the continued high level of expenditures by State and local governments on community facilities—converged to bring about a competition to borrow that drove interest rates upward; the rise in interest rates, in turn, operated to
induce the savings and investment necessary to supply borrowing demands. In summary, the direct effect of the greatly enlarged credit demand was to bid up interest rates generally and to cause some changes in the relationship of interest rates among the different credit markets; the resultant effect was to draw more funds into the credit market and to shift some funds from accustomed uses.

Let me add something here to what I said about the banking system's service in 1959 as an intermediary between the saving public and the borrowing public. On the one hand, the saving public, besides purchasing a large volume of securities as I described, increased their time deposits by about $1.5 billion. On the other hand, the borrowing public increased the amount of their loans obtained from commercial banks by nearly $12 billion. To raise funds to meet the heavy demands on them for loans, the commercial banks sold about $8 billion of their Government security holdings in the open market, while the nonbank public, as stated earlier, was increasing their purchases in that market. Thus the banks, in effect, drew out of the market, from individuals and corporations not engaged in lending, the funds to meet the specialized credit demands of borrowers—as, for instance, many small business concerns—who could not themselves have raised funds in the market because their needs were unsuitable for general market participation.
The vital role that the Federal securities market plays as a clearing house for credit flows is apparent in the circumstances described. In 1959, this role was much larger than in other recent years. Federal net borrowing of $11 billion and bank sales of Governments of nearly $8 billion required absorption of around $19 billion in Federal securities by other investors. This, taking into consideration that the Treasury was having to raise new funds while shifts were taking place in Government security ownership, goes a long way toward explaining the rise in both long- and short-term rates that we experienced during the year. It is also illuminating evidence of the responsiveness of nonbank investors to attractive interest yields.

The relation of Federal Reserve policy to changes in interest rates is often misunderstood. Federal Reserve operations to release or absorb bank reserves unquestionably influence short-term and also long-term interest rates, but the extent of this influence is easily exaggerated. Monetary policy is effective only so long as it works in general consonance with the economic realities underlying the situation. These realities include the basic demands for funds, whether to meet seasonal needs, other short-run needs, or for capital formation, and the basic supply of funds through saving. Federal Reserve actions cannot for long enforce rates of interest on the market that are either above or below the rates that maintain a balance between saving and investment.
Changes in the rate of monetary growth can represent only a very small part of the total flow of funds through credit markets. If the rate of monetary growth were raised with the specific objective of adding to the supply of funds in an attempt to keep interest rates down, the additional dollars in the spending stream would certainly work to raise average prices. The process of monetary inflation is widely understood by both savers and borrowers. Such action would generate expectations of further inflation on the part of both groups. The incentives of the market place, present and prospective, would unquestionably tend to increase borrowing and discourage saving and in all likelihood rates would increase.

In the longer run, the way that monetary policy can contribute to a lower level of interest rates is through its role in maintaining a stable value for the dollar. It is only in an environment of confidence in such stability that savings will accumulate and credit will flow in an orderly way and in expanding volume. Efforts to maintain an artificial level of interest rates, either too high or too low, can only lead to cumulative financial disequilibrium, first distorting and then disrupting healthy economic growth.

Whether monetary policy as administered by the Federal Reserve System has been, at particular times, too easy or too tight is a matter of judgment. At one time or another, we have no doubt erred in some degree in each direction. But the System has consistently endeavored to cultivate confidence in the stability of the dollar—by combatting
deflationary tendencies in periods of slack and inflationary pressures in periods when resources were being intensively utilized.

I want to emphasize again that the Federal Reserve System wants low and not high interest rates; it wants as low a level of interest rates as is consonant with sufficient savings to finance the investment necessary for desirable and rapid economic growth. We cannot say that a steadily swelling stream of savings and investment is the only essential for satisfactory growth, but, especially in a country where the natural resources are already highly developed, it is a vital element.

Record of Economic Growth

The subject of economic growth has received exhaustive study by your Committee during the past year. It is an important subject because only growth can produce the substance with which to achieve our individual and national aspirations. At the same time, economic growth is a confusing subject because it means so many different things to different people. Some seek growth primarily as a requisite of effective defense against potential enemies. Others want it as a means of improving civilian living standards. Still others regard growth as a way of assuring employment of a growing labor force. Transcending and including all of these, perhaps, is the idea that economic growth is needed to express the vitality of our economic and political way of life.

As economic abundance in the United States expands and is more widely shared, agreement on appropriate economic goals becomes more
urgent. These goals can never be blueprinted exactly—as has been brought out so clearly in the hearings before this Committee. They are not solely materialistic and they are not all subject to expression in statistical terms. They include, for example, the improved quality of our educational system and of our health services—not just additional school rooms or hospital beds. Despite difficulties in measuring true growth precisely with the tools now at hand, we have made some progress and now know much more about the nature of growth than was known some years ago.

Early in its existence, the Board recognized that measurement of physical output was essential for proper formulation of monetary policy, and undertook a special responsibility for the statistical measurement of industrial output and its change and growth. This, it is true, is only part of our nation's total output of goods and services, which is measured by gross national product. However, in an advanced economy, in which industrial activity is a dynamic central element, growth in the physical volume of industrial output merits special study in its own right because of its central role as a force shaping total growth.

When I appeared before this Committee last summer, I noted some preliminary findings of the recent revision of the Board's index of industrial production, principally the greater industrial growth shown by the newly revised index. Since then, the final results of the new index have been published, thus supplementing the tools for
analyzing past and future changes in the industrial sectors of our economy.

Industrial production is the output of real goods produced by our factories, mines, and electric and gas utilities. Our revised index shows that, since 1947, industrial output has grown 4.1 per cent per year, as compared with 1.7 per cent for population. This is a growth in real industrial output per capita of over 2 per cent per year. In other words, we are producing 3.1 per cent more industrial product for each man, woman, and child in America than we were at the beginning of the period. Output per industrial worker has increased even more rapidly—at the rate of 3.7 per cent per annum over the same period.

The revised index of industrial production also introduces a new grouping of total output. Output measures for finished goods have been grouped into the broad market categories for consumer goods and equipment, and the measures for output of materials have also been grouped together. Briefly, this new grouping suggests that over postwar years, civilian production, and particularly the production of consumer goods, has expanded almost without any evident slackening in pace at a rate of growth of 3.7 per cent. Moreover, the cyclical interruptions in the output of civilian goods, especially consumer goods, have been relatively small. It is mainly in the production of equipment, including defense goods, that output has shown greater fluctuation about its expanding trend.
Conditions Required for Continued Growth

While industrial growth, as measured by the production index, reflects physical volume of output, many measures of growth are expressed in terms of current dollars. We must constantly guard against mistaking increases in dollar magnitudes for real economic growth. It is sometimes suggested, when the rate of expansion slows down because the economy is operating close to capacity, that a more rapid expansion of bank credit and money would stimulate greater aggregate output. In fact, such an attempt would only lead to a bidding up of costs and prices as various sectors compete for limited resources. It is true that this would increase temporarily the gross national product measured in current dollars, but it would not involve any real growth. Quite aside from its other evils, inflation brings about misapplications of resources that actually reduce the true value of current production. There must be sustained confidence in a stable dollar for such adverse developments to be avoided.

Sound growth depends on a number of factors besides confidence in a stable dollar. In my own view, the following are the chief supplementary factors:

1. Balanced and sustained demands for labor and for the products of business;
2. Improvement in technology and skills;
3. Adequate capital formation based on voluntary savings;
4. Greater mobility of resources; and
5. Sufficient flexibility of individual prices.
Although there have been three postwar recessions, demands for labor and for the products of business have been reasonably well sustained over this period. During each of these recessions, stability of consumption helped to stimulate early revival. This stability in final demand encouraged entrepreneurs to maintain capital expenditures at surprisingly high levels even during temporary recessions. Such expenditures fluctuated moderately considering their long history of instability.

How much further the process of economic stabilization can be carried remains an uncertain issue. All men of good sense want to see our economic resources used fully and all men of good will want to have employment opportunities available for those willing and able to work. Satisfactory economic growth and reasonable price stability are not only compatible goals, in my view, but they are necessarily interdependent. At the same time we all recognize that some fluctuations in prices and employment are probably unavoidable and that, in the present state of the economic arts, it is hard to see how complete stability could be achieved without stifling some developments in our economy potentially favorable to growth.

Advancing technology and improvement of skills depends on educational processes and the general cultural environment. Our national pride has been pricked by discovery that other nations have beaten us in some aspects of technological development. This evidence is found not only in military hardware but also in the mounting competitiveness of
the rest of the world. Products from abroad are increasingly penetrating
our markets. This challenge, however, may well provide the stimulus for
new achievements on our part.

If we are to maintain our competitive position in the world,
we must also make regular additions to our productive capital and to our
efficiency. Adequate capital formation depends both on the drive of
business to make the capital investment and the availability of adequate
funds from voluntary saving.

Mobility of resources must receive continuous attention. Near
the top of successive postwar peaks in activity, unemployment has tended
to be somewhat higher. In part, this may be due to structural imbalances
growing out of the problem of transferring the labor force from industries
made obsolete by growth to areas of higher labor demand. Such imbalance
may also stem from the problems of adapting workers to the technological
and sociological demands of the service industries, which are the more
rapidly growing sources of urban employment.

Flexibility in the shifting of resources, of great importance
for maximum growth, is extraordinarily difficult to achieve. One of
the effects of growing productivity is to reduce the amount of resources
required in particular industries, especially those in which end-product
consumption, such as consumption of food, grows at a slow, steady rate.
The process of moving resources aggravates our cyclical
difficulties and creates a problem of structural unemployment. Steps to lessen the economic loss to the nation and the hardships for individuals resulting from shifts in the pattern of production are an important public responsibility.

If we are to be able to continue to rely on the price mechanism to effect the necessary adjustments in a growing economy, prices of both end products and the factors of production must move freely in response to shifting demand and supply conditions. Imperfections in the price mechanism must be rooted out wherever they may exist, if our free enterprise economy is to realize its full potential.

Prospects for 1960

In early 1960 the economy continues to show a sharp pick-up from the period of hesitation caused by the steel strike. Economic activity is vigorous and prices are reasonably stable. Nevertheless, it is possible we may encounter a renewed spiral in the upward movement of prices, or, perhaps, find that the underlying strength in the situation is not so great as most observers now feel. In these circumstances, all of us are faced with a particularly sensitive problem of maintaining prosperity by endeavoring to prevent either a renewal of inflationary pressures or development of deflationary tendencies.

I sincerely hope that our part in this task as monetary authorities can be aided by a healthy budget surplus of an amount at least as large as the one outlined in the President's Budget Message. Experience since
1957 suggests that a surplus of this size is a minimum condition of reasonable fiscal health. The relatively brief decline in economic activity that occurred in 1957-58 resulted in a deficit of over $12 billion in fiscal 1959. If a level of economic activity as high as marked 1959, and which is projected in the budget estimate for 1960, results in a barely balanced budget in 1960 and a budget surplus of no more than $4.2 billion in fiscal 1961, the average result of the full period is a net deficit.

Such an outcome would hardly represent symmetrical economic policy. It would therefore appear that larger budget surpluses are needed in times of prosperity if we are to avoid having to make regular and persistent increases in the public debt. The relatively favorable outlook for balance between saving and investment in the period ahead, with the accompanying prospect of less pressure on the rate of interest, depends in large part on the improved fiscal position of the Federal Government.

I doubt that anyone could be more aware of the real limitations of monetary policy than are the members of the Federal Reserve Board. It is, however, the area of responsibility which has been given to us and in the discharge of that responsibility it has seemed to us that the most constructive contribution monetary policy can make to the vigorous, healthy growth of the economy in the present circumstances is to maintain confidence in the value of money, and thus encourage people to save and invest in the basic capital improvements that add to our nation's productive strength.

It is relevant to here refer to some statements that I made in the closing portion of a letter to Chairman Douglas on December 9:
"My interest in a monetary policy directed toward a dollar of stable value is not based on the feeling that price stability is a more important national objective than either maximum sustainable growth or a high level of employment, but rather on the reasoned conclusion that the objective of price stability is an essential prerequisite to their achievement."

"I want to emphasize that I am most concerned with the preservation of freely competitive markets and the correction of any institutional imperfections which exist in the working of the price mechanism. While such imperfections cannot be corrected simply by a sound monetary and fiscal policy, they surely cannot be corrected by an unsound financial policy."

"Nor does a sound general monetary policy necessarily, in itself, accomplish the optimum distribution of loanable funds among various sectors of the economy. It is not only the right but the duty of Government to assure that socially necessary programs are adequately financed. But, again, this objective can never be well served by unsound general monetary or fiscal policies. If, as a matter of public policy, the financing of school construction, for example, should have an overriding priority in the allocation of resources, this can be accomplished in a number of ways, but we can be sure that it would not be accomplished by the general expansion of bank credit and money."

In conclusion, I should like to add a word about what monetary policy can and cannot do. It cannot effectively peg interest rates. It
MEMORANDUM

March 8, 1960

To Chairman Martin
From Jerome W. Shay

Subject: Testimony re margin requirements for trading in Government securities.

In connection with such study as may be in progress concerning the matter of requiring or establishing margin requirements for financing transactions in Government securities, it was felt desirable to call attention to the attached excerpt from the transcript of your testimony at the Joint Economic Committee hearing on February 2, 1960, on the President's Economic Report. It is understood that these hearings will not be printed and available for distribution before the end of the month.

Attachment
cc: Each Board Member
Messrs. Young, Thomas, Molony, Fauver, Sherman, Hackley, Solomon, Noyes, Farrell
The Chairman. .... Should not margins be required on the purchase of Government securities just as now required on the purchase of stocks?

Mr. Martin. We are making a study of that now with the Treasury and we have not come to a conclusion.

The Chairman. It has been a year and a half since this happened. You made a three volume study. How much longer before you are going to make up your mind?

Mr. Martin. I am inclined to think that some margins ought to be required but we have not arrived at a decision on this.

The Chairman. That is, you think that some margins should be required?

Mr. Martin. Yes, indeed, I do.

The Chairman. That is what the majority of this Committee believes, too, and that is what we recommended. Perhaps we will be able to work together on this and we will be interested in the actual degree to which you carried these policies out. The absence of margins can lead to undue speculation in Government securities, is that right?

Mr. Martin. It can.

The Chairman. And when Government securities declined in price during the summer of 1958, did not this lead to the forced selling of securities by speculators and did not this forced selling cause a still further fall in the price of Government securities and did not
this damage the credit of the United States so far as European countries and bank authorities were concerned?

Mr. Martin. The 1958 experience was an unfortunate one and unquestionably there was too much speculation in securities.

The Chairman. And this speculation had been stimulated in part by the absence of margins?

Mr. Martin. That was one of the factors, Senator, yes, sir.

The Chairman. And the imposition of margins would have diminished the speculation and contributed a greater steadiness in the price of Government bonds and less damage to the public credit at least so far as foreign governments are concerned?

Mr. Martin. Yes. Let me point out, Senator, that there is no legal authority.

The Chairman. Have you asked for that authority?

Mr. Martin. We have not asked for it yet.

The Chairman. Let me say that if you do ask for that authority, I for one and I think the majority and members of my party would loyally support you in this. We hope very much that you will give us a lead and help us out.

Representative Curtis. Will the gentleman yield?

The Chairman. Surely.

Representative Curtis. Why does the gentleman make a political issue out of it without consulting the minority? Maybe we might agree.

* * * * *

The Chairman. We will gladly share what sainthood we have with you. You need it very much. We will pass it around.
Then when can we expect some recommendations on this question of margins on the purchase of Government securities?

Mr. Martin. I have learned from long experience not to make any precise time on this topic.

The Chairman. Can you make a recommendation in one month?

Mr. Martin. No, I would not want to say.

The Chairman. Could we give you two months?

Mr. Martin. No, I would not pick any time.

The Chairman. Three months?

Mr. Martin. No, sir.

The Chairman. Four months?

Mr. Martin. We will do it. We might do it in a week. We might do it in a year.

The Chairman. Can we look for this in two months?

Mr. Martin. I make no promises.

The Chairman. You see, we are going to adjourn around the Fourth of July, so please examine in time for us to act. Do not resort to the old army game of stalling. At times we have suspected that the studies of the Federal Reserve Board are sort of elastic and have gone out and searched to avoid action.

Will you speed up your study of recommendations, Mr. Martin?

Mr. Martin. This Government securities market study has been pursued by Mr. Young on my right, who is Secretary of the Open Market Committee now, as vigorously and accurately as we can pursue it.

The Chairman. May we expect recommendations in the next month?

Mr. Martin. I cannot promise.
The Chairman. You know by failing to make recommendations, by failing to make decisions, you really make decisions. By failing to make recommendations for the imposition of margins you are making decisions not to impose margins. This is very important.

Mr. Martin. That is a valid point and one that we are very aware of.
May 10, 1960.

Mr. Alfred Hayes,
President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Al:

Thank you for your letter of May 6 with respect to my comments regarding the guarding of the integrity of the Desk at the Federal Reserve Bank of New York and minimizing any chance of people charging the Desk with favoritism to one group or another contained in the hearings before the Joint Economic Committee on February 2.

I want to assure you that I was not suggesting that the integrity of those officials connected with the Desk was open to question. On the contrary, I was attempting to make clear that limitation by Open Market Committee policy of the discretion permitted to grant or deny favors was a protection to such officials and to the System. Clearly, it would be unfortunate, and indeed unfair, for these officials to be exposed unnecessarily to rumors and suspicions that they either can or do exhibit favoritism. The best protection against such ill-founded criticism is to point out that they cannot. Hence I do feel that one of the best answers I have been able to give has been the limited scope of the actions of the Desk and our emphasis on trading in short-term securities, preferably bills. In my mind, and I should cite it just as clearly as your people have stated the contrary view, trading in bills only constitutes an important safeguard vis-a-vis the public in connection with System activities.

I am glad you wrote me about this so you can give this letter to anyone who may have misunderstood my remarks as a clear indication of my confidence in their integrity.

Sincerely yours,

(SIGNED) WM. MCC. MARTIN, Jr.

Wm. McC. Martin, Jr.

WMM:mmm
Hon. William McC. Martin, Chairman
Federal Open Market Committee
c/o Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Bill:

Before I left the Bank on my recent trip to Europe I had hoped to talk with you or write you about one aspect of the hearings conducted by the Joint Economic Committee on February 2, 1960, but time passed and I didn't get to it. I was disturbed by possible implications of, or interpretations that might be placed upon, a statement you made at the hearing.

In response to a question by Senator Douglas regarding the "bills only" policy, you said, in effect, that an important reason for the policy is to guard the integrity of the Desk at the Federal Reserve Bank of New York, and to minimize any chance of people charging the Desk with favoritism to one group or another. (Page 225 of stenographic transcript.) This expression of views was reported in the newspapers; it received wide circulation in financial circles and engendered a variety of comments. As you can well understand, there have been some unfortunate effects on the morale of those of our staff engaged in open market operations.

As you know, the Federal Reserve Bank of New York, acting for others than the System Open Market account, has engaged over the years in a large volume of transactions in Government securities of varying maturities, including long-term bonds. No question has ever been raised, so far as we know, either within the System or outside the System, regarding the integrity of the Desk or favoritism on its part in the handling of these transactions.

The operations of the personnel on the Desk are carefully reviewed by their superiors; indeed, most of the details of the transactions are agreed upon by their superiors before the transactions are executed. The procedures for audits by our own General Auditor and for examination by the examiners of the Board of Governors are intense. Going beyond these "technical" safeguards, I have been impressed time and time again, since I have been with the Bank, with
the integrity and personal dedication with which the officers and employees concerned with the operations of the Desk have undertaken their work.

Perhaps one may question the judgment of the Desk with respect to a particular transaction just as one may question my judgment or the judgment of any other member of the Federal Open Market Committee as to the type of credit policy called for at any particular time. But judgment and integrity are quite different. There has never been any doubt in my mind about the integrity of our staff or about its capacity to carry out open market operations directed by the Committee without showing favoritism to one group or another and without giving any basis for any reasonable man to charge favoritism.

I know that Congressional hearings can be very trying at times and there is no doubt that the hearing on February 2 was especially trying for you. Under such circumstances it is difficult to phrase one's responses and to foresee all the implications of what one might say. I did think, however, that you should know about our reaction.

Yours sincerely,

Alfred Hayes,
President
Senator Douglas is expected to submit to Congress today the Report of the Joint Economic Committee on the January 1960 Economic Report of the President. Copies of the Committee's Report may not be available for distribution until Wednesday or Thursday of this week.

However, according to the advance press copy of the Committee's Report, the Democratic majority views will criticize the President's Economic Report and also his Budget for Fiscal 1961 as "a status quo budget and report" in that they fail to lay out programs for promptly achieving full use of the labor force and production facilities and for increasing the rate of growth. The majority views, in large part, reiterate the need for the "reforms" recommended by the majority in the Committee's recent report on its year-long study of Employment, Growth and Price Levels. The minority of the Committee strongly criticize the majority views.

Mr. Patman devotes most of his Supplemental Views to urging his various proposed changes in the Federal Reserve System, including the need for annual audits of the System by the GAO in order to stop what he calls the "free-handed spending of public funds."

cc: Mr. Thomas  
Mr. Young  
Mr. Molony
Statement by Chairman Douglas on the Release of the Committee's Report

The Chairman released the following statement:

The minority of our Committee have engaged, in their views on this Report and previously in their views on the special study of the Committee on Employment, Growth, and Price Levels, in charges of extreme partisanship and have used some very intemperate language with respect to our Committee Report. We have been accused of political blackmail, of disregarding freedom, and of using phony figures. We shall leave it to the public to decide who has engaged in "extreme partisanship" and who has used intemperate language.

There are in fact very serious differences of opinion between and among us. It is my view that in a political democracy we should express differences of opinion about economic matters which actually exist. Otherwise the public remains uninformed about the issues before the country, party lines and party responsibility are obscured, and the political environment suffers from the absence of criticism which is necessary in a functioning and vital democracy.

What the Minority wants us to do is to put our stamp of approval on the President's Budget, Economic Report, and economic policies. Since we disagree with these policies it is better that we express that disagreement and the reasons for it so that the people and the country may decide these issues for themselves.

At the same time we have observed those limits on criticism which are necessary, namely that they are in good temper, sincere, and that they avoid personal abuse of individuals. We believe we have done this better than the Minority.

But we cannot agree with the President's economic policies.

---Unemployment for 1959, a so-called prosperous year, averaged 5.5 percent. This is almost the same figure as in the recession year of 1954 when it averaged 5.6 percent. This is a serious problem and we do not intend to sweep it under the rug.

---The economy has grown at a rate of only 2.3 percent between 1953 and 1959. We have had two recessions. This rate is below the historical average. It is about half the potential of our economy, and it is considerably below that achieved by Western European nations and especially the Russians. This rate of growth is inadequate and may mean the difference between doing those things which are vital to our defense abroad and our welfare at home or not doing them.
--In the last two years our price levels have been as stable as at any time in our history. Yet this is the time when the Administration renewed its fight on "inflation." The consequences have been a slow rate of growth, a high level of unemployment, and the highest interest rates in some 35 years.

--The President's Budget and Economic Report fall well below those levels of maximum employment and production called for in the Employment Act. Employment for 1960 will probably average close to 5 percent for the year.

These facts could be swept under the rug. This is primarily what our minority colleagues wish us to do. When we point them out in temperate language we are accused of "extreme partisanship."

Curiously enough, some of the most bitter remarks have been made by a member of our Committee who has not attended a single hearing or a single meeting of the Committee since he has been a member.

In this day of "moderation" and competition for the "middle of the road," responsible comment, unfortunately, is too often confused with irresponsible or destructive criticism.

We believe in a vigorous debate of the issues. This is healthy and constructive. Platitudes to put people to sleep will not help either our country or its people.
1960
JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1960 ECONOMIC REPORT
OF THE PRESIDENT

WITH

MINORITY AND OTHER VIEWS

FEBRUARY —, 1960

Printed for the use of the Joint Economic Committee

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(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

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JOHN W. LEHMAN, Clerk and Acting Executive Director
JOINT ECONOMIC COMMITTEE REPORT ON THE JANUARY 1960 ECONOMIC REPORT OF THE PRESIDENT

FEBRUARY — 1960.—Ordered to be printed

Mr. DOUGLAS, from the Joint Economic Committee, submitted the following

REPORT


together with

MINORITY AND OTHER VIEWS

[Pursuant to sec. 5(a) of Public Law, 304, 79th Cong.]

INTRODUCTION

This committee believes that the existing and potential skills of the American people and the Nation's natural resources, productive facilities, and technological development can provide both for the military defense which is necessary to national security and for the growing needs of the economy. The needs for growth in the private sector of the economy and the public responsibility for defense, schools, health, resource development, slum clearance, and other public services can be met.

They can be met within the existing framework of our free political and economic system and call for no fundamental changes in our system. They do call, however, for greater effort and dedication to these goals if they are to be achieved.

We believe that the economy can grow at a faster rate than in the past, that relatively full employment can be brought about and maintained, and that this can be done with a stable price level. These ends cannot be met without effort. We must follow correct policies and be willing to do the right things to gain them.

The committee's extensive studies of employment, growth, and price levels, which were recently completed, indicate in specific terms where public and private efforts have fallen short, what our potential is, and the things that need to be done to close the gap between our performance and the economy's potential. It is not our purpose here to repeat the specific details of the studies. An important conclusion
of those studies is: With the necessary will and resolution this Nation need not fear either for its military security or for its economic well-being due to any fundamental deficiency in its present or potential productive capacity.

It is not a question of whether these things can be done. It is a question of whether we will organize our people, resources, and institutions to do them.

THE PRESIDENT'S BUDGET AND ECONOMIC REPORT

The programs outlined in the President's budget and Economic Report will not achieve the objectives of the Employment Act in 1960. Moreover, they do not call for the actions which, as a result of its studies, this committee believes are necessary to raise the rate of economic growth while achieving a high and steady rate of employment and a stable price level. The public responsibilities for schools, slum clearance, resource development, the elimination of depressed areas, and other functions which are among the major keys to economic growth are either starved for funds or their programs are limited in scope.

Furthermore, while this committee cannot pass on whether the specific parts of the defense budget are adequate for our military needs, there is a considerable body of expert and nonpartisan opinion which believes that much more must be done in the fields of missiles, space, and combat strength if we are not to jeopardize our security and our defense. If more needs to be done, we are confident that it can be done without endangering our economy, if the proper policies are followed.

SUMMARY OF NEEDED PROGRAMS FOR GROWTH, MAXIMUM EMPLOYMENT, AND STABLE PRICES

The conclusions arrived at as a result of the committee's recent investigation of the economy were:

(1) The slow rate of growth in the economy in the recent past has been caused in large part by public policies which created instability in the economy and brought too frequent recessions.

To meet this problem there must be both fiscal and monetary reforms. The Government must act more quickly and more promptly to offset declines, especially through tax policy. The automatic fiscal stabilizers must be improved, especially unemployment compensation.

(2) In the interests of a higher rate of economic growth, we must place greater reliance on fiscal policy. This includes larger budget surpluses in prosperous periods than we have had, a tax structure which is both more equitable and which will promote a faster degree of growth, and a reordering of the priorities in Federal expenditure programs to promote those programs which stimulate growth and to cut back or eliminate those programs or subsidies which support inefficiency in the economy.

(3) We need a less restrictive monetary policy within the framework of a more effective fiscal policy. Specifically, the money supply should grow in line with the growth in output. Interest rates could then be lower and would support a more adequate rate of growth and investment without inflation. With a more effective fiscal policy,
monetary policy would be more effective in stabilizing the economy than it has been in recent periods.

In recent times the administration has relied heavily upon the monetary authorities to carry out stabilization policy which should properly be the concern not only of the monetary authorities but of the Government as a whole. In turn, the monetary authorities have limited their actions almost exclusively to only one aspect of the problem, i.e., stabilizing the price levels, while they have largely ignored the problems of economic growth and excessive unemployment.

(4) The problem of market power must be attacked. This is the ability of some to set prices without relationship to the demand for their goods or services because of their monopoly or semimonopoly position. Various private and Government devices which protect the ability of these groups to exercise market power should be reduced or eliminated. Basically, there must be a more effective antitrust policy. In addition, tariffs should continue to be lowered in order to provide more competition; the continued lowering of tariffs should be accompanied by vigorous bargaining on specific items to achieve in greater degree the objective of reciprocity. This would improve the structure of the economy.

(5) Both private and Government groups must emphasize growth producing policies and programs. This means especially improving the skills and education of our people through Federal aid to education without Federal control; the creation of greater economic opportunity for all of our people, especially the unskilled, women, the aged, and minority groups whose talents are not now used to the full and whose potential abilities and productivity are wasted; improving the health of our people through both private and public programs; placing major emphasis on research, including basic research; and better programs of unemployment compensation, retraining, and the reduction of frictional and technological unemployment through appropriate means.

THE PRESIDENT'S BUDGET AND ECONOMIC REPORT AND THE NATION'S NEEDS

We do not see in the budget for fiscal 1961 and the President's Economic Report for 1960 any fundamental changes in the directions which we think are necessary. By and large they are a status quo budget and report. Comprehensive programs to promote improvements in the skills of our people—schools, health, and retraining—are not adequately emphasized.

The Economic Report does not recognize the basic changes which must be made in our antitrust program if the sources of market power are to be dealt with. We say this even though the specific recommendations for the antitrust program are good in general.

Monetary policy for the current and coming years is not discussed in any constructive way.

There is no reordering of the priorities in this budget over past ones, either for new programs which are needed or for old programs which are wasteful.

The major tax loopholes are not mentioned and there are no recommendations concerning them, although some relatively minor changes are proposed.
The public policies required for economic stability in 1960 are not adequately dealt with.

The Economic Report does contain a large number of proposals which, while appropriate subjects for consideration by the legislative committees of the Congress, are not of sufficient importance in the context of the broad purposes of the Employment Act to warrant filling the pages of the Economic Report year in and year out with their detailed enumeration.

The President's Economic Report endorses in general terms programs such as school aid or aid to depressed areas which are important for the Nation's long-run growth. But the specific legislation proposed by the President to carry out these objectives would build almost no schools or give little aid to those who need it. Each problem is broken down into a series of minute recommendations which give the appearance of support and action but which when added together provide no effective program.
ECONOMIC OUTLOOK FOR 1960

GENERAL OUTLOOK

As in the past several years, the President's Economic Report avoids any clear-cut statements in quantitative terms of the levels of employment, production, and of prices in general which are likely to prevail in 1960. In the budget message, however, the President explicitly assumes a gross national product of $510 billion for calendar 1960. Corporate profits of $51 billion and personal income of $402 billion in 1960 were estimated by the Secretary of the Treasury in his press conference when the budget was released. These estimates are in terms of the level of prices which prevailed in the middle of the last quarter of 1959 and assume little, if any, general price increases beyond those already realized by the end of 1959.

On the basis of the information provided in the budget and in the Secretary of the Treasury's press conference, and by the expert witnesses appearing before the committee during its hearings on the President's report, the highlights of the economic outlook are—

A. The gross national product in current prices is likely to be at least equal to the $510 billion which is estimated by the President in the budget and may be slightly higher.

B. Corporate profits of $51 billion and personal income of $402 billion, as estimated by the Secretary of the Treasury, are in line with this estimate of the gross national product.

C. Price increases, as measured by the implicit deflators for the gross national product, will be limited and will probably account for not more than roughly 1 percent of the increase in gross national product from 1959 to 1960.

D. An expected $510 billion gross national product for 1960 would be $20 billion to $30 billion below the economy's potential output, based upon a 4 percent rate of unemployment.

E. A gross national product less than the economy's potential implies either that—

1. the increase in the labor force will be less than usual, or hours of work may be shorter, or
2. productivity increases will be less than those which might be achieved if the economy were operating at a higher level, or
3. unemployment will average close to 5 percent for the year 1960 as a whole and might average as much as 4% percent or more, seasonally adjusted, even during the fourth quarter of 1960.

F. Since the economy at the beginning of 1960 was so far from full employment, achieving the potential output for the year 1960 as a whole would require a more rapid increase in production and employment than would be consistent with stability in the general level of prices. Nevertheless, it is possible to accelerate the expansion of economic activity, without inflationary conse-
quences, in order to approach maximum employment and output more nearly by the end of the year.

EMPLOYMENT AND OUTPUT

The outstanding fact which emerges from this analysis of the Nation’s economic prospects in 1960 is that unemployment is generally expected to continue at a high rate compared to prosperous years in the past.

Unemployment has averaged 4.9 percent or more of the labor force in each month since November 1957. For 1958 as a whole, unemployment averaged 6.8 percent. In 1959, a year characterized by the President as one of rapid economic advance, unemployment averaged 5.5 percent. This is virtually the same unemployment rate as that experienced during the recession year 1954 when unemployment averaged 5.6 percent. It appears, therefore, that under the policies now being pursued, the rate of unemployment is higher both in good periods and in recession periods than it had been previously in comparable postwar years.

To the extent that the programs proposed by the President are consistent with the estimate of a $510 billion gross national product for the year, they will not meet the objective of providing the conditions in which full recovery in employment and output can be attained.

The persistent failure to achieve maximum employment and production deprives the private sectors of the economy of a major impetus for investment in expanding and improving our production facilities.

Moreover, by failing to use the labor force and production facilities as fully as is possible without promoting inflationary price developments, the Nation will be sacrificing output which could contribute in important ways to discharging the public responsibilities we face.

When unemployment is as high as it has been for a period of 27 months and when production facilities are used at rates which are significantly below their maximum efficiency, there is simply no merit in the contention that we cannot afford the programs needed to make the United States militarily supreme and to provide the education, research and development activities, improvements in health standards, elimination of poverty and low productivity in depressed areas, elimination of city blight, and the many other advances upon which rising living standards in the United States depend.

PRICE STABILITY

Another important conclusion which emerges from a review of the economic outlook for 1960 is that the stability in the general level of prices which prevailed during 1958 and in 1959 will continue in 1960. All of us welcome this prospect of a continuation of a stable price level. We must, however, be concerned about the undue emphasis on fighting inflation which continues to dominate the administration’s policies and those of the monetary authorities.

We do not suggest that public policy should disregard the possibility that inflationary pressures will arise. But the primary emphasis in public policy at this time should be on promptly achieving the full use of the labor force and of our production facilities and on laying
the basis for a higher rate of economic growth over the long run. This emphasis is not found in the policies of the administration and of the Federal Reserve, who appear to be focusing primarily on the fight against inflation despite the fact that the price level has been remarkably stable for many months past. The Wholesale Price Index, for example, in December 1959 was at exactly the same level as in January 1958; in the same 2 years, the Consumer Price Index increased by only 1.3 percent annually. Either the built-in upward bias of the index, because of its failure to account for improvements in quality, or the normal statistical margin of error, could account for this modest increase.

The administration's fight on inflation resumed in November of 1958 after a year of stable prices and continued during a period of stable prices. The result is an unemployment rate higher than it need have been or should have been under the terms of the Employment Act.

This stability in the price level and the absence of any noticeable inflationary thrust in the economy today has been noted repeatedly. The prospect for continuing price level stability was affirmed by the consensus of the expert witnesses testifying before the committee during its hearings on the President's Economic Report.
POLICIES TO ACHIEVE THE EMPLOYMENT ACT OBJECTIVES IN 1960

If the demands which arise from our defense needs and other public responsibilities to promote progress in the American economy are to be met adequately, more vigorous programs than those set forth by the President will be required in 1960. Important changes are needed in the areas of fiscal policy, monetary policy and debt management, and the policies affecting the structure of the American economy.

In summary, to achieve our shortrun stabilization objectives of maximum employment and production, and stability in the general price level, we need Federal policies which will encourage a somewhat more rapid expansion of total demand than now seems likely. In the interest of promoting economic growth, easier monetary and credit conditions are needed than those that appear to be in prospect at this time. In addition, we should begin now to make major advances in increasing the productivity and improving the mobility of the labor force and in improving the structure of the economy.

FISCAL POLICY: THE 1961 BUDGET

The President's budget for fiscal 1961 envisages a surplus of $4.2 billion, based in part on a $554 million increase in postal revenues from increasing, in the main, first-class postal rates. The surplus also assumes that outlays for agriculture under the present programs will be $5.6 billion, about $500 million more than is currently estimated for fiscal 1960, but $900 million less than in fiscal 1959. (It is also proposed to increase the excise on gasoline by 1/2 cent and to put back into the general fund certain excise receipts diverted to the highway trust fund. These actions would not affect the conventional budget results for fiscal 1961.) If a more realistic estimate of the cost of the present farm program is used and if the proposed postal rate increase does not pass, the surplus at the estimated levels of income will amount to about $3 billion instead of $4.2 billion.

The $4.2 billion surplus which the President gave as his estimate would result from an automatic $5.4 billion increase in revenues accompanying the rising levels of income, while he expected that Federal expenditures would be about $1.4 billion above those for the present fiscal year. The revenue estimates are based on an extension of the present corporation income tax and excise tax rates. We recommend that these rate extensions be enacted, though possibly with some revisions.

The proposed surplus, when translated into terms of Federal Government payments to and receipts from the public, amounts to a little more than $2 billion in calendar 1960, or about one-half of 1 percent of expected gross national product. For fiscal 1961, the estimated cash surplus is $5.9 billion, slightly more than 1 percent of the likely gross national product for the fiscal year. These are low ratios of surplus to the gross national product by postwar standards.
Since the levels of income upon which these budget estimates are based are less than full employment levels, it is perhaps just as well, assuming the President's programs were to be accepted, that no larger surplus be achieved, unless there were assurance that materially easier monetary and credit conditions would be provided by action of the Federal Reserve System.

We could, however, more fully discharge the responsibilities facing the Federal Government, and at the same time realize a larger budget surplus which would facilitate the easing of credit conditions, by (1) reordering the priorities in the Federal expenditure programs, and (2) undertaking urgent reforms in the Federal revenue system.

1. Reordering priorities

In general, Federal expenditure programs should be revised to place greater emphasis on providing a more effective national defense and on programs which will make important contributions, over the long run, to the Nation's economic growth.

(a) Defense.—Military expenditures by the Department of Defense in fiscal 1961 are estimated in the budget at $42,745 million, the same as in fiscal 1960. This amount is $828 million less than the actual expenditures in fiscal 1959. Moreover, the proposed fiscal 1961 outlays for military hard goods show a reduction in every major category—aircraft, missiles, and ships.

We recognize that the mere dollar volume of purchases for the military does not necessarily measure the adequacy of our defense effort. The costs of military hardware, however, are rising, not falling. A reduction in total purchases for these hardware items, therefore, necessarily means that a smaller addition to our arsenal will be made in the current fiscal year than in past years. There is no objective evidence that the Soviets are reducing the rate of their military buildup. Cutbacks in the real volume of our outlays, while the Soviets continue to increase the volume of theirs, requires a more convincing explanation than has yet been offered to assure the American public that the proposed defense program for fiscal 1961 is not to be unnecessarily limited on the basis of budget-balancing considerations.

The joint committee has observed repeatedly in the past, and we repeat the assertion again, that decisions about the volume and character of defense procurement should be made on the basis of judgments about the Nation's long-term military needs. They should be separated from short-run budgetary considerations.

A greater volume of outlays for major procurement programs of the Defense Department and for an increase in combat strength and efficiency does not necessarily require at this time any significant increase in the overall defense budget. The recent hearings by this committee's Subcommittee on Defense Procurement brought out the fact that very substantial savings—as much as $2 billion to $3 billion—can be realized by eliminating the current wasteful procurement practices and by more effective control over surplus stocks and stockpiles of obsolete material. This conclusion is confirmed by the findings of the Hoover Commission.1

1 Senator O'Mahoney wishes to emphasize this point:

Military hard goods expenditures, particularly for new items, have a highly expansionary impact on the economy. Much of this impact is likely to be concentrated in those sectors of the economy in which increased demands will result promptly in rising prices which will in turn raise costs and push prices up elsewhere in the economy. For this reason, it is essential that the utmost care be taken to prevent waste in our military assistance programs abroad and the type of waste in defense procurement practices as revealed in our recent hearings.
These savings could be applied to the missile and space programs, and for combat troops, and would be a major step toward improving our defense position relative to that of the Soviet Union. If on the basis of expert and dispassionate evidence it is determined that further efforts are required we should not be deterred from undertaking them by considerations of budgetary prospects.

A responsible budget policy proceeds first from the determination of needs. If, despite savings from better procurement procedures, needs exceed the budget totals which are estimated by the President, we are certain that the American people will respond unhesitatingly and ungrudgingly to provide the additional revenues required in the interest of military security.

(b) Foreign aid.—Since the end of World War II, the United States has assumed the major burden of the leadership in the free world for aiding nations in their recovery from the war, in building up their defense capabilities against future aggression, and in providing for economic progress in less developed nations. The discharge of these functions continues to be a major responsibility which faces the United States. However, economic progress of our NATO partners should be given careful consideration in reviewing our foreign-aid program.

With respect to defense, the NATO countries, particularly those whose balance-of-payments situations have shown significant improvement, should be called upon to assume a larger portion of the burden for their own and for the NATO defense effort. While the United States will and should continue to remain the mainstay of the NATO defense program, our contribution should be reexamined and adjusted in the light of the expanding resources and capabilities of our NATO partners. The patterns set in 1951, when many of our European allies suffered from serious balance-of-payments problems, are no longer appropriate in 1960. It is proper that they devote more funds to their own defense.

The second major aspect of our foreign-aid program is to assist the economic progress of the less developed nations. The efforts of the United States in this respect should be maintained. Additional efforts by our allies are now possible and we believe that they should make a greater effort. Nevertheless, the demands for real resources in the world’s underdeveloped areas are so great and the returns are so promising in terms of improvement in the living conditions and in the political and economic stability and freedom in these areas that we should not consider reducing our own economic contributions for these purposes even if those of our friends in other parts of the world increase.

(c) Education.—Despite the recognition of the fact that the Nation’s economic growth over the long run depends upon improving our education achievements, the President offers an inadequate program to assure that progress toward this goal can be made. The committee’s study of employment, growth, and price levels brought out very clearly that the rising standards of education in the past have made a major contribution to the Nation’s economic progress. At the present, it is clear that a rapid pace of technological advance will demand a more highly educated and skilled labor force.

A vigorous program of Federal aid to education should be adopted during the current session of this Congress. This program should
include no Federal control over the content of what is taught, the
salaries or promotion of teachers, tenure, discipline, or any other fea­
ture of educational programs which historically have been controlled
by local authorities. The Federal Government should also provide a
national scholarship program, in addition to the present loan pro­
gram, to provide the incentives and the necessary financial resources
so that the more promising high school graduates may enroll in ad­
vanced educational institutions. Far too high a proportion of stu­
dents of the top quality and ability in high school do not go to college
because of the lack of motivation, financial limitations, religion, race,
sex, and other factors which should not be allowed to bear on develop­ing
our most valuable resources.

(d) Research and development.—The research and development
activities which have been supported and promoted by the Federal
Government in the postwar period have been one of the most im­
portant sources of dynamic economic growth in the United States. Al­
though most of these activities have been associated with the defense
effort, they have yielded huge returns in civilian byproducts and in
medical advances.

The National Science Foundation estimates that in 1959-60, the
Federal Government will, directly and indirectly, supply well over
half of the total funds going into research and development activities.
It is essential for economic growth that the Federal Government
continue and expand its support of research and development activ­
ities, even if the Nation’s defense needs were to be reduced by an
easing of world tensions.

Federal funds for research and development should be distrib­
uted more broadly, particularly to smaller firms, instead of being so heav­
ily concentrated among industrial giants.

(e) Farm expenditures.—One of the most expensive aspects of the
present farm program is that price supports are paid on corn and feed
grains without any requirements by the Secretary of Agriculture for
production controls of any kind. In his farm message, the President
proposed the same program for wheat. Under the law, when the
Secretary of Agriculture pays out funds in price supports for any crop
he also has the authority to establish production controls. This has
not been done and under the program of open-end payments the pro­
duction and surpluses of corn and feed grains has increased at a fan­
tastic rate. In addition, a large proportion of these payments go to
a very small number of farmers.

By applying some form of production controls—either bushels,
acres, or dollar limits—this vast expenditure for these crops could be
limited. While this action would not solve the basic farm problem,
it is certainly essential in the short run to avoid unnecessary expendi­
tures and to see that the payments which are made go to those who
need them most of all. Such production limitations could be imposed
without any legislative changes. It should be done with the emphasis
on promoting a rise in the income of the family sized farm and in the
interest of Government economy.

(f) Business subsidies.—In the present budget there is provision
for aids and special services to business of some $864 million. To this
should be added the postal deficit of $554 million. Thus, business
groups receive direct subsidies of at least $1.4 billion per year exclu­
sive of numerous programs which guarantee many business operations against loss.

While the President has asked that rates be increased in the main on first class and air mail, the postal deficit is found in the second, third, and other classes of mail. For fiscal 1959, the total post office deficit, adjusted to show the full year effect of the postal rate changes in 1959, was $334.8 million. First-class and domestic-air mail each showed a surplus totaling $164.2 million, while other classes of mail showed a deficit totaling $499 million. The actual results for fiscal 1959 were a surplus of $156.8 million for first class and air mail and a deficit of $726.6 million for second, third, fourth, and other classes of mail. If the post office deficit is to be eliminated, it is evident that rate increases should be confined to second-, third-, and fourth-class mail and controlled circulation publications, for they are those which now receive the subsidies. Further cuts could and should be made in other business subsidies.

2. Tax reform

Putting greater emphasis on Government programs to promote economic growth is not a plea for big spending or deficit spending. On the contrary, these programs can and should occur in the framework of a much tighter fiscal policy than there has been during the past several years.

It is quite possible that these expenditure programs, even with the elimination of wasteful subsidies, would involve a somewhat greater total outlay than is contemplated by the President in his budget for fiscal 1961. In terms of the national income accounts, the expected level of Federal outlays for 1960 represents no larger a fraction of total output than has prevailed on the average in the post-Korean period. The revisions in Federal expenditure programs which we suggest would not significantly affect this relationship.

We recognize, nevertheless, that if a major start were to be made on these programs in 1960, their effect in promoting a more rapid expansion of gross national product in 1960 and 1961 might demand a larger budgetary surplus than that proposed by the President and certainly more than will probably be achieved under his specific proposals. If these urgently needed changes in Federal expenditures are provided, and if gross national product in real terms tends to rise to a level of $530 billion to $540 billion, which would be a full employment level of total demand for 1960, a larger surplus would be called for. A larger budget surplus devoted to debt retirement would make possible easier monetary conditions, which would also promote a higher rate of growth.

These larger budgetary surpluses are well within our reach without harm to the economy. Just a few of the major steps in a constructive reform of the Federal income, estate, and gift taxes could add $4 to $5 billion to Federal budget receipts. Such reforms should aim at broadening the tax base by eliminating the most flagrant and inequitable loopholes. These reforms include repeal of the dividends-received credit and exclusion, provision for the withholding on interest and dividend payments, rigorous limitations on employee expense accounts, limiting the types of income to which capital gains treatment is given to true capital gains, progressively reducing the percentage depletion rates allowed on oil and gas, improving the enforcement of
the income tax laws, and elimination of the numerous preferential provisions in the estate and gift taxes. Even a modest beginning on this tax reform program could produce $2 billion to $3 billion in additional revenues.

These loopholes should be closed in any event simply in the interests of having a fair tax system which interferes as little as possible with taxpayers' decisions about how to obtain and to dispose of their incomes. Those with equal incomes should pay equal taxes. Tax reform is all the more urgently needed when the public responsibilities facing the Nation are so pressing.

Further evidence of the lack of concern by the administration with the needs of sound fiscal policy is found in the very limited recommendations for tax reform offered in the Budget and Economic Report. While the President's Economic Report states explicitly on page 6 that we should continue to review our tax system from the standpoint of equity, of encouraging productive effort, and of facilitating mobility and efficient use of capital, the only reform proposals made are—

* * * to preclude unintended and excessive percentage depletion allowances for mineral products * * * to make certain corrective amendments in the tax laws applicable to cooperatives; * * * and to tax as ordinary income any gain realized by the sale of depreciable personal property used in business. * * *

We are told that tax reform is still being considered. Such reforms are the concern of all Americans. The administration should make a complete public statement of its proposals in this area and exert full leadership in pressing needed reforms through the legislative process.

By revising our expenditure programs and by providing tax reform, Federal fiscal policy in 1960 can contribute materially toward a more rapid recovery in employment and production and toward laying the groundwork for a higher rate of economic growth in the long run. Moreover, this can be done in ways which will produce a budget surplus as large or larger than that proposed by the President.

3. Gains from fiscal reforms

If the budget priorities were reordered in a manner such as we have pointed out and if a start were made on tax reform, we could increase expenditures for missiles, space, and combat troops by $2 billion; add $2 billion for schools, health, depressed areas, and other pressing social needs; commit $1 billion to reducing excises and income tax rates (including those in the upper brackets if loopholes which are primarily for the benefit of upper bracket taxpayers are closed), and yet have a surplus larger than the President has anticipated. This would also mean a larger increase in total output, an easier monetary policy, and less unemployment. The general details of how this could be achieved are set out in the table below:

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2 Mr. Bonoen, I agree that the rate of growth of the American economy is lagging and that the policies recommended in the Budget and President's Economic Report are not adequate. However, I want to withhold judgment on some of the recommendations contained in the majority report, particularly with respect to tax reforms, debt management, and the shipbuilding program. The tax matters have been the subject of intensive studies before the Ways and Means Committee, and I would not want to prejudge these studies until that committee has had time to make its own recommendations.
The effects of a reordering of the priorities in the budget

<table>
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<tr>
<th>Program</th>
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<tr>
<td>Realistic budget surplus under present program</td>
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<td>Postal increase for 2d- and 3d-class mail</td>
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<tr>
<td>Reduction in business and agricultural subsidies</td>
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<tr>
<td>Closing of most urgent tax loopholes</td>
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<tr>
<td>Savings on military surplus and procurement programs</td>
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<td>Cuts in military aid</td>
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<tr>
<td><strong>Total</strong></td>
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<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Increase for missiles, space, and combat troops</td>
<td>$2.0</td>
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<tr>
<td>Increase for schools, depressed areas, and social programs</td>
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<td>Revenue loss from tax revision accompanying loophole closing</td>
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<td><strong>Subtotal</strong></td>
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<tr>
<td><strong>Total</strong></td>
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As can be seen, we could achieve a greater surplus while we met our military and domestic needs if this kind of program were to be supported actively by the administration and the Congress. This greater surplus would be achieved at higher levels of economic activity. Such a program is a constructive alternative to the position that we cannot afford additional expenditures for defense, schools, elimination of depressed areas, and slum clearance.

MONETARY POLICY AND DEBT MANAGEMENT

This year's Economic Report by the President, like those of the past several years, offers no guides for monetary policy in 1960. Fiscal developments, it is generally agreed, necessarily affect monetary and credit conditions. This relationship makes it essential to consider fiscal and monetary policies together in the interest of achieving the Employment Act's objectives. The silence of the President's Economic Report on this subject cannot be justified on the basis of preserving the independence of the monetary authorities. It represents, instead, a major deficiency in the administration's economic policy formulation.

In the area of monetary policy, we offer as a general prescription that the supply of money—i.e., currency held outside the banks and adjusted demand deposits—should increase over time at about the same rate as gross national product, allowing for normal velocity. This does not mean that the money supply should be adjusted to every short-term fluctuation in the level of total demand, but rather that over a period of years the rates of increase in both should be about the same. Much more reliance should be placed on fiscal policy—i.e., on adjusting Government receipts to expenditures—as a means of stabilizing the level of total demand in the interests of a high, steady rate of employment and of a stable price level.

Whenever this prescription is offered, the usual rejoinder from the Federal Reserve is that it ignores the increase in the velocity of money—that is, the frequency with which the money supply is turned over. But repeated expert testimony has shown that, at least up to some upper limit, an increase in velocity results from an inadequate growth in the supply of money and consequent rising interest rates. A more liberal monetary policy, therefore, would result in a somewhat lower velocity of the money supply.
Achievement of the Employment Act’s objectives in 1960 calls for easier monetary and credit conditions.

If a budgetary surplus of the level estimated by the President is to be achieved with the present degree of monetary restraint or that likely to prevail under present Federal Reserve policies in 1960, it is improbable that a level of gross national product can be realized which would bring maximum employment.

The fiscal policy proposals offered above would make possible a larger budgetary surplus than that proposed in the President’s budget for fiscal 1961, and larger than that which we believe will actually occur under his specific proposals. The use of the budget surplus for debt retirement would contribute to the easing of monetary and credit conditions. It is important that such an impetus toward monetary and credit expansion not be offset by restrictive action by the Federal Reserve.

Easier monetary and credit conditions are essential to a sound public economic policy for promoting long-term economic growth. A tight money policy impedes economic growth by slowing the rate of State and local government outlays for schools and other public facilities which are necessary for an expanding population, and the rate of private investment, particularly by small and new businesses. At the same time, tight money and high interest rates have little if any effect on the rate of saving. A more effective way to assure an adequate volume of total saving in the economy is to run a large budget surplus. An easier money-tighter fiscal policy, therefore, is the proper mix of public policies in the interests of economic growth.

Preventing inflation does not depend on tight money. In fact, we will do a much better job of preventing inflation with an easier monetary policy and a vigorous and alert fiscal policy. At the same time, such a policy combination will do a much better job of promoting economic growth.

NEEDED REFORMS IN TREASURY, DEBT MANAGEMENT, AND MONETARY POLICY

With appropriate changes in fiscal, monetary, and debt management policies, easier credit and monetary conditions can and should be provided in 1960.

In summary, our major recommendations are—

The Federal Reserve should—

(a) abandon its discredited “bills only” policy,
(b) agree to build up its portfolio of long-term bonds, and
(c) use open market operations rather than lowering reserve requirements as the means of bringing about the secular expansion of credit which the Federal Reserve and the banks desire.

The Treasury should—

(a) avoid seeking advice on new issues from organized groups of their customers who are interested parties,
(b) institute a system of callable bonds so that the public is not saddled interminably with high interest rates,
(c) extend the auction method to other than short-term bills, and
(d) agree to sell long-term bonds in the main when interest rates are low.

In addition, the Federal Reserve should immediately take the steps necessary to regulate the presently unregulated New York bond market and to apply margins to its customers.

These reforms could begin now. They would bring down interest rates, make the market more competitive, and could do this without recourse either to "pegging" or to inflationary devices.

We do not seek a policy of pegging Government bond prices at artificially high prices and low yields. We do seek abandonment of policies aimed at pegging Government bonds at artificially low prices and high yields.

It is for these reasons that, pending reforms in fiscal, monetary, and debt management policies, we have opposed the elimination of the present 4 1/4%-percent statutory ceiling on the rate which may be offered on Federal Government debt instruments with a maturity of more than 5 years. Since December 1952, the average maturity of the Federal debt has fallen by a full year (as of January 30, 1960). Much of this decline occurred when long-term rates were below the statutory 4 1/4%-percent ceiling and before the administration eliminated the question of the interest rate ceiling. Moreover, little has been done since 1952 to lengthen the debt, even when long-term rates were low.

The Federal debt can be efficiently managed well within this 4 1/4%-percent rate ceiling, if appropriate reforms are undertaken. Moreover, these reforms, which can be made effective very quickly, should be undertaken quite apart from the question of the interest rate ceiling. Indeed, if progress is made in this direction, the interest ceiling will again become an academic issue.

In this area, too, we are familiar with the reply of the administration's supporters. It is that even if the proposed reforms are undertaken, they could not be achieved overnight and in the meanwhile the enforced reliance on short-term financing is inflationary.

With respect to the first point, these reforms would begin quickly. The second argument that is made is that short-term issues are near money while long-term issues are not.

In fact, this is not a pertinent argument. If the total volume of credit is fixed by the monetary authorities, then any new debt issue—whether it is long or short term—reduces the amount of credit which may be extended for other purposes. Whether the debt issue is a long-term or short-term instrument, therefore, is not a relevant question in this respect. It is relevant, however, in determining whether high interest rates are to be paid on debt issues with a short life or on those with long maturities. Clearly, even if high interest rates cannot be avoided for the relatively short period of time in which the proposed reforms in debt management are undertaken, they should not be fixed on the economy for 10, 20, or 30 years through the issuance of long-term debt by the Treasury.

MARKET STRUCTURE

To achieve the objectives of the Employment Act, the third major concern of public economic policy should be with the market structure.
of the economy. In its study of employment, growth, and price levels, the committee noted that serious deficiencies of market structure frequently impede the prompt change in resource use essential in a dynamic economy and that these impediments contribute to persistent upward price pressures. Inflationary tendencies and inefficient resource use are the price paid for not mounting a much more vigorous attack on these structural weaknesses.

The sources of these weaknesses are varied. Government programs which subsidize uneconomic production activities include those in shipbuilding, agriculture, and, through the use of tariffs, in a wide array of manufacturing. A more efficient economy and one substantially less subject to inflationary pressures calls for progressive reduction in tariffs, elimination of some business subsidies, and a thoroughgoing revamping of the Federal Government's agricultural program to provide such support for farm income as may be necessary for prosperity and progress in this sector of the economy.

In addition, the Federal Government must substantially increase its efforts to reduce the extent of market power in the business community and to prevent the exercise of this power against the well-being of the economy as a whole. The specific proposals of the President in the antitrust area, while steps in the right direction, are far too limited to be of major consequence in improving effective competition.

The basic problem which limits the curbing of market power is that under the present statutes the courts have insisted upon some direct evidence of collusion or concerted action to support a finding of antitrust violations. Modern pricing and other practices, however, even when clearly monopolistic, do not require and do not usually involve such direct or contractual collusion. In addition, legal delays have been long, and the resources of the Antitrust Division and of other agencies responsible for enforcement have been inadequate to deal with their responsibilities and the importance of the tasks they must perform.

Within the past few years, the courts appear to be more aware of the broader economic meaning of size as a factor in market power, even when this is independent of concerted action. The courts have also become more critical of the role of mergers on the effectiveness of competition. It is to be hoped that these trends will continue.

In addition, however, the Government should take more specific steps to strengthen our present antitrust policy. Specifically we need more effective application of antitrust legislation to industries in which a high degree of market power is possessed and exercised by large producers, even where no evidence of direct or overt collusion or conspiracy can be shown.

The Antitrust Division should be substantially strengthened. Even after recent increases, the funds provided to the Antitrust Division are less than $4.5 million, much too meager an amount for the functions it is expected to perform. The professional staff of the Division should be expanded, and salary levels should be set high enough to prevent the drain of experienced personnel into private industry.

The Congress should review the policies of the regulatory agencies in those industries which are granted exemptions from the antitrust laws. More knowledge of the effects of regulatory practices on competition in these particular industries is needed.
In particular the 1950 amendment to section 7 of the Clayton Act, closing the loophole as to mergers through acquisition of assets, should be extended to apply to bank mergers, and the Antitrust Division of the Department of Justice should continue to have jurisdiction over enforcement of the act as to bank mergers.

Further, the Bank Holding Company Act of 1956 should be strengthened to encourage the continuation and growth of our historic system of independent locally owned banks. Before they approve a bank holding company's acquisition of stock in a bank, the Board of Governors of the Federal Reserve System should be required to determine whether the laws of the State affirmatively permit such an acquisition.

The more serious market power as a source of inflationary strain and economic inefficiency becomes, the greater is the urgency for devising new techniques and methods for dealing with it. The Federal Government should take the lead in trying to make large industries and unions exercise this power with restraint. The Federal Government could, for example, bring together in an annual labor-management conference the leaders of both of these groups so that they could be given the general economic outlook and informed of the relation of their actions to the national economic welfare. Such a conference could result in a useful exchange of views between business, labor, and Government officials. Over the long run, it might have a good effect on prices and wages in important industries. Because of this, we recommend that such an annual conference be started.

Moreover, as we noted in Senate Report 1043, while we recognize the difficulties and dangers of, and share the presumption against, Government participation in the price-wage setting process, there is a need, at least on a standby basis, for a factfinding procedure covering key price and associated wage increases which seriously threaten economic stability, to be invoked at the discretion of the President, and to result in the issuance of a report and recommendations regarding the justification and desirability of such proposed increases.

The problem of national emergency disputes between labor and management also needs further attention. Whatever emergency legislation is adopted, it must be clearly specified that the stability of the price level is one criterion to be applied.

In addition, there are numerous actions which the Federal Government should take to increase productivity and improve the structure of the economy. The major steps are—

1. A program of assistance to chronically depressed areas should be started. Both technical and long-term financial aid will be required to help these areas to become self-sustaining and to help themselves. Where necessary, retraining of workers should be undertaken.

2. The activities of the various State employment agencies should be coordinated into an effective national system in which information about job opportunities and available workers will be provided to both employers and workers throughout the country. In addition, the financial burden of unemployment should be reduced by encouraging a more liberal system of unemployment insurance, particularly for workers in chronic labor surplus areas.
3. Besides general policies designed to strengthen the forces of competition, special programs to promote small business must be continued and improved. Small business has brought many innovations to the American economy. The Federal Government must see that capital is available to small business, and should help to protect it against predatory practices.

NOTE.—Senator Fulbright was unable to participate in the hearings or committee meetings on this report. For that reason, the findings and conclusions herein set forth are neither approved nor disapproved by him.
COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy. During January and February of 1959 the committee held hearings and prepared its report on the 1959 Economic Report of the President.

Committee and subcommittee studies announced in that report provided for a broad inquiry into overall economic policies for employment, growth, and price levels by the full committee, and a special assignment to the Subcommittee on Economic Statistics to examine the problem of comparisons of United States and Soviet economic growth.

Subsequently the committee also announced plans for a study of U.S. energy resources by a Subcommittee on Automation and Energy Resources and a study of the impact of defense procurement by a Subcommittee on Defense Procurement.

The work of the full committee and the subcommittees, for the period March 1959--February 1960, is summarized below.

PRESIDENT'S 1959 ECONOMIC REPORT

Hearings on the January 1959 Economic Report of the President provided an opportunity (1) for the executive branch to indicate the economic assumptions and reasoning underlying the President's economic program and to justify major economic policy recommendations; (2) for a limited number of outside experts to set forth their views on the President's economic analysis and program; and (3) for the economic interest and research groups to submit their views. The committee's report on the President's report was transmitted to the Congress on March 9, the March 1 deadline being extended by unanimous consent. The report included supplemental and dissenting views of committee members, and materials on the economic outlook for 1959 prepared by the committee staff (S. Rept. 98, 86th Cong., 1st sess.)

STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

Senate Concurrent Resolution 13, 86th Congress, 1st session, passed March 23, 1959, charged the Joint Economic Committee with conducting—

* * * a full and complete study of, and investigation into, the problems of providing maximum employment and an adequate rate of economic growth, as well as maintaining price stability and preventing inflation * * *.

A budget of $200,000 was provided for the study and a special staff recruited to carry out the work, with the assistance of several members
of the permanent staff. The permanent staff also provided adminis­
trative services. In the course of the study the committee heard
nearly 100 witnesses in 9 sets of hearings covering 40 separate days.
Twenty-three special study papers were prepared by outside con­
sultants and the committee staff for use in connection with the special
study. In addition, the special study staff prepared a comprehensive
report setting forth fundamental data and technical analyses bearing
on the problems with which the study was concerned.
The committee's own report on the study of employment, growth,
and price levels, with minority and individual views, was submitted
to the Congress January 26, 1960, and printed as Senate Report 1043,
86th Congress, 2d session.

SUBCOMMITTEE ON ECONOMIC STATISTICS

The Subcommittee on Economic Statistics is composed of Repre­
sentative Richard Bolling, chairman; Representatives Hale Boggs,
Frank M. Coffin, and Thomas B. Curtis; and Senators John Spark­
The subcommittee in accordance with instructions from the full
committee (S. Rept. 98, 86th Cong., 1st sess., p. 20) conducted a study
of "Comparisons of the United States and Soviet Economies." Expert
witnesses prepared 33 papers on 9 subject areas covering comparisons
between the 2 economies. These study papers were released early in
the fall and the authors then discussed their papers in a series of hear­
ings held from November 16 to 20. The hearings began on Friday,
November 13, with testimony by the Director of the Central Intel­
ligence Agency. The summary and policy implications of the study
were covered by the concluding panelists' papers and in the discussion
in the final session of hearings.

SUBCOMMITTEE ON AUTOMATION AND ENERGY RESOURCES

The Subcommittee on Automation and Energy Resources is com­
posed of Representative Wright Patman, chairman; Representatives
Henry S. Reuss, Clarence E. Kilburn, and William B. Widnall; and
Senators Joseph C. O'Mahoney, John F. Kennedy, and John Marshall
Butler. The subcommittee held hearings October 12 to 16 on the
anticipated needs and adequacy of U.S. energy resources and the im­
pact of technology on the production and efficient use of the energies
required for sustaining economic growth. Witnesses were heard from
research organizations, Government bureaus and the oil and coal
industries.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The Subcommittee on Defense Procurement is composed of Senator
Paul H. Douglas, chairman; Senators John Sparkman, Joseph C.
O'Mahoney, and Jacob K. Javits; and Representatives Wright Pat­
In announcing hearings on the impact of defense procurement which
were held January 28 to 30, 1960, the chairman explained that the
subcommittee would not be concerned with questions of military
strategy, weapons, size of forces, etc.—nor with the broad problem
of the overall economics of disarmament—but with the purely eco-
nomic and budgetary issues involved in the way the Nation spends
over two-thirds of its budget. The witnesses heard were from the
agencies of the Federal Government with primary responsibility for
procurement and disposal of defense materials, and from the Hoover
Commission task force members.

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for
the committee, the staff participated in discussions of economic
problems and research techniques with outside groups. The follow­
ing list of meetings illustrates the nature of these activities in which the
staff took part during 1959: Economic workshop, West Virginia
University, annual sessions of the National Tax Association, Invest­
ment Bankers Association, Mortgage Bankers Association of America,
the National Bureau of Economic Research, National Industrial
Conference Board, Federal Statistics Users’ Conference, American
Economic Association, American Statistical Association, the National
Association of State Tax Administrators, American Society for
Public Administration, and the National Planning Association;
conferences with groups of foreign economists brought here under
the sponsorship of the State Department and the International
Cooperation Administration; seminars of the Industrial College of
the Armed Forces; meetings of local chapters of the American Sta­
tistical Association; meetings of the Brookings Institution, the
Chamber of Commerce Committee on Business Statistics, and other
meetings of business groups, civic organizations, and university classes.

COMMITTEE PUBLICATIONS

In the period March 1959 through February 1960 the Joint Eco­
nomic Committee and its subcommittees issued 48 publications.
Over 250,000 copies of current and previous committee publications
were distributed during the year to fill individual requests. Com­
mittee publications are also on sale by the Superintendent of Docu­
ments. In the past year, individual copy sales and quantity orders
of committee publications, current and past, have exceeded $30,000.
This figure does not include the 8,400 paid subscriptions for the
monthly publication of Economic Indicators. A checklist of com­
mittee publications will be found at the back of this report.
Committee and Subcommittee Plans for the Coming Year

Full Committee

The relationship between monetary and fiscal policy actions in the postwar period and the objectives of the Employment Act.—Chapter 8 of the "Staff Report on Employment, Growth, and Price Levels" discussed some of the economic consequences of the postwar trend with respect to the relative emphasis on fiscal and monetary policies. The manner in which Federal fiscal and monetary actions are combined in seeking the Employment Act's objectives appears to be at the heart of some of the major current issues of public economic policy. The staff, therefore, is directed to inquire further into the changes in the combination of fiscal and monetary policies which have occurred in the postwar era and the consequences of such changes for the rate of growth of the Nation's productive capacity, for stability in the rate of employment and output, and of the price level, and for the distribution of income.

Tabulation and summary of questionnaires submitted by 17 security dealers.—In connection with the committee's hearings conducted as part of the study of employment, growth, and price levels, the 17 firms dealing in Federal Government securities were asked to submit detailed information on a number of aspects of their business over the last 10 years. The assembly and submission of this information is now nearly completed. The designated staff is directed to tabulate and summarize the data from the dealers for committee consideration, in accordance with committee rule 23, in a manner which will not reveal the identity of any individual, partnership, corporation, or entity.

Study of governmental subsidies.—The committee will begin a broad inquiry into the extent and impact of Federal Government subsidies, direct and indirect. The subject is closely related to the objectives of the Employment Act, in part (1) because of its relation to fiscal and tax policies as they relate to economic stability and growth, and in part (2) because subsidies are a part of the "plans, functions, and resources" of Government which can contribute to—or through unplanned, perverse behavior partly negate—efforts to promote maximum employment, production, and purchasing power. The growth of our subsidy pattern has been piecemeal and gradual and a listing and reexamination of aggregates and priorities seems to be in order although there is no doubt that many items will be found to have their sufficient reasons in public policy.

The study will be carried out initially by calling upon the staff to find out what subsidies are being granted, to estimate their amounts, and to summarize their origins and rationale. This will be done without any attempt at appraisal of desirability or relative merits. Such a study must rely primarily on an analysis of the budget to estimate which subsidies are being paid but we must also be alert for items of omission which give rise to identifiable special group benefit.
Decision as to the committee's further action, including the possible hearing of advocates and critics, will be postponed until members of the committee have had an opportunity to study the materials gathered by the staff. The study is a long-range one and no schedule for its progressive stages can be set at this time.

It is worth noting at this point, however, that a formidable problem of such a study is one of differentiating or at least of arriving at a working basis of precisely what items should be brought within the purview of the inquiry. The directive to the staff takes notice of the criteria set forth in the dictionary: To subsidize is "to aid or promote as a private enterprise with public money"; a subsidy is a "governmental grant to assist a private enterprise determined advantageous to the public." The problem and scope will be made easier if it is recognized that the characterization of any governmental assistance or grant as a "subsidy" is not to stigmatize but to prepare the ground for examination of justification upon which of course opinions may well differ. Whether a given subsidy is to be regarded as desirable or undesirable is for the people as a whole to determine through democratic political processes. The ultimate decision, it may be hoped, can be made upon some more profound basis than short-term self-interest of beneficiaries.

Economic implications of alternative agricultural policies.—The last special work by the Joint Economic Committee in the field of agriculture was the compendium, hearings, and report on "Policy for Commercial Agriculture" done by a Subcommittee on Agricultural Policy in 1957.

Since that time the Senate Agriculture Committee has arranged for a staff analysis of probable levels of production, prices, and farm income in 1960–65 if production controls were removed and price supports were lowered to market levels. This report, begun last May by the technical staff of the Department of Agriculture, with the counsel of an advisory committee of agricultural economists from the land-grant colleges, was published January 20, 1960, as Senate Document 77.

Starting from this staff study for the Senate Agriculture Committee which covers the range of what might be expected under conditions approaching a free market, the Joint Economic Committee will explore the economic implications for what appear to the the most feasible alternatives to such a free market policy. The committee's concern with the need for such a study arises from the projections in this report which indicate production would continue to rise during 1960–65 in spite of falling prices and that realized net farm income of farm operators by 1965 would fall about 40 percent below 1955–57 levels—46 percent from 1958 levels.

Several leading agricultural economists will each be asked to prepare a paper on one of the alternatives proposed. These papers will synthesize the latest research results and best professional thinking on that particular alternative, for use of the committee in reviewing the economic implications of agricultural policy proposals next year.

While final decision on the exact alternatives to be studied would await review and counsel of an advisory panel to be set up from the agricultural colleges for that purpose, these alternatives would probably include—
(1) Unrestricted production and marketing except for a conservation reserve of about 60 million acres.

(2) Unrestricted production and marketing except for production controls on key basic crops such as tobacco, cotton, rice, and wheat and supplementary payments to family farmers under specified income situations.

(3) Limited Government controls and price supports for feed grains and livestock, with improvements in existing production controls and price supports for wheat, cotton, rice, and tobacco.

(4) Comprehensive supply management and price supports.

SUBCOMMITTEE ON ECONOMIC STATISTICS

Review of Economic Indicators and preparation of 1960 edition of Supplement to Economic Indicators.—The staff under the direction of the Subcommittee on Economic Statistics, and in consultation with the Council of Economic Advisers and its staff, is directed to conduct one of the periodic reviews of the committee's monthly publication, Economic Indicators. These reviews are undertaken to insure the timeliness of the indicators and its maximum usefulness to the Congress and the Executive, as well as the 8,000 persons who subscribe to Economic Indicators monthly.

It is also time for another issue of the Historical and Descriptive Supplement to Economic Indicators, the last one being prepared in 1957. This publication provides current descriptions of the uses and limitations of the statistical series published in the monthly Indicators and gives data for back years not available in the monthly issues. The staff is asked to work with the Council of Economic Advisers' staff and the various statistical agencies in preparing a 1960 edition of the Historical and Descriptive Supplement to Economic Indicators.

SUBCOMMITTEE ON AUTOMATION AND ENERGY RESOURCES

Bringing previous hearings on automation up to date.—The Subcommittee on Automation and Energy Resources is asked to continue its study of the impact of automation and technological change upon economic stability and growth.

The committee, in its report to the 84th Congress (No. 1308), pointed out that the subcommittee's investigations at that time had demonstrated that the problems of automation are by no means negligible or settled and that the committee considered it desirable to review periodically the progress of technological change. The hearings and report of October 1955 were followed by other hearings in December 1956, November 1957, and, with a special emphasis on energy resources, in November 1959. The plans of the subcommittee for the coming year involve, first of all, a directive to the staff, acting under the guidance of the chairman, to solicit, through a questionnaire or other means, information as to developments during the interim since earlier hearings, from the persons or organizations who appeared at these previous hearings. The objective will be essentially that of bringing the previous hearings up to date and getting the views of labor leaders, businessmen, and engineering experts as to the problems of automation and technological change in the light of developments during the interim.
The results of this inquiry will, it is believed, give the subcommittee a solid foundation upon which to judge what further needs to be done for keeping the Congress informed and keep the subcommittee in a position to make recommendations for policy if the broad-gaged objectives of the Employment Act of 1946 are to be met.

Further study of energy resources.—The hearings of our Subcommittee on Automation and Energy Resources, under the chairmanship of Representative Wright Patman, studied the possible conflicting relationship and the question of whether there was lack of integration of Government policy upon this important element in our economic health and growth.

While the subcommittee concluded that there was no present occasion for concern about an early shortage in the energy sources necessary to sustain growth, testimony convinced the subcommittee of the desirability of further study. There has been substantial government intervention at both the State and Federal level. The variety and extent of government regulation, coupled with a complex of relationships, needs considerable study. The partial regulation of natural gas prices and transmission, interstate and intrastate; the insulation of domestic oil prices from foreign competition through import controls; production controls on oil and gas; the direct and indirect subsidies being given to atomic commercial energy; and the division of regulatory responsibility among a number of agencies all suggest the desirability of further careful scrutiny to make sure that the Government itself by its policies is not adding unnecessarily to the economic complexities and uncertainties.

The subcommittee’s immediate focus for pursuing the inquiry into the adequacy of energy resources will accordingly be directed largely to a consideration of this division of regulative responsibility as a case study in the relationship of government to the elements involved in promoting maximum employment, production, and purchasing power.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

Study of the impact of defense procurement.—The immediate plans of the subcommittee call for completion by the staff of their report to the subcommittee on the “Impact of Defense Procurement.” The staff will also compile for presentation in the printed hearings, various tabulations and analyses requested during the hearings.
SUPPLEMENTAL VIEWS OF REPRESENTATIVE WRIGHT PATMAN

The committee's report is, on the whole, a good one. Manifestly, it is an extremely important document, because it points the way to solutions of some of the gravest problems of our times. Yet there are several points on which the report leaves me dissatisfied. Be it said, however, that my dissatisfaction is over matters which have been omitted, or only incompletely considered, more than with the findings which have been made and solutions which have been suggested.

TAXES

The committee's report gives first and foremost attention, as it properly should, to the central problem of our time. This is to find a reasonable and promising policy of government to be substituted for the unsuccessful policy of manipulating credit and interest rates in an effort to achieve a desirable degree of stability and progress in the Nation's economic affairs, such as is described in the Employment Act of 1946. The committee's report does an adequate job of pointing out the unwisdom of relying upon "monetary policies" for this purpose. Indeed, the committee's report leaves no question that these policies have created great injustices and are leading to certain disaster.

As an alternative way of achieving when the tight money and high interest policy has failed to achieve, the committee recommends the use of fiscal policies, particularly flexible tax rates. I agree that this is a most promising suggestion. Yet it is on this subject of taxation that the committee's considerations seem most incomplete. The committee has not really explored the tax structure.

Furthermore, while it recommends several specific changes in the tax laws, seemingly of a random sort, it has not suggested any specific way for achieving the flexibility in tax rates which constitutes its central program for maintaining economic stability. This omission is unfortunate in all respects. Members of Congress are not given sufficient specificity by which they may appraise the program being recommended. Furthermore, some specifications are necessary to make the program politically salable, and this is a matter of no small importance. Any program the committee recommends, no matter how manifestly sound it may be, must be sold, politically, in competition with a quite formidable sales effort being made on behalf of the tight money and high interest policy. The vested interests supporting this policy have much at stake, and the commercial media of communications are highly resistant to carrying any word or fact which tends to discredit the policy. Thus, if the committee's recommendations are to have any practical effect, they must be sufficiently developed and in a form which the candidates for national office can take directly to the people in the political campaigns this fall.

It would seem to me that a practical and understandable program to accomplish the committee's recommendations must take account of the following:
First, let us consider the primary emphasis in the committee's recommended policy, which is on reducing tax rates, temporarily, when the first signs of recession appear. If tax reductions are to be effective in combating recessions, such reductions must be made promptly, which means that decisions must be reached more quickly than the legislative processes normally permit. This being true, I would urge that the Congress enact general legislation giving the President discretionary powers to reduce the tax rates on the incomes of individuals by a uniform percentage, whenever he finds that recessionary tendencies are developing.

But what of the opposite problem? What are to be the means of restraining inflationary pressures in boom periods? The committee's report has taken the position that substantial reductions should be made in the public debt at such times, and that such reductions would provide both effective and just restraints against monetary inflation. With this I agree. But nothing is said of raising tax rates beyond present levels in order to accomplish substantial reductions in the public debt. Clearly, however, such increases would be necessary for substantial debt reductions in such times as at the present, unless there are to be reductions either in essential public services or our defense preparations. The committee does not recommend the latter, nor would I.

Proposals for increased taxes are, of course, never very popular. Yet it seems to me that the American people would readily understand the advantages of such a proposal if these facts were made clear to them:

First, they are already paying an anti-inflationary tax. At least they are paying what is for all practical purposes a tax—in the form of high interest rates—on the theory that this helps to check inflation. The theory has not been able to stand up under examination; but as to the fact of the "tax," there is no question. At times this "tax" is half hidden, that is true, but it is reaching very far into the pockets of all except the very wealthy.

Second, the high interest "tax" which we all pay to combat inflation has very bad effects and it does not accomplish the good effects which are claimed for it. The bad effects are these:

(a) High interest is a tax not on the fruits of economic activity but a tax on economic activity itself. As the committee's report clearly points out, the high interest and tight money policy causes unemployment, causes nonuse of productive capacity, and retards the Nation's economic growth. This is bad from the standpoint of our present and future ranking among the nations of the world, even if we felt that we are already so comfortably situated that we do not need to produce more of the material things of life. The Russian economy has been growing, in recent years, at a rate almost three times as fast as our growth.

(b) The high interest "tax" is a regressive tax. The burden of it falls not on those most able to pay, but upon those least able to pay. It thus cuts down on the consumption of the goods and services which the Nation already has the capacity to produce.

(c) Finally, the income from the high interest "tax" is not going to pay off any of the Federal debt. It is only going to fatten the incomes of the financial corporations and the wealthy families. Actually, the high interest rates are adding to the
Federal debt. They are increasing the Treasury's cost of meeting interest charges so greatly that the Treasury is going more into debt to meet the interest charges.

It should be clear by now that I am not suggesting that the American people be offered a proposal that they carry an increased burden. On the contrary, I am suggesting that they be offered a proposal that they pay more in taxes in prosperous times, and pay less in direct and indirect interest charges. These interest charges actually amount to a great deal more than we would need to pay in taxes in order to make substantial reductions in the debt and to provide a much better restraint against inflation than the high-interest program provides.

In other words, I am suggesting that the President be given also the power to raise tax rates on individual incomes, uniformly, and at his discretion, as a means of combating inflation.

In order to assure that the American people would not be subjected to both high interest and increased tax rates, however, other legislation would be necessary to fix the responsibility of the Federal Reserve System, and I shall discuss this at a later point. So much for my ideas on a specific program for providing the flexibility in tax rates which the committee has recommended as an alternative to the high-interest and tight-money policy.

As to the specific recommendations which the committee report makes to correct tax inequities, however, I feel that this subject of tax inequities has not been sufficiently considered. To illustrate, the committee's report recommends repealing the dividend-received credit and exclusion provision, but it is silent on the notorious ways by which corporate executives and employees escape taxes through stock option schemes. Similarly, the committee's report recommends reductions in depletion allowances for oil and gas, apparently only for the reason that large amounts of money are involved, without considering the practical consequences of the depletion allowances on all the other commodities and resources for which such allowances are provided.

Finally, in order to recommend a program for correcting tax inequalities, I believe that the committee would need to consider first and foremost the impact of Federal taxes on our business structure. There is a great deal of evidence which suggests that the giant corporations are in reality bearing little or none of the tax burden, while the smaller and more competitive business firms are, on the other hand, being taxed out of existence. If I am right about this, the Federal tax structure, more than any other factor, is bringing about the concentration of business which the committee deplores, and bringing about the breakdown of the competitive price system which the committee sees as the principal cause of the so-called inflation.

NEED TO PUT THE FEDERAL RESERVE'S HOUSE IN ORDER

The committee's report strongly recommends that the Federal Reserve adopt a less restrictive credit policy. It also makes a number of good recommendations for changes in Federal Reserve practices which would also have the effect of reducing interest rates. These are in addition to its recommendations for "flexible" tax rates, which, as I have discussed, seems to require an assurance that
the American people will not be burdened with both high taxes and
high interest rates. Yet there are no recommendations for legislation
which would assure that the Federal Reserve will not go its own
determined way, without respect to what the American people may
wish or the Congress may recommend.

The Federal Reserve authorities have assumed a posture of "inde­
pendence" from the rest of the Government. Further, the President
and other administration officials have lent support to the idea that
this agency is beyond the reach of the voice of the people.

Most of the confusion arises from the fact that the member banks
of the Federal Reserve System have invested a relatively small amount
of money in what is called "stock" in the Federal Reserve banks.
This has lead many bankers to believe that they own the Federal
Reserve System. Consequently, it has led the banking community
to urge policies which are based on the premise that the Federal
Reserve System should be operated in ways that produce maximum
profits for its alleged "owners"—the banks.

This has led to confusion all around. The Federal Reserve banks
themselves write letters to the public and distribute expensive booklets
which say in one way or another that the Federal Reserve banks are
not "owned" by the Government, that their employees are not Govern­
ment employees, and, boastfully, that the Federal Reserve banks
receive no support from the Government.

The Federal Reserve banks are not owned by the private banks.
They are owned by the Government of the United States. The
so-called "stock" in the regional banks is not stock in any normal
sense of the term. As the law makes clear, it cannot be transferred,
sold, traded, purchased voluntarily, or used as collateral. It does not
represent an equity in undistributed profits, carry voting rights, or
share (beyond a fixed 6 percent) in profits.

The funds which have been invested by the banks in this so-called
"stock" should be repaid, and this so-called "stock" should be can­
celed. Only approximately $390 million has been invested in this
"stock" and this is a pittance compared to the assets of the Federal
Reserve System. It has no need whatever for the money. Repaying
it would, therefore, save the U.S. Treasury an unnecessary interest
charge of 6 percent per annum or about $24 million a year. And
most important of all, canceling the "stock" would remove the basis
of confusion concerning the "ownership," and hence clarify the
Federal Reserve's responsibility for determining credit and interest
policies for the whole economy.

In the interest of further fixing political responsibility for the
Federal Reserve System's political decisions, the Federal Open Market
Committee should be abolished and its duties transferred to a board
or a committee composed entirely of members appointed by the Presi­
dent and confirmed by the Senate.

At present the top policymaking body of the Federal Reserve System
is not the Board of Governors; it is the Federal Open Market Com­
mittee. And 5 of the members of this 12-man Committee are
selected by representatives of the private banks. Manifestly, the
private banks should not be permitted to select members of a public
body which is to determine credit and interest-rate policies. The pri­
ivate banks have too much private interest in the policies to be
determined.
There are several other long overdue reforms in the Federal Reserve System which, when made, will save unnecessary expenses and reduce the System's burden on the taxpayers. These require legislation, either to make the reforms possible or to make them likely. They are as follows:

1. The Federal Reserve System should be required to submit to annual audits and to the normal audit control of the Comptroller General of the United States. The System receives its income—or substantially all of its income—in the form of interest payments from the U.S. Treasury on the huge amount of U.S. bonds and other obligations which the System is holding. This provides an income vastly in excess of what the System needs for all purposes. The System pays its expenses out of this income—most of which are incurred in providing free services to the private banks—and then it returns what remains to the Treasury. At least the System returns 90 percent of what remains; it puts the other 10 percent in "surplus" funds.

In the process of meeting expenses, however, the Federal Reserve banks assume a strange variety of expenses, and, in general, they spend the taxpayers' money in a generous and freehanded way. The unusual expenses include such things as providing free office space for private associations, paying "dues" in private associations, meeting banquet and entertainment expenses, handing out "gifts" to nonbank employees, and paying for the college educations of youths who may or may not become bank employees.

The Federal Reserve authorities have tried to defend such freehanded spending of public funds on the ground that these are customary practices of business firms in the areas where the banks operate. Yet the Federal Reserve banks have no more right to spend public funds in these ways than the local post offices have a right to spend public funds for such purposes. A proper audit by the General Accounting Office would promptly put a stop to such improper expenditures. It would, moreover, provide a check and a safeguard on the possibility of mishandling of billions of dollars of Government funds and Government securities.

2. At least $15 billion of U.S. Government securities which the Federal Reserve System is holding should be returned to the Treasury for cancellation. In order to put to rest the argument that such a transfer of assets from one Government agency to another would put the Government's "books out of balance" and thus "bankrupt" the Government, I have proposed that the Secretary of the Treasury issue to the Federal Reserve, in exchange for these interest-bearing obligations, a non-interest-bearing, nontransferable note payable on demand. This would keep the books in balance.

Canceling $15 billion of the approximate $27 billion of Government securities which the Federal Reserve now holds would make it unnecessary for the Treasury to pay interest charges on this amount of debt in the first place. It would thus enable the Treasury to operate on a lower level of debt, which would mean less cost to the taxpayers in interest charges.

Canceling $15 billion of the Federal Reserve's securities would serve another good purpose, in that it would safeguard against the possibility that the Federal Reserve System may transfer a substantial share of its holdings of Government securities, on a cost-free basis, to the private banks.
Early in 1957, the American Bankers Association made a “report” to the Board of Governors of the Federal Reserve System recommending a program whereby the Federal Reserve would transfer to the private banks approximately $16.8 billion of U.S. Government securities by mid-1961. The proposed transfer was to be made up of $9.8 billion of securities which the Federal Reserve already held at mid-1956, plus another $7 billion which it was expected to acquire by mid-1961, in order to provide for the normal increase in the money supply, assuming that no part of the American Bankers Association program was accepted. The proposal, in a nutshell, was that the Federal Reserve issue regulations reducing reserve requirements of the member banks, and, simultaneously, “sell” its securities in the amounts suggested. This would have meant that the Federal Reserve would “sell” its securities in the open market at the same time it was giving the member banks the power to create the money needed to “purchase” the securities. The Federal Reserve authorities smiled favorably on this proposal and recommended legislation by which it could have been carried out—all of which suggests that an additional safeguard would not be out of order.

(3) Funds being held in the Federal Reserve’s surplus account and in its “other capital account” should be returned to the Treasury, so that they may be used for debt reduction. The Federal Reserve System has no more need for carrying surplus funds, either in a surplus account or in an “other capital” account, than does the Post Office Department—in fact, considerably less so. At the end of 1959, these items amounted to more than $1.1 billion.

Neither item serves any purpose other than to help preserve the fiction that the Federal Reserve System is a private business organization and should, therefore, make public reports which show it in a favorable “surplus” position, such as is expected of successful private business organizations.

The System’s authorities themselves recognize this. Since the end of 1959 they have “voluntarily” transferred a part—$266 million—of these unneeded surplus earnings to the Treasury Department.

**TAX-EXEMPT STATUS FOR SECURITIES SHOULD BE ELIMINATED**

The haven for tax avoidance which tax exempt securities provide and the consequent loss of revenue to the Federal Government have been neglected far too long. This committee should undertake on its own part, or at least encourage and recommend to other committees, that a study should be made of the alleged savings to State and local governments from the tax exempt privilege.

It seems likely that the supposed saving in interest cost to local governments actually does not compensate, under today’s conditions, for the tax loss suffered by all taxing jurisdictions taken collectively. Until we have the facts which such a study would bring out, there is of course a natural reluctance on the part of the local governments to give up the tax exempt feature.

The immunity of State and municipal securities from Federal taxation, it will be remembered, is not an express provision of the Constitution. It has, indeed, become a serious problem only in comparatively recent times. The large and increasing amount of State
and municipal bonds outstanding coupled with high Federal tax rates on corporations and high marginal rates on individual income have made it an increasingly serious tax loophole.

An example of questionable situations which arise in permitting the continuance of this tax exempt feature is illustrated by the case of the commercial banks. They now own approximately $17 billion of tax-free obligations purchased with "money" which the commercial banks literally created out of nothing, under our fractional reserve banking system.
SUPPLEMENTAL VIEWS OF SENATOR JOSEPH C. O’MAHONEY

If it be true, as cannot realistically be denied, that the natural resources of the United States have not been exhausted, and that the skills of the inhabitants of the country as well as available and potential technological facilities are likewise still at hand, we can promote economic growth and economic growth is our greatest goal.

Despite all the complacency that is encouraged among our people, we cannot possibly carry the burdens which world leadership imposes upon our shoulders unless we immediately make up our minds to establish a new high record of economic expansion. It will be destructive of all our hopes and of humanity’s needs if we allow our eyes to be blinded and our comprehension to be dulled by the false cry of “Peace and Prosperity.”

We do not enjoy peace and prosperity. Instead of peace we are preparing for an imminent nuclear war that could mean the suicide of mankind.

In our foolish and exaggerated estimate of our industrial capabilities, confidently imagining that, having won two world wars, no people or combination of peoples could come within hailing distance of our prowess, we have allowed the totalitarian Russians, whom we regarded as a backward people, to take the lead in the production of missiles and the exploration of space. Under the leadership of the President, we seem tempted to brush the missile gap aside and console ourselves with the thought that Soviet Russia has no intention to use the missiles it has produced. There can be no safety for our people in building our policy on anything less than bald facts which cannot be denied.

Among the facts which we know are these:

1. We are living in the 20th century with scientific tools which were beyond imagination 50 years ago.
2. Ours is a government founded upon what the authors of the Declaration of Independence called certain inalienable rights of men which they had received from their Creator.
3. This Government was instituted upon the principle laid down in the Declaration that governments among men derive “their just powers from the consent of the governed.”
4. This Government is now not only engaged in an arms race with Soviet Russia but also in an economic struggle which the dictator of that nation is now waging against us throughout the whole world. Witness the travels of Eisenhower, Khrushchev, and Mikoyan.
5. Our military leaders are in disagreement among themselves as to whether or not we have allowed ourselves to fall into second place in the arms race.
6. Economically, we are carrying the greatest public debt in history, the interest upon which, the President tells us in his budget message, will in fiscal year 1961 rise $200 million to $9.6 billion, a payment which, he tells us, will “represent 12 percent of budget expenditures.”
7. In his Economic Report, the President tells us that the average maturity of the public debt had fallen to 4 years and 4 months at the end of December 1959 (p. 43) and, in recognition of this fact, has requested the Congress to remove the ceiling on Federal securities with maturities longer than 5 years.

8. Facing this fiscal problem, the President has requested Congress to authorize the expenditure in 1961 of over $4 billion for foreign aid, military and economic, on the ground that for our own security we must provide the weapons of war to peoples who cannot arm themselves, and to promote the economic status of underdeveloped peoples who cannot provide for themselves and who are not receiving economic aid from our Western allies but some of whom are being offered economic aid by Soviet Russia.

To my mind, this array of facts leaves us with only one conclusion; namely, that even if Dictator Khrushchev has no intention of using his capabilities to launch a military attack upon us, it is our primary duty now to advance our own economic position. The United States cannot carry the international burden which it has assumed unless it deliberately and consciously launches a program to promote its economic status as a nation and the economic status of the people who constitute the rank and file of our population.

This we cannot do by a policy of drift or by acting as though we were not living in the middle of the 20th century.

We must recognize that we are living in a new era and that the Congress must exercise the power vested in it by article I, section 8, of the Constitution to regulate commerce with foreign nations, and among the several States. Our commerce is not being regulated suitably to the new era but according to the habits and forms into which we fell in years gone by when the bulk of our commerce was carried on by individuals.

Now individuals exercise little or no power over the commerce on which our economy is based. Far from that, it is dominated by the concentrated corporations created by the States from which the Constitution took the power to regulate interstate and international commerce.

That this concentration of economic power is the greatest obstacle to a free government based on the consent of the governed is well recognized both by the President in his Economic Report and by the Joint Economic Committee in its report, for both the legislative and executive branches of the Government recognize that the merger of gigantic corporations promotes the concentration of economic power in private hands. In the face of this fact, Congress has not yet passed the little bill which has been pending before the Senate for three Congresses, endorsed by President Eisenhower and the Department of Justice, to require corporations to give premerger notice to the Government.

It is folly to think that the Government can solve the economic problem by which it is confronted so long as it fails to establish national standards of responsibility and power for the gigantic corporations which are, in fact, collective economic states and which have taken over the real regulation of our national commerce.
MINORITY VIEWS

We regret that again the majority in its choice of language in setting forth its views on the President's Economic Report for 1960 has made it impossible for the minority to join in the areas where there is agreement and to point up clearly where there are fundamental disagreements. We believe that one of the purposes of a committee report should be to bring out fairly where there are honest areas of disagreement and as clearly as possible pinpoint the different assumptions of fact or argument that bring about this disagreement.

We believe that the programs outlined in the President's Economic Report, set forth in the appendix to those views, will achieve reasonably the objectives of the Employment Act in 1960. On this point we are in basic disagreement with the majority's views.

THE DEFENSE BUDGET

We believe that decisions about the volume and character of defense procurement should be made on the basis of judgments about the Nation's long-term military needs. They should be separated from shortrun budgetary considerations. On this point we and the majority are in agreement with the President's view.

We decry the insidious manner in which the majority throughout its report tries to create the impression that the President has at any time, and particularly in the 1960 Economic Report, held to a different viewpoint.

Let the majority disagree, inexpert in this field by their own admission, with the President on whether his judgment is correct about the adequate provision for the Nation's long-term military needs if they wish, but there lies the issue, if any, not in the objectives. We believe that if more needs to be done in defense it can be done without endangering our economy, if proper policies are followed. On this point we and the majority are in agreement with the President, although we believe there is considerable disagreement between the majority and the minority over what qualify as "proper policies."

ECONOMIC GROWTH

We disagree with the majority's conclusion—which they reached, it is alleged, as a result of the committee's recent comprehensive investigation of employment, growth, and price levels—that there was a "slow rate" of growth in the economy in "the recent past." We again call attention to the inexcusable juggling of economic figures on the part of the majority in its recent report to try to picture a slow rate of economic growth as measured in GNP during the Eisenhower administration. Taking the period 1954 projected through 1960, using the figure of $510 billion GNP for 1960, the growth rate was 3.6 percent per year, substantially above the historic annual average of 3 percent. This period is at least a little more comparable to the period 1947-53 which the majority selected arbitrarily to demonstrate the growth under part of President Truman's years of part-time
peacetime economy. If the majority insists on continuing its now-discredited “numbers game,” they should be reminded that from 1945 to 1946, the economy showed a loss in growth of minus 10 percent, and losses in growth for the succeeding 3 years, measured from 1945. Actually, in comparing periods in which the Nation is at peace, years of war, such as 1945, should be excluded. Similarly, the years 1950–53 should be excluded from any attempts to judge economic growth, maximum employment, or price stability in a peacetime economy inasmuch as these are Korean war years.

The majority by its constant disregard of the differences between a wartime and peacetime economy is certainly courting the charge that it cannot distinguish between war and peace.

It is well to remind the majority that the great depression of the 1930’s was overcome by the United States becoming the “arsenal of democracy” and moving into World War II rather than through any peacetime economic policies of the New Deal. This should make them more cautious in trying to apply their depression economics to the problems of the 1960’s.

We agree with the majority that we should strive to better our rate of growth, but we would warn them and all our citizens to beware of engaging in a numbers game based upon GNP as an accurate measure of economic growth. Indeed, as our committee studies forcefully revealed, GNP is a very limited measuring device of sound economic growth, particularly short-range GNP figures. Such items as research and development, education, increased consumer choice, and leisure time from which spring future sound economic growth, do not show up very strongly in GNP figures while underdeveloped nations concentrating upon increasing their physical capital plant from moderate beginnings show startling GNP percentage increases during their maturing period.

**COSTS OF GROWTH**

Furthermore, we point out that rapid technological advancement (real economic growth) brings in its wake increased frictional unemployment. It also brings in its wake increased real costs resulting from obsolescence of human skills and machinery and from the recoupment of the funds invested in the research and development which has enabled the growth to come about. We have an example in the increased frictional unemployment in our rural areas today which resulted from the extraordinary technological advancement and economic growth in American agriculture. Do we indeed want to increase the already rapid rate of economic growth in agriculture until we have been able to cope with the frictional unemployment which has been created? Do we want to increase the already rapid rate of technological growth rate in the field of drugs and hospitalization until we have been able to cope with the cost problems which already confront our citizens because of the rapid growth?

Furthermore, as we advance further in technological economic growth the capital investment required to provide jobs for our people increases rapidly (this is aside from the training costs involved in preparing the worker for the new job). Testimony before our com-

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2 Senator Favretto notes as follows: “I do not believe, nor do I think the minority intends to imply, that any substantial amount of unemployment—frictional or otherwise—is an inevitable concomitant of our economic system. That amount of unemployment which will exist under full employment conditions due to technological advances must be covered by such provision that the workers concerned will be protected against being disadvantaged by unemployment over which they have no control. If such unemployment is a necessary characteristic of our private economy, it must not be at the expense of the worker.”
mittee reveals that today $16,000 of capital investment is required per new job. One of the basic factors of our recent and present unemployment is the high incidence of unemployment in the unskilled and semiskilled sector of our work force and the strangely concomitant labor shortage in many of the skilled areas. Also to be noted is the increasing switch from blue collar to white collar worker in the manufacturing sector of employment, indicating a demand for new skills as we move ahead technologically.

MORE RELIANCE ON FISCAL POLICY

We believe that in the interests of a higher rate of growth we must place greater reliance on fiscal policy. This includes larger budget surpluses in prosperous periods than we have had and a tax structure which is more equitable and less a deterrent to growth. We also believe there is continually room for re-ordering some of the priorities in Federal expenditures programs to provide the progress which stimulate growth and to cut back and eliminate those programs or subsidies which support inefficiency in the economy. On these points we and the majority agree substantially with the President's report. However, there are obviously substantial disagreements between the majority and the minority about what constitutes "equity" in taxation and in evaluating Federal expenditure programs.

We believe that if we had a more effective fiscal policy along the lines outlined in the preceding paragraph we could have and should have a less restrictive monetary policy. We agree that the money supply should grow in line with real economic growth. On these points we and the majority are in agreement with the President's report.

We believe that within this framework interest rates should be expected to fluctuate in response to various influences, including the evenness of growth in total demand, changes in financial institutions and techniques of business and personal financing, and changes in the composition of demand for both present and future goods and services. Attempts to use public policies to prevent or offset these fluctuations in interest rates will prevent necessary and desirable adjustments in the economy.

Moreover, while we agree that the money supply should grow in line with real economic expansion, we do not agree that an easy money policy, of itself, will provide the impetus or the means for economic growth. Economic growth depends on increasing our productive capacity; that is, using some of today's resources for the purpose of increasing the amount and productivity of resources which will be available tomorrow. The necessary corollary of increasing the rate of economic growth without inflation in a high employment economy is increasing the rate of real saving. Accelerating the growth of the money supply cannot substitute for this increase in the Nation's saving rate.

Certainly the record in the respect of attaining growth without inflation through proper management of monetary policy made by the proponents of the majority's theory of growth and inflation when they had the power to implement their theories from 1930 to 1940 and from 1946 to 1952 is a poor one and should make them question their own wisdom.
PRICE STABILITY FOR ECONOMIC GROWTH

In the majority report we find the same blind approach to price stability that led them to disaster after World War II. The majority argues that, because there has been no recent substantial price increase and there is now reasonable price stability, no need to worry about inflation exists. But wisdom requires foresight. Isn't it time the majority gave credit where credit is due for this administration's correctly anticipating and guarding against inflationary forces? The majority should support the wisdom of the President's 1960 Economic Report in continuing to analyze and anticipate inflationary pressures and to take action to neutralize them.

We believe that it is always proper to reevaluate the philosophy upon which the U.S. central bank system is based, as interpreted by the incumbent Federal Reserve Board. The Chairman of the Federal Reserve Board has clearly and consistently stated his understanding of this philosophy to be to preserve the integrity of the dollar as constituting the greatest contribution the central bank system could make to promote economic growth and maximum employment. The issue is clear, if the majority wish to dispute it. However, the majority refuses to draw the issue squarely and by innuendo and misquotation distorts what it is. Does the majority believe the Federal Reserve Board should have other basic objectives than to preserve the integrity of the dollar? If they do, then they should recommend amending the Federal Reserve Act to make it clear that there should be a different underlying philosophy of the central bank. This the majority which controls the Congress has failed to do. Failing honestly to face the issue, the majority should desist from clouding the issue by the use of innuendo and misrepresentation. The majority members confuse themselves in the process and to the extent that they have power to deny the executive department the flexibility it needs to manage the Federal debt, they damage economic growth, price stability, and maximum employment.

The keystone to the President's Economic Report for 1960 as far as fiscal policy is concerned is the prospective budget surplus. We are pleased that the majority recognizes this, approves it, and believes that a substantial surplus should be achieved. We are pleased that the majority agrees with the basic assumption upon which the surplus is predicated; i.e., a prosperous 1960 with a GNP of about $510 billion. We do not know the model which the majority uses in stating that an expectant $510 billion GNP for 1960 would be $20 to $30 billion below the economy's potential output based upon a 4 percent rate of unemployment. The majority certainly is not contemplating in this model an increased amount of time devoted to education, to training, and to research and development, which the President's report does. Further, the majority seems to be mesmerized by a peculiar belief that if the Federal Government does not spend the sums they consider desirable in a particular area—health, education, research, and development, or whatever—they will produce no growth or progress in those areas.
It almost seems that the majority ignores the fact that our society is based upon the private enterprise system. They fail to appreciate the constant reference in the President's Economic Report to what the private, State, and local government sectors of the economy are doing and are being encouraged to do in these areas in addition to Federal expenditures. It is one thing to disagree with the President's recommendations as to Federal expenditures and his appraisal of what the private, State, and local governmental sectors of the economy will do in these areas, but it is blindness or dishonest to say that nothing is planned and nothing will be forthcoming, in the fields of health, housing, education, welfare, and research and development.

**UNEMPLOYMENT**

We agree with the majority in calling attention to the increasing rate of unemployment which has occurred after each of the two recent recessions. This is a serious matter and we regret that the President's report did not give more emphasis to an analysis of it. However, the majority method of dealing with it is certainly not analytical or objective. If we are to cope with the problem of unemployment we had best eschew political partisanship until we know what we are talking about. In our discussion of growth we have suggested that some part of present-day unemployment is the result of rapid technological growth. However, this is not a conclusive observation. Nor is frictional unemployment the total of our unemployment. The matter needs as thorough a study as possible. We are convinced that unemployment in a rapidly growing economy is not solved by mere increases in yearly GNP. In other words, technological growth does create jobs but not necessarily in the geographical areas or for the skills where the same growth has created the unemployment. Furthermore, mobility of labor is an important factor in any dynamic economy and many of the programs advocated by the majority seem to have a disregard for this factor. It must also be recognized that any legislation to assist depressed areas must be designed to help create jobs within such areas and not merely to transfer jobs from one area to another.

The majority states that with "high unemployment" when production facilities are used at rates which are significantly below their maximum efficiency, there is no—

merit in the contention that we cannot afford the progress needed to make the United States militarily supreme and to provide the education, research and development activities, health standards, elimination of poverty and low productivity in depressed areas, elimination of city blight, and the many other advances upon which rising living standards in the United States depend.

Let's be quite clear no one contends "that we can't afford the progress." This kind of childish arrogance of suggesting that anyone

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3 Senator Javits notes as follows: "I believe that health care, especially for the aged, the unemployed, and the indigent, is urgently in need of support from the Federal Government to make a standard of health care suitable to our standard of living and our national goals available to these groups. This cannot be done without such help. I do not believe that this inevitably leads to 'socialized medicine' or Government domination of the doctor-patient relationship. On the contrary, it can be accomplished through existing voluntary cooperative health plans, group practice units and health insurance plans, with full accommodation to the private doctor-patient relation."

4 Senator Javits notes his comments on this problem in footnote 1, p. 40.
feels we can’t afford progress is dangerous to the solution of the problems that must be solved if we are to make orderly progress.

THE BUDGET SURPLUS

We believe that the proposed surplus of $4.2 billion is a low ratio of surplus to gross national product in 1960. We wish it could be larger. We question whether the majority are sincere about their criticism, however. There are two ways to make the surplus larger, as the majority states: (1) Reordering the priorities in the Federal expenditure program and (2) undertaking urgent reforms in the Federal revenue system.

With respect to (1) the expenditure side, the majority throughout their report advocate more, not less, spending. To pay for these increases the majority suggest cutting expenditures. But their proposed cuts are in such general terms as to be completely meaningless and unrealistic. For example, the majority refer to the $2 billion to $3 billion savings that could come from implementing the Hoover Commission recommendations in military procurement and supply. Yet powerful leaders of the Democratic Party encourage the parochial aspirations of the three military services, resisting unification and acceptance of the Hoover Commission reforms. A few years ago the Democratic Congress cut the heart out of the administration program to implement the Hoover Commission recommendations for getting the Military Establishment out of civilian business-type operations. This was done by requiring approval of the Armed Services Committee of each House before business-type installations could be abandoned.

The savings suggested by reduction in business and agricultural subsidies of $1 billion is unrealistic. The failure to itemize the specific areas of reduction demonstrates its insincerity.

What is included in the figure of $865 million, labeled “subsidies to business”? Are the majority afraid to itemize this figure for fear they will have their own party colleagues jumping on them for suggesting an elimination of what they regard as worthy projects? Why do they avoid serious discussion of the biggest of all business subsidies—the subsidies to commercial farms? Are the subsidies to small business included in this figure? Undoubtedly so and yet the concluding recommendation of the majority report is this—“special programs to private small business must be continued and improved.” With one hand the majority takes it away, with the other they give it back.

Closing of most “urgent tax loopholes” to gain $2.5 billion is unrealistic in the face of the fact that the Democratic-controlled Congresses for 6 years now haven’t adopted even the modest tax reforms concerning co-ops, savings and loan associations, and mutuals, and depletion cutoff points suggested by the administration. Furthermore, is it realistic of the majority to suggest that under the present Senate and House leadership the percentage depletion allowance for oil is going to be changed?

The Ways and Means Committee, after holding extensive hearings this fall with the cooperation of the Treasury Department into broad internal revenue reform, announced through the chairman that nothing would be done in 1960. What indeed is the majority referring to when it says “elimination of the numerous preferential provisions
in the estate and gift taxes"? To be realistic there needs to be some itemization.

THE INTEREST RATE CEILING

The majority state that they oppose the elimination of the 4½ percent statutory ceiling on the rate which may be offered on Federal Government debt instruments with a maturity of more than 5 years until certain "reforms" are effective in fiscal, monetary, and debt management policies.

Strangely enough the majority have done nothing as a controlling political party to implement these so-called reforms, except to talk. Their political party has controlled the last three Congresses and their political party has made no move to adopt any one of the proposed reforms. Yet the majority state that "pending" these reforms they will not do that which every economist without exception told our committee should be done; i.e., remove the interest ceiling of 4½ percent. With respect to these "reforms" relating to the Federal Reserve it must be emphasized that the Federal Reserve is essentially a creature of the Congress and not of the executive branch of the Government. Congress should act if the majority in Congress believe the policies should be changed.

We will now mention the "reforms" recommended to the Treasury Department. The Treasury has on its own initiative been extending the auction method to test out its feasibility in other than short-term bills. The Secretary of the Treasury gave a very detailed account of the progress of this "reform" to our committee.

A second proposed reform is ironic: "Agree to sell long-term bonds in the main when interest rates are low." It is ironic because this is hardly a "pending reform." Furthermore, the Treasury has pursued such a policy when it has been possible.

On the "reform" to institute a system of callable bonds, the majority blithely ignores the history of the use of callable bonds and the problems involved in their use. The Treasury now has the authority to issue callable bonds and certainly would use this method if the climate were such that it was feasible. It is interesting to note that the majority makes no attempt to demonstrate that the climate is suited for issuing callables at this time.

The other "reform," i.e., "avoid seeking advice on new issues from organized groups of their customers who are interested parties," shows such ignorance of marketplace buying and selling as to warrant raising the question whether the majority really believe in the private enterprise (free market) system of economics.

Any prudent person offering new issues of securities, like any producer of merchandise seeking to sell a new product, would be extremely negligent if he did not sound out his market and appraise it by discussions with those engaged in it. Under this and previous administrations, the Treasury has wisely sought the most competent and responsible advice in connection with its debt management, and we urge that it continue to do so. Moreover, it is a distortion of fact to imply that the Treasury seeks advice only from its "customers," when it consults many sources in the financial community in seeking to gage its market.

4 Senator Javits notes that he cannot accept the minority's views with respect to this issue, and calls attention to the discussion of this problem of interest rates on long-term Government bonds in his "Additional Views."
THE INTEREST RATE CEILING

It would be well if the majority presented their arguments for what they are worth honestly instead of trying to win a point through slanted verbiage. Just what the majority is trying to advise, if anything, is hard to understand.

Now to the real issues involved in the failure to remove the interest ceiling on long-term securities.

1. The Federal Government has had to pay unnecessary interest inasmuch as there is no ceiling on securities under 5 years’ maturity and the Federal Government, unable to sell long-term bonds for less than 4½ percent coupons, has had to pay higher than 5 percent in the short-term market.

2. Far from lengthening the maturities of the Federal debt, as all experts advocate, the debt maturity has been further shortened for the obvious reason that the long-term debt which matures constantly is refinanced through the sale of short-term securities.

3. Interest rates which the general public pays have been forced up beyond what they should have been. The general public, concerned as it is with consumer credit, farmer and small business borrowing, money to meet payrolls, etc., goes into the short-term market to meet these needs. This is the very market into which the majority’s stiff-necked policy has forced the Federal Government. As Secretary Anderson testified before our committee, the Treasury has been forced to compete “primarily in the field where millions of little people borrow their money.” Moreover, as Mr. Anderson further testified, “home building is hurt badly by the ceiling and will be hurt worse—because the builders will find it increasingly difficult to obtain construction loans, which are short-term,” and the supply of mortgage money available to home buyers is being depleted because lenders are finding short-term investments more attractive.

4. Not only have interest rates in the short-term money market been forced up, even more serious, money in the short-term market has become “tighter” because there is not enough money to meet the excessive demand caused by Federal Government borrowings. Some people are just going without. Nor will printing press money really solve money “tightness.” It will devalue the money already in circulation and not give it to those who need it.

5. Long-term Government bonds are presently yielding over 4.25 percent though their coupons may bear only 2½ percent interest. This is because they are being bought and sold on the market at a discount. The Government collects taxes only on the interest derived from discount at capital gain rates. If the discounted 2½ percent bonds, purchased for $96.25, are exchanged for bonds with coupons bearing 4.76 percent coupons, for example (the same security as far as the holder of the discounted bond is concerned), the Federal Government would collect taxes on the interest at the full tax rate, not the capital gains tax rate.

6. Bonds bought at discount even an hour before the death of a wealthy person can be turned in for face value to pay Federal estate taxes.

These two tax features are pointed out simply to demonstrate, if it needs further demonstration, how the rich get richer and the poor get poorer when Congress forces the Treasury to be fiscally unsound.
in the management of its affairs. When the majority profess to be holding to their policy of denying the Treasury adequate measures to manage the public debt in the name of low interest rates and plentiful money and in the name of the little man they are indeed being profane.

THE UNITED STATES IN THE WORLD ECONOMY

There should be some reference to the effect of world economics upon the U.S. economy. There is no realism in trying to maintain a position of economic isolationism. Yet the majority's monetary and fiscal policy seems to be based upon just such an unreal concept. Today the United States is to a large degree the world's banker and how we run our monetary and fiscal affairs both affects and is affected by the economies of other nations. Interest rates and the value of the dollar follow economic laws operating worldwide. The impact of these economic laws upon our domestic economy can no longer be disregarded, if it ever could be.

We are convinced that our economic health becomes more closely related to the economic health of other nations each year. We believe equitable international trade, utilizing the free marketplace as much as possible, is the best institution for promoting our own and other nations' economic welfare. Our foreign economic policy should follow the philosophy of trade, not aid, wherever possible, and when aid is resorted to, loans not grants, wherever possible. In tariff negotiations, our representatives must place increasing emphasis upon the principle of reciprocity and the removal of unwarranted discriminations against American goods. We believe the President has followed this philosophy in a reasonable manner in his programs.

THE ROAD TO ECONOMIC GROWTH

One final point needs to be made. Our private enterprise system needs to encourage more initiative and more thrift in our citizenry if we are to have increased economic growth.

The greatest expression of thrift and initiative is gathering together risk capital and putting it to work. For years now, instead of encouraging risk capital through a differential in our tax system we have been discouraging it and encouraging other types of financing. The earnings from risk capital are taxed twice—once when the corporation earns it; then when the corporation pays it to the stockholder, as the stockholder pays a Federal income tax on the same earning. Earnings from bonds and borrowed money escape the 52 percent corporate tax because interest paid is a deductible item. Retained corporate earnings, on the other hand, escape the full impact of the ordinary personal income tax and at most are taxed at capital gains rates.

The corporate form of doing business if it finances through real risk capital—that is, new stock issues—has to compete with another form of doing business—the big cooperative—which pays, if at all, only one tax. The big co-op is not an example of the use of real risk capital.

*Senator Javits notes as follows: “I do not see any reason for reluctance, or ‘last resort,’ in using aid as an instrument of foreign economic policy, but consider it rather a basis in many cases for healthy economic development where a foundation for private economic growth can only be laid by foreign aid.”*
The stock dividend credit which the majority report singles out as an example of a "loophole" is just the reverse. The real loophole is the favored treatment given the other forms of investment. The stock dividend credit is a very incomplete and modest attempt to equalize the incidence of taxation on risk capital. Far from being a break to the investing public, it would cost the investing public more if their investments were in new capital stocks rather than in bonds, loans, or capital stock which splits through retained earnings. Far from helping the wealthy citizen, the stock dividend credit is the one small thing in our tax laws that encourages the new small growth companies to expand.

If the majority mean business about encouraging economic growth they should support policies that encourage thrift and initiative. The President's report is replete with recommendations which would further both thrift and initiative. The majority report, on the other hand, is replete with proposals that would put further dampers on these two important human motives:

SENATE

PRESCOTT BUSH,
JOHN MARSHALL BUTLER,
JACOB K. JAVITS.

HOUSE OF REPRESENTATIVES

THOMAS B. CURTIS,
CLARENCE E. KILBURN,
WILLIAM B. WIDNALL.
APPENDIX TO MINORITY VIEWS

LEGISLATIVE RECOMMENDATIONS IN THE JANUARY 1960 ECONOMIC REPORT OF THE PRESIDENT

I. Federal finances:
   (a) Revenues (p. 55):
   1. Extend the corporate income tax at the present rate for another year.
   2. Postpone for an additional year the reduction of excise taxes on alcohol, tobacco, automobiles, automobile parts, and accessories now scheduled for June 30, 1960.
   3. Postpone for a year the repeal of the tax on local telephone service and the reduction of the tax on transportation of persons, scheduled for June 30, 1960.
   4. Amend tax laws applicable to cooperatives.
   5. Preclude unintended and excessive depletion allowances for mineral products.
   6. Tax as ordinary income any gain realized by the sale of depreciable personal property used in business to the extent of the depreciation deductions previously taken on the property.
   7. Defer the taxation of income earned in less developed countries of the world.
   8. Increase the aviation fuel tax to 4½ cents per gallon and impose a tax of 4½ cents per gallon on jet fuel.
   9. Increase the highway fuel tax by 4½ cents per gallon and continue the tax at 4½ cents per gallon until June 30, 1964.
   10. Provide for an adjustment of postal rates as previously recommended to reduce the deficit on postal operations by about $550 million.

   (b) Debt management (p. 55):
   1. Remove the 4½ percent ceiling on the interest rate which can be paid on U.S. Government securities with a maturity of more than 5 years.
   2. Enact a temporary debt limit somewhat higher than the present permanent limit of $285 billion.

II. Competition (p. 56):
   (a) Require that antitrust agencies be notified when firms of significant size engaged in interstate commerce propose to merge.
   (b) Authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely.
   (c) Strengthen Federal law governing bank mergers accomplished through the acquisition of assets.
(d) Grant the Attorney General power to issue civil investiga­tive demands.

III. Small business (p. 56):
   (a) Amend Small Business Investment Act to provide for needed flexibility as to the type of securities that may be purchased.
   (b) Amend the Securities Act of 1933 to increase from $300,000 to $500,000 the maximum amount of corporate security issue for which the privilege of simplified regulation A filings may be accorded.

IV. Agriculture (p. 59):
   (a) Extend through the 1963 crop year authority, which expires after the 1960 crop year, to bring additional land into the conservation reserve.
   (b) Expand the program by increasing the basic limitation on the total payments in any calendar year from $450 million to $600 million.
   (c) Authorize the Secretary of Agriculture to give special attention in allocating conservation reserve funds to those States and regions in which curtailment of production of wheat and other surplus commodities is consistent with long-range conservation and production-adjustment goals.
   (d) Provide new obligational authority of $10 million for the Great Plains conservation program.
   (e) The Sugar Act, which expires on December 31, 1960, should be extended early in the present session.
   (f) Extend limitation on price support for certain crops grown on newly irrigated or drained land.
   (g) Amend the Agricultural Trade Development and Assistance Act of 1954 (Public Law 48) to make more effective the program of surplus disposal abroad.
   (h) Place the loan program of the Farmers Home Adminis­tration on a revolving-fund basis and make other improvements in the laws affecting this activity.
   (i) Provide that the Rural Electrification Administration borrowings from the Treasury would be at an interest rate not in excess of the available rate paid by the Treasury on recently issued long-term marketable obligations and the REA would charge that rate plus one-fifth of 1 percent on future electric and telephone loans.
   (j) Place the Rural Electrification Administration operations on a revolving-fund basis.

V. Natural resources (p. 60):
   (a) Enact legislation establishing a consistent basis on which non-Federal beneficiaries will share the cost of protection against floods.
   (b) Strengthen the enforcement provisions of Federal legisla­tion for control of water pollution.
   (c) Enact a pending proposal for the preservation of certain undeveloped shoreline areas for public use.
   (d) Enact a long-range program to conserve helium gas.
   (e) Authorize contract authority on coal research.
(f) Enact legislation permitting revision of the fee schedule for noncompetitive oil and gas leases on public lands.

VI. Education and health (p. 63):
(a) Provide a program of vocational rehabilitation for ex-servicemen having service-connected disabilities.

VII. Personal security (p. 64):
(a) Extend Federal-State unemployment insurance system to employers of one or more persons, to nonprofit institutions, and to Federal instrumentalities that are not now covered.
(b) Extend Federal-State system to Puerto Rico.
(c) Bring the provisions of the District of Columbia unemployment insurance system up to the standard recommended for all States.
(d) Take steps to provide additional funds for administration of the Federal-State employment security system and rebuild the Federal Unemployment Act.
(e) Allow the Secretary of Labor to make necessary interpretations of law and enforce compliance to remedy serious defects in the legislation enacted in 1958 to protect private pension and welfare plans.
(f) Extend the coverage of the Fair Labor Standards Act to several million workers not now receiving its protection.
(g) Revise the outmoded provisions of the 8-hour law applying to Federal and certain federally assisted construction projects and to carry out the principle of equal pay for equal work without discrimination because of sex.
(h) Establish a statutory commission on equal job opportunities under Government contracts.

VIII. Area assistance (p. 66):
(a) Submit and strengthen aid to areas of persistent unemployment by providing Federal participation and loans to business concerns, financial assistance to State and local development groups, and for technical assistance to local groups seeking to strengthen their regional economies.

IX. Housing and home financing (p. 67):
(a) Make permanent the Federal Housing Administration’s program for insurance of home improvement and modernization loans which expires October 1, 1960, unless extended.
(b) Place Veterans’ Administration home purchase financing on the same basis with respect to maximum interest requirements as FHA programs.
(c) Adjust maximum permissible interest rates on armed service housing loans insured by FHA to permit such loans at rates above the present 42 percent ceiling.

X. Promoting economic growth with price stability (p. 71):
(a) Amend the Employment Act of 1946 to make reasonable price stability an explicit goal of national economic policy.
ADDITIONAL VIEWS OF SENATOR PRESCOTT BUSH

I share the minority views expressed elsewhere by my colleagues, but wish to state more bluntly and emphatically my objections to the majority report.

The majority have all but destroyed the Joint Economic Committee's usefulness by the extreme partisanship of their reports on the recent study of 'Employment, Growth, and Price Levels' and on the President's 1959 and 1960 Economic Reports. At one time reports of this committee were entitled to serious consideration by the legislative committees of the Congress, by the Executive, and by professional economists.

That time has passed. The majority has, during the time of my service on this committee, followed the "party line" laid down by the radical wing of the Democratic Party. Their specific recommendations in this report, particularly in the fields of taxation and appropriations, will most likely be ignored by the legislative committees which their own party controls in this Congress—and has controlled since 1954. Instead of a useful guide to public policies, they have written a campaign document for the 1960 elections.

Were it not for the fact that valuable additions to economic knowledge are often made in papers prepared by contributing economists, by Government witnesses, and by the committee's able staff, I would recommend that the committee be abolished. It fails to discharge its responsibilities under the Employment Act of 1946.
ADDITIONAL VIEWS OF SENATOR
JOHN MARSHALL BUTLER

I. INTRODUCTION

In general, I concur with the minority's views which I have signed. In order to develop some points of disagreement more fully, I am submitting these additional views.

The Joint Economic Committee is required to study the President's Economic Report, hold hearings thereon, and present its views to the Congress by March 1.

On January 20, the President transmitted his report to the Congress, and the Joint Economic Committee started a series of hearings in accordance with the Employment Act on February 1. These hearings lasted for 6 days, and 22 witnesses testified. A list of the witnesses and the days they testified follows:

<table>
<thead>
<tr>
<th>Witness</th>
<th>Date of testimony</th>
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<tr>
<td>Louis J. Paradiso</td>
<td>February 1</td>
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<tr>
<td>Martin R. Gainsbrugh</td>
<td>February 1</td>
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<tr>
<td>Dr. George Cline Smith</td>
<td>February 1</td>
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<td>Peter Henle</td>
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<td>Dr. George E. Brandow</td>
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<td>Roy L. Reiersen</td>
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<td>William McChesney Martin, Jr.</td>
<td>February 2</td>
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<td>Raymond J. Saulnier</td>
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<td>Warren L. Smith</td>
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<td>Richard A. Musgrave</td>
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<td>Stanley Ruttenberg</td>
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<td>Emerson P. Schmidt</td>
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<td>Ralph Robey</td>
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<td>W. E. Hamilton</td>
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<td>Angus McDonald</td>
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<td>Herschel D. Newsom</td>
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<td>A. Arthur Charous</td>
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<td>Robert A. Gordon</td>
<td>February 16</td>
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<td>Paul Samuelson</td>
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<td>William F. Butler</td>
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<td>B. U. Ratchford</td>
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<tr>
<td>Hon. Robert B. Anderson</td>
<td>February 16</td>
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The majority's report does not refer to any of their testimony, nor does it deal in any substantial way with the material or statistical data contained in the President's Economic Report. It is confined to a recital of the views previously presented in the majority's views in Senate Report No. 1043 on employment, growth, and price levels. In fact, its report could have been written without waiting for either
the President's Economic Message or the testimony of any of the numerous witnesses who appeared before the joint committee.

The staff had completed its draft of proposed views dealing with complex subjects, such as interest rates, before hearing the testimony of the Secretary of the Treasury, the Honorable Robert B. Anderson, and his associates who appeared on February 16, the very day when the first galley proof of the majority's report was being printed for presentation to members of the joint committee for their consideration.

The late Senator Robert A. Taft, the first chairman of this committee, in opening its initial hearings, said:

In a broader way our function is to try to develop governmental policies which may prevent the development of any depression, and consequently at this time we are interested in hearing from the business, labor, and agricultural interests of the country as to whether they think there is something which threatens the present condition of full employment, and also whether they think there is anything the Government can do about it, and if they do, what they think the Government should do, what powers might be granted by Congress, or what general policies might be adopted by the Executive.¹

No legislation has been enacted to authorize any departure from the purposes outlined by Senator Taft. Apparently, witnesses believe that their appearances will contribute to the enlightenment of the Congress. This is illustrated in some of their statements. For example, Mr. Martin R. Gainsbrugh, chief economist of the National Industrial Conference Board, in his opening testimony said:

I am delighted to be back, even though it meant taking a jet at 3 o'clock this morning from Los Angeles.²

The first witness was Mr. Louis J. Paradiso, assistant director-chief statistician, Office of Business Economics. Mr. Paradiso's prepared statement included two tables, as well as two graphs. These were not included in the transcript of the hearings. In fact, at the conclusion of the summary of Mr. Paradiso's statement, the chairman stated: "Your prepared statement will be printed in full in the record." At the time that the members of the committee were confronted with the task of examining the report prepared by the staff or the writing of their individual views, the printed hearings were still not available.

It is ironic that in spite of these efforts by dedicated citizens who wish to assist the committee in its work, no consideration has been accorded to their views.

Public Law 304, 79th Congress, which established this committee and the Council of Economic Advisers, stated that:

SEC. 5. (a) There is hereby established a Joint Committee on the Economic Report, to be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint committee shall as

² Hearings before the Joint Economic Committee, Congress of the United States, Feb. 1, 1960.
nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) It shall be the function of the joint committee—

(1) to make a continuing study of matters relating to the Economic Report; ³

Regardless of any other recommendations contained in the majority's report, it has not devoted its attention to a continuing study of the matters relating to the President's Economic Report.

In the first report to the President by the Council of Economic Advisors, dated December 1946, the Council said:

It is not within the province of this Council to elaborate on the functions of the other agency set up under the Employment Act, namely, the Congressional Joint Committee on the Economic Report. It should be noted, however, that the act in no way trenches on the primacy of the Congress in the field of final policymaking. It simply sharpens that body's tools for evaluation of proposals made by the President as well as for the initiation of proposals of its own. Obviously, the joint committee will have at its disposal the improved facilities made available under the Congressional Reorganization Act as well as recourse to those contacts with all governmental and nongovernmental sources of facts and ideas which are the traditional prerogatives of Congress.

In the words of the act:

"It shall be the function of the joint committee—(1) to make a continuing study of matters relating to the Economic Report; (2) to study means of coordinating programs in order to further the policy of this Act."

When the President's Economic Report is presented to the Congress at the opening of its session, it is to be referred to this joint committee. After study of the proposals embodied in the President's economic program and in the light of such studies as the committee may already have conducted into the economic problems which it considers pertinent, it will prepare "* * * its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * *". ⁴

In the 1960 Economic Report, transmitted to the Congress by President Eisenhower on January 20, 1960, he said:

The report was prepared with the advice and assistance of the Council of Economic Advisers and of the heads of the executive departments and independent agencies directly concerned with the matters it discusses. It summarizes the economic developments of the year and the steps taken in major areas of economic policy to promote the sound expansion of employment, production, and income. It also puts forward a program for the year 1960 which, in the context of present and prospective economic conditions, would effectively implement the purposes of the Employment Act. ⁶

⁴ 1st Annual Report to the President by the Council of Economic Advisers, December 1946, p. 7.
⁵ Economic Report of the President, transmitted to the Congress, Jan. 29, 1960, p. III.
In a report of the Council of Economic Advisers to the President, which is found on pages 77 through 80 of the President's Economic Report, there is the following statement:

For the fiscal year 1960, the Congress appropriated $395,000 for the Council's activities, the same amount appropriated for the fiscal year 1959.\(^6\)

In view of the efforts made by the executive branch, and the cost involved to the taxpayers, it is very strange that the majority's report of the joint committee devotes only a few pages of its text to a discussion of the recommendations contained in the President's Economic Report. Furthermore, it is discouraging to the witnesses from industry, agriculture, and labor, who have devoted their time and expense to the preparation of statements for the enlightenment of this committee. They will readily see that their views have been completely disregarded.

The majority's discussion of the President's Budget and Economic Reports is confined to a few pages. As in its previous report on employment, growth, and price levels, it is mainly critical of the fact that no matter what we have achieved, and we have achieved a great deal, in the committee's judgment, we should have done far better.

We are living in an era when our way of life is on trial before the world. Our Government, which includes the Congress as well as the Executive, is attempting to convince the uncommitted millions of people that our way of life offers the only solution to the problems of economic growth and freedom. It is a great disservice to our foreign policy to have a congressional committee, for purely partisan reasons, engage in carping criticism of the administration, which will be used to our detriment by the Soviets and its satellites in debates throughout the world, as well as in the various international organizations concerned with economic development.

All of us in Government have a responsibility to abstain from unjustified partisan criticism, which can only lend comfort to those who wish to establish an entirely different way of life throughout the world.

II. GENERAL OBSERVATIONS ON THE PRESIDENT'S ECONOMIC REPORT

Inasmuch as the majority's report has neglected to comment on the many points developed in the President's Economic Report, it is incumbent upon me to do so.

Apparently, the fact that in 1960 the U.S. economy will, for the first time, exceed a gross national product of $510 billion is dismissed lightly. Yet no people in history have ever enjoyed such a level of well-being. Rather than indulge in the futile and meaningless projections of what might be done without any responsibility for accomplishment, we can take some satisfaction in our achievement. It would seem appropriate in terms of supporting our position as a leader of the free world to comment favorably on the substantial progress recorded in the statistical tables presented by President Eisenhower and his Council of Economic Advisers.

The majority's report is devoted to an extended discussion of our failure to improve health, education, welfare, and the other services which a free people expect from their Government. If the President's
Economic Report had been carefully studied, these statements could not have been made. Again, in terms of our international position, they constitute a grave disservice.

President Eisenhower, in discussing education, said:

Notable gains have been made in education and other cultural areas. School enrollment has risen in the last 12 years from 50 percent to about 65 percent of all persons in the age group of 5 to 29 years. From 1946 to 1959, the number of bachelor's and first professional degrees conferred annually almost trebled, and the number of master's and second professional degrees showed a still greater relative increase. To some extent, these advances represent the resumption of academic work interrupted by war, but the large gains made in the past few years indicate a rising trend that will accelerate in the years ahead. The number of earned doctorates conferred rose sharply after the war, reaching in 1954 a new high, which has been maintained for several years. In the past decade, more than 83,000 doctorates have been conferred, compared with some 27,000 during the 1930's and about 31,000 in the 1940's. Marked increases are expected also in the next several years. Another source of satisfaction is the record of scientific achievement. Since 1946, close to half of the Nobel awards for contributions to medicine, chemistry, and physics have been bestowed on American citizens.\(^7\)

Furthermore, the President's Economic Report for the first time contains statistical tables relating to the diffusion of well-being. Per capita income in constant dollars rose from $2,541 in 1952, the last year of the previous administration, to $2,706 in 1959, an increase of 1 percent compounded annually.\(^8\) In appraising this figure, it must be remembered that per capita income includes all of the newborn children, those in school, as well as the elderly retired. None of these groups have contributed to the gross national product, but they have still benefited from this increased productivity.

Civilian employment advanced from 61 million in 1952 to 65.6 million in 1959, an all-time high. The American economy has created new jobs as the population and the civilian labor force have grown.\(^9\)

Disposable personal income in 1959 prices, that is, income available to individuals after the payment of all taxes, was $1,678 in 1952, the last year of the Truman administration, and in 1959 reached an all-time high of $1,891, an increase of 12.7 percent, which is almost 1% percent compounded annually.\(^10\) The per capita disposable income will double at this rate of increase in a period of 40 years, in spite of population growth.

Furthermore, the share of labor income and transfer payments compared with all personal income disbursements increased from 73.5 percent in 1952 to 75.8 percent in 1959, an all-time high.\(^11\) None of these important measures of well-being would be found by any

\(^7\) The Economic Report of the President, January, 1960, p. 2.
\(^8\) Ibid., p. 130.
\(^9\) Ibid.
\(^10\) Ibid., p. 131.
\(^11\) Ibid., p. 132.
reader of the majority’s report, including unfriendly delegations in the Economic and Social Council of the United Nations, or similar bodies.

There are still other statistical measures of personal and individual satisfactions which are worthy of comment. In spite of the fact that the impression is often given that our economy is one in which most families do not enjoy the good things of life, in 1958 only 14 percent of American families received incomes of less than $2,000 in dollars of constant purchasing power.\(^{12}\)

In our manufacturing industries, in terms of constant 1959 dollars, average hourly earnings have increased from $1.83 in the last year of the former administration to $2.22 in 1959, an all-time high.\(^{13}\) Likewise, in 1959 prices, the average gross weekly earnings of workers in manufacturing industries have increased from $74.53 in 1952 to $89.47 in 1959.\(^{14}\)

The life insurance per family in 1952 was $5,300, whereas today it is $9,300.\(^{15}\) The financial assets and net equity of individuals have also risen from a total of $372.8 billion in 1952 to $956.2 billion in 1959.\(^{16}\)

There are many other ways to measure well-being than in monetary terms. In 1952 our people enjoyed 58.8 million weeks of vacations, whereas in 1959 this had increased to 77.7 million weeks. In 1959, 74 percent of all families owned automobiles, and 15 percent owned two or more automobiles.\(^{17}\) In 1952, 56 percent of nonfarm occupied dwelling units were owned by the occupants. In 1959 this had increased to 61 percent.\(^{18}\)

While there has been a tendency in some quarters to disparage those who have invested their savings in the ownership of American business, which provides employment for millions of people, it is significant that in 1952 there were 6,490,000 stockholders, and in 1959 the number almost doubled to 12,490,000 shareholders.\(^{19}\)

At every level of education, great strides have taken place during the years of the present administration, which are the subject of partisan criticism in the majority’s report. In 1952 the total kindergarten enrollment was 1,383,000. In 1959 it was 2,032,000. Elementary school enrollment in 1952 was 21,994,000. In 1959 it was 29,382,000. High school enrollment in 1952 was 7,108,000. In 1959 it was 9,616,000. College and professional school enrollment, which in 1952 totaled 1,980,000, in 1959 has almost doubled to 3,340,000.\(^{20}\)

The majority’s report is critical of measures taken by the Government to assist older people, the unemployed, and the sick, but it has completely ignored the statistical data which no one has questioned contained in the President’s Economic Report.

In 1952 old-age, survivors, and disability insurance benefits paid totaled $2,194 million. They were received by 5,026,000 beneficiaries. In 1959, $10,300 million was paid to more than 13,800,000 beneficiaries.\(^{21}\)

\(^{12}\) Ibid., p. 133.
\(^{13}\) Op. cit., p. 133.
\(^{14}\) Ibid., p. 134.
\(^{15}\) Ibid., p. 135.
\(^{16}\) Ibid., p. 136.
\(^{17}\) Ibid., p. 137.
\(^{18}\) Ibid., p. 138.
\(^{19}\) Ibid., p. 139.
\(^{20}\) Ibid., p. 140.
\(^{21}\) Ibid., p. 141.
Unemployment compensation, likewise, has been improved during these years when, according to the majority's report, there was a callousness about the needs of our more unfortunate citizens. In 1952, 76.6 percent of the nonagricultural employed were covered. This has risen to 82.5 percent in 1959. The average weekly benefits for total unemployed in 1952 were $22.79 as against $30.37 in 1959. Furthermore, in recent years many labor-management contracts provide for supplemental unemployment benefits for workers who are unemployed.

In 1952, the last year of the previous administration, there were 1,219,000 beds in civilian hospitals. There are now 1,346,000. Regardless of the moneys which may be appropriated for health care, in the last analysis more doctors with adequate training provide the only real protection for our people. In 1952 there were 208,000 physicians. This has increased to 235,000 in the short span of 7 years. When it is realized that a doctor must undergo 4 years of college training, 4 years of medical schooling, and then serve an internship, this is a remarkable gain.

President Eisenhower summarized the progress achieved by the American economy since the adoption of the Employment Act of 1946 in his report as follows:

A few facts illustrate the ability of the American economy to continue raising what has long been the highest living scale in the world, while carrying a heavy defense burden and meeting broad international obligations.

In the 14 years since the passage of the Employment Act, employment has advanced, on the average, by nearly 800,000 a year. In real terms, the Nation's output of goods and services, as well as its personal income, has increased by more than 50 percent, or at a rate of 3.2 percent per year; and the output of the private sector of the economy has advanced at a slightly higher rate, 3.5 percent. For industrial production, the rate of increase has been 4.5 percent. The annual increase of 3.2 percent in total national output, which corresponds to a doubling every 22 years, is roughly equivalent to the long-term average reached in our previous history. Thus, the American economy has sustained its long-term record of growth, despite the high level of industrial development already achieved and despite temporary setbacks.

The increase in national output has made possible very great gains in the well-being of American families. Evidence of the advances made in this respect since passage of the Employment Act is presented in the appendix on "Diffusion of Well-Being" included in this report. Real income per capita has increased by nearly 20 percent since 1946, and the increase per family has been 16 percent. As incomes have risen and as paid vacations have become longer and more common, leisure time has increased and recreational activities have become more widely enjoyed. The shortage of housing, so evident immediately after World War II, has been virtually eliminated. Since 1946, the housing supply

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23 Ibid., p. 145.
24 Ibid., p. 146.
has been increased by the construction of 15 million private nonfarm dwelling units, and there have been marked improvements in the quality of housing. At the same time, there has been a general increase in homeownership; some 60 percent of all nonfarm dwelling units are owned by the occupant families.

Attention to such material advances should not obscure the accompanying gains made with respect to other components of our well-being, some of which are less tangible. In health, there has been remarkable progress in the reduction of infant and maternal mortality; in the prevention, mitigation, and treatment of many diseases; in restoring the physically handicapped; in making available a better balanced diet at lower cost; and in creating other conditions conducive to longer years of life and greater efficiency. Health services are more and more widely available, and the great majority of Americans now have some protection under voluntary plans of hospital, surgical, and medical insurance.  

The economic security of American families has been advanced significantly in the years since World War II. About 58 million persons—87 percent of all those in paid employment—are now covered by the Federal Government's old-age, survivors, and disability insurance system and related programs. More than 19 million persons are covered by privately financed pension plans. The Federal-State unemployment compensation system, which has proved its worth as a defense against loss of income during periods of economic adversity, now provides protection for nearly 85 percent of all persons on nonfarm payrolls.

But the progress made under Government programs should not divert attention from the extensive provisions made independently by Americans for personal and family security. The number of life insurance policyholders, for example, has increased by about 60 percent since 1946; about 115 million persons were insured through legal reserve companies in 1959. The volume of time and savings deposits of individuals has increased by nearly $35 billion, or more than 50 percent, since 1952. Share accounts in savings and loan associations have also risen by $35 billion in this period, by nearly 200 percent.

And it is not too much to say that we have made good progress in moderating fluctuations in our economy. Although economic recessions, however minor, must remain a matter of concern to all Americans, the relative mildness and short duration of the three since the war have to be reckoned as a major factor in the strengthening of personal security.  

Because the majority's report has been singularly silent with respect to the statements contained in the President's Economic Report, it is necessary to quote these summaries so that they may be made a part of the record in this Senate document.

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The American people have every reason to applaud the efforts of both public and private groups in furthering our material, social, and cultural progress. The prophets of gloom and doom who deprecate all that has been done, because they believe that if their untried theories had been adopted more might have been accomplished, are performing no useful function in terms of advancing America's well-being while they are giving great comfort to the enemies of all that we cherish.

The forum on the "Prerequisites for Economic Growth," conducted by the National Industrial Conference Board, was moderated by Dr. Solomon Fabricant of the National Bureau of Economic Research. He is the acknowledged leader in the field of economic growth and productivity. While no one wants to be complacent about future progress, it is important that certain basic facts are placed in proper perspective. Dr. Fabricant said:

There is no question but that the level of real income in Russia is far below ours. As a guess, I think those who know would say a third of ours—substantially less than half of the American level.26

He also stressed that economic growth cannot be achieved by merely redistributing existing income. He said:

One reason why the problem of economic growth is so important can be observed in the history of the United States. Suppose we were to ask by how much the average income per capita of the poorer persons in the population could have been increased a hundred years ago by a redistribution, or a more even distribution, of income? How much would that have raised income as compared with the sixfold rise that has actually occurred from the long-term growth of average income per capita?

We don't have the income distribution of a hundred years ago, nor may we assume that a violent redistribution of income could have avoided chaos. But any calculation of that sort would indicate very clearly and quickly that the main source of increase in income per capita (the main way, in other words, to solve the problem of poverty) is by raising the average level of income per capita—making sure, of course, that the distribution is made as reasonably equitable as possible.27

It is also significant that in this same forum, Dr. Fabricant quoted from a recent Russian study, which appears in "Problems of Economics," published in the International Arts and Sciences Press. This study, "The Principle of the Personal Incentive and Certain Wage Problems in the U.S.S.R.," a paper by a Russian economist published in Voprosy Ekonomiki in its issue of January 1959, said:

"The many years of experience in the organization of social labor under socialism have shown that equalitarianism is incompatible with the interests of the development of socialist production. * * * The Communist Party of the Soviet

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Union has always conducted a consistent struggle against all efforts to 'replace' distribution in accordance with labor by petty bourgeois equalitarianism in the payment of labor. It is necessary more completely to utilize the principle of personal material incentive for a further upsurge of socialist production and the hiring standards of the people."

These statements were confirmed in the same forum by another distinguished economist, Prof. Lloyd G. Reynolds, who, since 1951, has been chairman of the department of economics at Yale University. After a trip to Russia, he summarized the attitude of Russian industrialists as follows:

I pushed the factory managers quite hard on labor questions. Their setup in this respect is, in a way, very early capitalist. To find anything comparable in this country you would have to go back to 1900, to the early days of scientific management, with not much union organization or worker control over what the engineers were doing. This was quite striking.

The position of the Russian factory director also seems to be quite similar in many respects to that of a capitalist manager. It seemed to me that those fellows were working for the same reasons that an American corporation executive would work. If they do well, they get promoted to a bigger enterprise, and get a good bonus at the end of the year. Conversely, if they do not do well, presumably they will be demoted, have less interesting work, and make less money.

Despite all the talk about working for the joy of socialist labor, and so on, it seemed to me that these fellows were quite like American business executives in their outlook on their job. They are almost all engineers. In fact, they cannot understand how we allow people to become business executives without engineering training. This they regard as the standard way of getting into an executive position. Not only the plant director, but the deputy director and a good many people lower down are engineers.

While we realize the importance of science and engineering for the physical advancement of our well-being, we are not merely materialistic, but we have cultural and spiritual values which have been furthered by the policies adopted during the past 7 years.

III. GENERAL OBSERVATIONS CONCERNING THE MAJORITY'S REPORT

The majority's report stresses the fact that unemployment was at a relatively high level through much of 1959. Yet, at no point does it adequately deal with the fact that much of this unemployment was the direct result of the protracted steel strike. There is every reason to believe that if the unfortunate stoppage of steel production had not occurred, the forces of recovery, which were progressing rapidly during the first 6 months of 1959, would have reduced unemployment to a very low level by the end of the year.

Ibid., pp. 21, 22.  
Ibid., p. 37.
The President, in his Economic Report, reviewed this factor in great detail, but, once again, his analysis was ignored in the majority's report. The President said:

* * * However, total unemployment was being reduced at a rapid rate until the trend was reversed in July by the beginning of the steel strike.

After some 500,000 employees in the steel industry went on strike on July 15, nearly 100,000 other persons were soon laid off in related industries, especially in mining and rail transportation. Even though substantial inventories of steel had been accumulated by many firms, stocks were being depleted rapidly by mid-October and serious imbalances were making themselves felt. As a result, layoffs became increasingly heavy. By the time steel production was resumed on November 7, under a Federal court injunction, employment in steel-related industries had declined by more than 500,000 exclusive of the number on strike. In most other industries, employment ceased to advance during this period, and in October the rate of unemployment increased to 6 percent of the civilian labor force.

The resumption of steel production brought an increase in employment by the end of the year, and unemployment was again reduced. Although the replenishment of working stocks of steel could not be accomplished immediately, total employment reached 66.2 million (seasonally adjusted) in December, slightly above the record of 66 million that had been attained in June. Unemployment in December was 3.6 million (seasonally adjusted), or 5.2 percent of the labor force.30

No discussion of the employment situation which fails to recognize the impact of the protracted steel strike has any meaning. The majority is critical that the President has not fulfilled the requirements of the Employment Act in presenting a detailed blueprint for the future.

It is easy to make glib prognostications, but the President and the Council of Economic Advisers have fulfilled the requirements imposed upon them in the following statements, which appear in the President's Economic Report:

Although it is always difficult in a dynamic, free economy such as ours to depict in advance the course likely to be taken by production, employment, and income, present indications warrant the expectation that the expansion now in progress will be extended through 1960. And there are good grounds for belief that, with appropriate public policies and private actions, the expansion can continue well beyond the present year.

Past developments and present conditions clearly suggest that the demands of business concerns for capital goods and for inventories will be especially important factors in the year ahead. Expenditures on capital goods have been rising for more than a year and should continue upward in 1960. In part, and especially during the early months, the increase

will represent a catching-up on projects delayed or postponed because of shortages attributable to the steel strike. Chiefly, however, capital investment should rise in response to favorable underlying factors now discernible and likely to strengthen as the year progresses. Surveys of businessmen's intentions, and the increased volume of contract awards and of new orders for industrial machinery, confirm this outlook. A good demand from the farm economy for machinery and equipment may also be anticipated.

Expenditures for residential construction, a second major category of capital investment, are not likely to be as high as in 1959. However, the extent of the decline should be limited, and activity in this sector of the economy should exceed that of most recent years. Outlays for modernization and alterations should be a steady expansive force in the building industry.

Within the aggregate of Government outlays, Federal expenditures for goods and services should change little in the first half of the year; but later, in line with provisions in the fiscal 1961 budget for the development of water resources and other public works, and for space and aviation programs, they should increase moderately. The upward trend of expenditures at the State and local level, which reflects particularly the provision of services needed by the growing urban population, may be expected to continue, though possibly at a slower rate. The construction of schools, public service enterprises, and community facilities in general is expected to advance moderately and to outweigh declines in activity that occur under the Federal-aid highway program as a result of the mandatory reduction in apportionments under the present law.

Changes in investment in business inventories are likely to be less regular during the year than the changes in final demands. Restocking needs are clearly apparent, not only for steel but also for many steel-using intermediate and finished products; and further additions to inventories will be required throughout the economy as production and final sales increase. Inventory expenditures and the other outlays noted above should contribute to a strong expansion in production, employment, and income. The increase in employment should exceed that of the labor force and, correspondingly, unemployment may be expected to fall. Within this context, consumer incomes and expenditures may be expected to increase substantially during the year. Also, consumer confidence is favorable to an increasing volume of purchases of consumer durable goods.

The financing of the investment needs outlined here, together with a significant volume of consumer credit, will make strong demands upon the Nation's capital and credit markets. At high levels of income and savings, a greater supply of investment funds may be expected. The sizable Federal budget surplus projected for the fiscal year 1961 would be helpful in relieving pressure on the supply of funds.\(^{21}\)

IV. STATEMENTS IN THE MAJORITY'S REPORT WHICH REFLECT OPINIONS CONTAINED IN ITS REPORT ON EMPLOYMENT, GROWTH AND PRICE LEVELS

Although this report was supposedly devoted to a review of the President's Economic Report and the statements of the witnesses who testified thereon, it largely reflects the preconceived views which were developed in connection with the majority's report on employment, growth, and price levels. In order to conserve space, there are listed below some of the more significant areas which have been quoted from Senate Report No. 1043 and are found in the majority's views in this report. I have discussed many of them in my additional views in Senate Report No. 1043 on pages 93 through 134. My position is stated in that report.

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<tr>
<td>Reordering priorities</td>
<td>24</td>
<td>10-13</td>
</tr>
<tr>
<td>Taxes</td>
<td>21-24</td>
<td>13-15</td>
</tr>
<tr>
<td>Monetary policy and debt management</td>
<td>23-48</td>
<td>15-17</td>
</tr>
<tr>
<td>Market structure</td>
<td>49</td>
<td>17-19</td>
</tr>
<tr>
<td>Assistance to depressed areas</td>
<td>54</td>
<td>19</td>
</tr>
</tbody>
</table>

All of these subjects have been discussed without any reference to the President's Economic Report or the hearings held during the month of February.

V. DETAILED DISCUSSION OF VIEWS CONTAINED IN THE MAJORITY'S REPORT

A. Prices and market structure

The majority's report stresses the need to change the market structure of the American economy with particular emphasis on "more effective application of antitrust legislation to industries in which a high degree of market power is possessed and exercised by large producers, even where no evidence of direct or overt collusion or conspiracy can be shown."

If America is to compete with the Russians, attacks on size per se are ridiculous and have no justification other than to provide material for partisan political activity. It should be emphasized that the largest employer in this country is the Federal Government. Again the remarks of Professor Reynolds of Yale University at the Conference Board Economic Forum are worthy of comment. They are based on his trip to the Soviet Union, in which he had the opportunity to travel all the way from Leningrad to central Asia, visiting about 15 factories and talking to upward of 100 economists in research institutes and universities. Professor Reynolds said:

* * * We saw everything from very large truck factories and metalworking plants with as many as 40,000 workers down to consumer goods factories with only 700 or 800 workers.12

While no Member of the Congress would condone any action which could impede the performance of our free enterprise economy in the service of the American consumer, predicated on competition in free markets, we must be vigilant in revising the antitrust laws and in perfecting their enforcement not to jeopardize the efficiencies of size and scale, which have made this country great.

Insofar as market behavior is concerned, the President’s Economic Report contains some illuminating data, which have been completely ignored in the preparation of the majority’s views. Table 2, which appears on page 23 of the President’s Economic Report, shows the changes in the Consumer Price Index in 1959. The item reflecting next to the largest percentage change from December 1958 to November 1959 is used cars, where the price index increased by 6.4 percent. If there is any market in which large firms and market dominance is absent, the used car market is probably most representative.

Another important factor revealed in the same table is that, as of December 1958, services had a relative importance in the Consumer Price Index of 34.4 percent. In almost every instance they are supplied by small firms and not by the larger enterprises. Again, with the exception of one commodity, namely footwear, which has a weight of only 1.5 percent, services show the largest percentage change next to used cars, namely 2.9 percent. With this heavy weight, this increase accounts for a substantial amount of the rise in the All Items Index.

An examination of table 3, found on page 25 of the President’s Economic Report, shows a decline in most sectors of the Wholesale Price Index. The All Commodities Index for the year December 1958 to December 1959 declined 0.3 percent. Crude materials for further processing declined 3.7 percent. Finished goods declined three-tenths of 1 percent. Steel mill products showed no change at all.

It is important in fulfilling the responsibilities of the Joint Economic Committee that facts and figures rather than prejudices and preconceived ideas concerning subjects such as administered prices should govern the findings and conclusions of this important Joint Economic Committee. Prof. Stephen K. Bailey, director of the graduate program, School of Public and International Affairs, Princeton University, at the time of the “Brookings Lectures on Research Frontiers in Politics and Government,” said:

In the kind of world in which modern decisionmakers live, fraught as it is with bignesses, vastnesses, and statistical drifts, the postulate of faith that the future is really malleable, that individual choices really count, is of no small consequence. The assumption of classical economists that individual choice could have no effect on the market seems to have carried over into a great deal of fatalistic, if not nihilistic, 20th century political thinking. The prophetic service of Toynbee is his pointing out that history has always involved imperfect competition, and that the moral choices of men of power influence the market mightily.33

There has been no evidence presented to the Joint Economic Committee that our antitrust laws, which have been in effect since 1890,  

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are ineffective in preventing monopoly, and the performance of the price indexes over the past year supports this view.

B. Defense

In my additional views in Senate Report No. 1043, I clearly stated that I did not believe that the Joint Economic Committee had been charged by the Congress with the problems of national defense. I still maintain this view. The majority's report gives the American people as well as friendly citizens in other countries the erroneous impression that our defenses are dictated by budgetary restrictions. It states:

* * * Cutbacks in the real volume of our outlays, while the Soviets continue to increase the volume of theirs, requires a more convincing explanation than has yet been offered to assure the American public that the proposed defense program for fiscal 1961 is not to be unnecessarily limited on the basis of budget-balancing considerations.

Again, a statement of this kind is a distinct disservice to our national unity, and it demonstrates a lack of understanding of the procedures in the defense departments. House Report No. 408, 86th Congress, dealing with defense appropriations for the 1960 fiscal year, on page 21 estimates that unexpended balances at the end of the present fiscal year will be more than $32 billion. In other words, without appropriating a single penny during the present session of the Congress, there would still be $32 billion unspent in the hands of the Defense Department as of June 30 of this year.

Furthermore, on August 4, 1959, the Congress cleared for the President's signature H.R. 7454, the bill appropriating funds for the current fiscal year for the Defense Department. It provided almost $20 million less than the President requested. This was the considered judgment of a Congress controlled by the Democratic Party. This hardly suggests that the administration is planning our military program around the budget. On the contrary, President Eisenhower, a military expert of distinction, and the Joint Chiefs of Staff are in a better position to evaluate what is needed than this Joint Committee, which has held no hearings on this subject. It has been empowered to review economic problems, but not the size and composition of our Armed Forces.

C. Reordering of the priorities in the budget

The majority's report devotes 18 lines of text to a reordering of the priorities in the budget in the amount of $10 billion in terms of both expenditures and revenues. The budget document itself is a very voluminous book. The Appropriations Committees of the Congress devote weeks to a review of every item therein. The approach presented in the text of the majority's views is superficial and unworthy of any serious intellectual attention.

In discussing proposed expenditures, the majority's report provides a nicely rounded sum of $2 billion for "increase for missiles, space and combat troops." Without any indication as to how or where this money should be spent, or how it should be divided among the various categories included, it pontificates that $2 billion is the proper additional expenditure to insure our national security.
Likewise, it again presents a convenient figure of $2 billion for "increase for schools, depressed areas, and social programs." This could encompass almost anything, and again there is no attempt at explaining how this money would be apportioned or for what purpose.

The scholarly acceptance of the studies of this joint committee are placed in jeopardy when statements are made in this cavalier fashion. In future years the country will be faced with an ever-mounting burden of taxes to finance expenditures authorized or proposed by this Congress. It is impossible to examine the many measures not included in the President's budget that would impose additional taxes on the American people and make the surplus envisaged by the President impossible. However, a list of only eight measures which have received some consideration in this Congress shows increased unbudgeted expenditures in excess of $5.5 billion annually. A list of these few measures is of interest.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Amount</th>
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<tr>
<td>Water pollution control (final) (H.R. 3810, Blatnik)</td>
<td>$90,000,000</td>
</tr>
<tr>
<td>Aid to depressed areas (passed Senate) (S. 723, Douglas et al.)</td>
<td>$389,500,000</td>
</tr>
<tr>
<td>Community facilities (introduced) (H.R. 5944, Spencer)</td>
<td>$1,000,000,000</td>
</tr>
<tr>
<td>Federal aid to education (passed Senate) (S. 8, McNamara)</td>
<td>$900,000,000</td>
</tr>
<tr>
<td>Public Health Training Act (introduced) (H.R. 6871, Rhodes, Pennsylvania)</td>
<td>$13,000,000</td>
</tr>
<tr>
<td>Hospitalization (introduced) (estimated) (H.R. 4700, Forand)</td>
<td>$2,100,000,000</td>
</tr>
<tr>
<td>Emergency Home Ownership Act (introduced) (H.R. 9371, Rains)</td>
<td>$1,050,000,000</td>
</tr>
<tr>
<td>Veterans benefits (passed Senate) (S. 1198, Yarborough et al.)</td>
<td>$150,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$5,692,500,000</td>
</tr>
</tbody>
</table>

D. Debt and fiscal policy

The majority's report is largely devoted to a criticism of the Federal Reserve System and the Treasury's operation in funding and refinancing the national debt. It is noteworthy that similar views are expressed in identical language in this report and Senate Report 1043 on "Employment, Growth, and Price Levels." This likeness indicates a completely closed mind and preconceived views which have not been influenced by either the President's Economic Report or the testimony of the witnesses.

Such a fact does not reflect creditably on the procedures of the Joint Economic Committee. The majority's report proposes a number of completely unrealistic policies. For example, it suggests that the Treasury should "agree to sell long-term bonds in the main when interest rates are low." It is one thing to suggest how the Treasury should sell its bonds, and quite another to assure that anyone will buy them. At a time when interest rates are low, investors are loath to acquire long-term obligations with a low yield. This basic tenet is one which is accepted by those who are familiar with the financial markets and have dealt in securities.

The majority's report suggests that the Treasury should "institute a system of callable bonds so that the public is not saddled interminably with high interest rates." Again, this is an intriguing suggestion. However, it is completely unrealistic and superficial, since investors in a free economy will not purchase such bonds, as they have alternative investment opportunities, and the Treasury must compete for the savings of our people as long as we maintain a free economy.

The majority's report neglects the obvious corollary to its proposal that, if callable bonds were issued, an even higher interest rate would be required so as to make them attractive to investors.
In its entire discussion of monetary policy, the majority's report fails to indicate any understanding of the basic fact that those who purchase short-term bonds are usually not the same individuals or institutions as those who invest in long-term bonds. These two types of securities are acquired for entirely different purposes, and no amount of pontification by this joint committee will change the investment preferences of institutional buyers, savings banks, private individuals, and others who are purchasers of Government securities.

Throughout the discussion of debt management and monetary policy, the majority's report attempts to present its readers with the conclusion that high interest rates will prevent economic growth and the full use of our resources. It implies that they add unnecessarily to business costs, that they discriminate unfairly against small business, and that the Federal Reserve System is primarily concerned with creating artificial and unjustifiable profits for the commercial banks who are affiliated with it.

Those who have studied America's financial mechanism know that nothing could be further from the truth. Actually, interest rates for many years in America have been at an artificially low level. In recent months, the recovery in Europe has been proceeding rapidly, and it is noteworthy that the interest rates prevailing there are considerably higher than those here in the United States. Unless we are to continue complacently to watch our gold reserves decline, there has to be some balance between the attractiveness of securities and investments in this country with those abroad. It is frequently overlooked that foreign central banks may convert their dollar balances into gold at will, and they have been doing this at an astonishing rate for many months.

The majority's report proposes that—

In the area of monetary policy, we offer as a general prescription that the supply of money—i.e., currency held outside the banks and adjusted demand deposits—should increase over time at about the same rate as gross national product, allowing for normal velocity. * * *

It is perhaps helpful in placing some of these problems in better perspective to review what has taken place in other countries. Immediately after World War II a labor government was responsible for the destinies of the United Kingdom. Finally, the Conservative Party came to power. In 1957 that Government appointed a special committee known as the British Council on Prices, Productivity, and Incomes. Its chairman was Lord Cohen, a judge, who was also the first chairman of the Royal Commission on the Taxation of Profits. Its other two members were Sir Harold Hewitt, a past president of the Institute of Chartered Accountants, and Sir Dennis Robertson, retired professor of political economy at Cambridge University.

The recommendations of this Council provided the economic planning for the British recovery, and it obviously met with the approval of the electorate since the Conservative Party, which implemented this program, was returned to power.

In discussing monetary policy, this commission said:

"The dangers of inflation have only been scotched, not killed, by the slackening of tempo in the last 12 months."
We must not suppose that we have solved the problem of getting the growth of incomes into line with that of productivity, merely because in the year 1958 increases in income look like being distinctly lower than in previous years.

"Our balance of payments is in a healthy state, and our foreign exchange reserves have been rising very satisfactorily: but neither of these conditions is bound to last. Past experience suggests that any substantial revival of demand may well be accompanied by renewed threats to price stability to the balance of payments and the gold and dollar reserves."

The First National City Bank of New York, in its Monthly Letter for October 1958, in discussing this report made the following observations:

The measures to dampen down demand taken by the British authorities in September 1957, under the pressure of a sterling crisis that threatened exhaustion of its international reserves, included an increase in the official discount rate to 7 percent—the highest since 1921—the establishment of ceilings on commercial bank advances, a further tightening of controls over new capital issues, and cuts in Government outlays. * * *

Looking farther ahead, the Council squarely faces the basic issue arising "from the conflict of two main objectives of economic policy—full utilization of the national resources of labor and capital on the one hand, and stable prices on the other." * * *

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Looking farther ahead, the Council squarely faces the basic issue arising "from the conflict of two main objectives of economic policy—full utilization of the national resources of labor and capital on the one hand, and stable prices on the other." * * *

The Cohen council found that the Government "cannot afford" to allow the pressure of demand for goods and for labor to "rise to the peak levels of the past if it wishes to avert price inflation."

Noting that this advice will remain valid "for as far ahead as it is useful to look," it went on to observe that if peak levels of demand are avoided "it can hardly be expected that the average level of unemployment over a period of years will be quite so low as in the last decade."

The problem of local concentrations of unemployment is likely to become "somewhat more serious"—all the more so since the direct cause of these pockets is often some change in the structure of industry not itself connected with the level of overall demand. The policy of "bringing work to the workers" has "definite limits" as long as the Government rules out "extravagantly wasteful methods." 25

In considering the request of the Secretary of the Treasury, to remove the artificial ceiling of 4½ percent on long-term Treasury bonds, it should be remembered that in Great Britain a 7-percent discount rate was accepted as the price to avoid inflation and ensure economic recovery.

The editorial page of the New York Times of Saturday, February 20, included an excellent discussion of the economic growth which has taken place in Western Germany. This editorial clearly shows

that price inflation and the manipulation of the money supply are not a necessary prerequisite to growth. It said:

Is price inflation a necessary prerequisite to, or accompaniment of, a high rate of national economic growth, as one school of thought holds? Or is it true that, as many are firmly convinced, the process of currency depreciation, though it may, under favoring conditions, contribute to temporary bursts of economic expansion, is fundamentally inimical, if not potentially fatal, to the achievement of a state of long-term economic expansion?

Most of the discussion of this question is conducted at the purely academic level, or in terms of U.S. historical experience. The introduction of case histories outside this country is always a refreshing addition to the debate.

The postwar recovery of the West German economy has been one of the most remarkable achievements of its kind, whether judged by present standards or those of any other period or place. Despite heavy wartime destruction and the burden of partition, plant dismantling and its refugee problems, Germany had regained prewar production levels 5 years after the war's end and had become a pace setter in this respect in Western Europe. No less striking, as a study, which appears in the February issue of the Monthly Review of the New York Reserve Bank, reminds us, has been the restoration of the country's position in world trade, which has resulted in turning the Deutsche mark into one of the world's hardest currencies.

True, Germany was the beneficiary of massive U.S. aid in the early postwar years, but this aid might have resulted in something considerably less than a miracle had it not been accompanied by an early restoration of a free market mechanism. It was by this mechanism, as the bank points out, that German efforts and resources were channeled into the most useful employment. Moreover, it adds, "the early adoption of a vigorous monetary policy, which helped to contain inflationary pressures at home, insured Germany's competitive position in world markets and helped provide the ordinary financial setting necessary for rapid economic recovery." 36

Its concluding paragraph clearly joins the issue which divides the majority's views from my own. It said:

Dr. Wilhelm Vocke, one of the architects of Germany's recovery, notes that his country's experience contains "two principal lessons." The first is that currency stability can be achieved and preserved even under adverse circumstances. The second lesson—and to him a more significant one—is that a monetary policy firmly committed to currency stability not only does not conflict with rapid and sustained economic growth but indeed is essential to its achievement. 37

37 Ibid.
Because there has been so much confusion with respect to monetary and fiscal policy, it is necessary to set forth a few of the basic prerequisites for a monetary policy that will provide long-term growth.

Dr. Winfield W. Riefler, assistant to the Chairman, Board of Governors of the Federal Reserve System, in a paper delivered at the session of the 18th Stanford Business Conference on July 21, 1959, said:

What can we say then of the preferred environment for growth? I do not refer here to the resource factors essential for growth, such as invention, education, and research but rather to the more general type of environmental factors touched upon in this paper.

First, among these I would emphasize the maintenance of a market-oriented economy, sensitive to competitive forces, in which costs and prices are flexibly responsible to the interplay of supply and demand. In such an economy, I would expect to find quick appreciation of the advantages of essentials to growth—specialization, substitution, innovation, efficiency, and economy.

Second, I would rely primarily upon the flexible adaptation of fiscal and monetary policies to provide both a sustained high level of output and a price behavior that did not stimulate expectations of inflation, creeping or otherwise.

Third, I would hope that the benefits of rising productivity and growth were broadly distributed in three general directions and not overweighted in any one: (a) in the direction of wage and income advances to the working force to encourage mobility and the ready availability of needed skills and talents of points of innovation; (b) in the direction of lower prices promotive of broader and expanded markets for those end products where productivity has lowered real costs; and (c) in the direction of sufficient profit-encouragement to those who innovate successfully to simulate initiative in management-planning for growth. In other words, I would favor a situation where the efficiencies of growth were reflected in falling, not rising, unit costs.

I think it was something like this that provided the environment so favorable to the very rapid growth rates that prevailed in this country in the last third of the 19th century. I suspect that the lowering of unit costs at that time, made possible by the application of the new techniques of the industrial revolution to the untapped resources of the West, created a situation in which falling prices for final products still left wide margins to provide higher returns for manpower as well as investment.

Finally, I would avoid a situation where, despite a high rate of technical innovation and rising productivity, unit costs rise to such a degree as to press seriously on profit margins and thus bring pressure for selling prices also to rise. That path is the path of inflation with all the evils it entails. I do not disagree with the exponents of the economics of creeping inflation when they say that if costs rise faster than
productivity final prices must rise or the economy will grind to a halt. I disagree with them rather when they say that such a process is sustainable and constitutes an acceptable price for growth. My complaint is that it is both cruel and dangerous. Far from providing a firm underpinning to growth, it will, if long continued, engender instability, increase tensions, and impair the very basis of growth.\(^8\)

Mr. Woodlief Thomas, economic adviser to the Board of Governors of the Federal Reserve System, in a paper entitled, "Strategic Factors in the Current Business Outlook," presented at the Helen Slade Memorial Conference of Forecasting sponsored by the New York Statistical Society, on April 23, 1959, said:

Easy money, i.e., abundant credit availability and low interest rates, taken alone, cannot assure sustainable growth. Adequate credit is essential, but excessive credit, though a temporary stimulant, in the long run will lead to unstabilizing consequences. Where there are special weak elements in an otherwise strong economy, easy credit is likely to stimulate the already exuberant sectors without aiding those that are depressed.

The role of monetary policy is to assure the maintenance of an adequate supply of cash balances for the effective operation of the economy. There is no fixed amount relative to gross national product or any other measure that is appropriate under all conditions. Allowance must be made for changes in the rate of use of existing money, which may be influenced by liquid assets other than cash and by anticipations and other attitudes of the business community.

It is most important that bank credit not be employed as a substitute for saving at a time when investment demands exceed the supply of savings available for lending and when there is relatively full utilization of resources. In a broad sense, bank credit changes should correspond to changes in savings that are held in cash form, if economic balance is to be maintained.

Monetary policies should be conducted so as not to contribute to instability by forcing credit liquidation or stimulating unsustainable credit expansion. Monetary policies, however, cannot be expected to offset instability arising from other factors. To attempt to do so would be likely to accentuate rather than prevent instability in prices and employment in the long run. There is no case—at least since the establishment of the Federal Reserve System—in which a downturn has been brought on by tight money. Downturns have usually developed because of pricing policies and income distortions or unsustainable speculative developments that were often aided by excessive credit expansion.\(^9\)

It is significant that a person with the broad understanding of monetary policy and an association with the Federal Reserve System


extending for a period of 38 years—in fact, for all but 9 years of its existence—should categorically state that:

* * * There is no case—at least since the establishment of the Federal Reserve System—in which a downturn has been brought on by tight money * * *.40

Mr. Thomas was also a participant in the Forum of the National Industrial Conference Board previously referred to. He discussed Mr. Riefler’s basic economic views and summarized them as follows:

Inflation is the enemy of growth, particularly when there is public expectation that the purchasing power of money will continue to decline. Inflation impairs growth:

1. Because it increases instability—high level of activity cannot be sustained for long when inflation is expected to prevail;
2. Because it fosters the misallocation of capital and impairs the quality of the managerial and investment decisions on which growth is based;
3. Because it distorts the saving-investment process and encourages overspeculation; and
4. Because it undermines the country’s position in international trade.41

The recommendations contained in the majority’s report would, in time, jeopardize the entire financial stability of our economy and result in its virtual collapse. No Member of the Congress can accept these recommendations without great fear and concern. The Secretary of the Treasury had made a convincing argument in favor of having the maximum possible freedom in refunding our mounting Federal debt into obligations which would be attractive to institutional investors. The views of the majority’s report not only reject his request for the elimination of the present 4½ percent statutory ceiling on these bonds, but, furthermore, proposes an additional deterrent, namely, that “the Federal Reserve should immediately take the steps necessary to regulate the presently unregulated New York bond market and to apply margins to its customers.” If this step were taken, it is difficult even to begin to estimate what problems would be generated in the orderly handling of the Federal debt.

This last suggestion is made without any explanation or supporting evidence as to its necessity or any evidence of abuses in the New York bond market which requires this drastic intrusion of a new Federal regulatory power.

It is again noteworthy that the committee, in outlining its plans for the coming year, discusses the tabulation and summary of a questionnaire submitted by 17 security dealers. It states:

In connection with the committee’s hearings conducted as part of the study of employment, growth, and price levels, the 17 firms dealing in Federal Government securities were asked to submit detailed information on a number of aspects of their business over the last 10 years. The assembly and submission of this information is now nearly completed. The designated staff is directed to tabulate and summarize the data.

40 Ibid.
41 Ibid., p. 30.
from the dealers for committee consideration, in accordance with committee rule 23, in a manner which will not reveal the identity of any individual, partnership, corporation, or entity.

It is difficult to justify a sweeping proposal such as the regulation of the New York bond market when the committee admits that it has not yet tabulated the questionnaires received from dealers in these securities. In fact, it is appropriate to question whether any worthwhile result can be achieved by analyzing questionnaires if preconceived answers have been derived before their study.

It is remarkable that the majority's report of the Joint Economic Committee can completely fail to comment on the performance of the country's credit machinery during the past year as revealed in the President's Economic Report. Federal Reserve policy was directed at maintaining a stable price level. This goal has been achieved with only a small expansion in total bank assets. Nevertheless, the economy was able to finance a record recovery.

The majority's report states:

* * * We must, however, be concerned about the undue emphasis on fighting inflation which continued to dominate the administration's policies and those of the monetary authorities.

It seems far wiser to stop inflation before it starts than to clamp controls on the economy later.

The President's Economic Report shows that the growth in both consumer and real estate loans exceeded the high rates of 1955. He stated that—

Not only was consumer lending by banks at a record rate, but so was the overall increase in consumer credit outstanding. * * * All major categories of installment credit other than that extended for the purchase of automobiles rose more than in 1955. Contrary to the developments in that earlier year, however, there appears to have been no appreciable liberalization in 1959 of the maximum terms on which installment credit was made available to consumers.\(^4\)

He also said:

* * * The amount of nonfarm residential mortgage credit in use increased by a record $15 billion, compared with an increase of $12 billion in 1958. State and local security issues exceeded those in any previous year, as new authorizations of State and local securities continued to build up a large backlog of issues.

The credit markets were also required to supply funds associated with an increase of $7.9 billion in U.S. Government debt and to absorb outside of the banking system the $8 billion reduction, referred to above, in bank holdings of U.S. securities. Most of the new issues of Federal securities were obligations of short- and intermediate-term maturity, because the 4\(\frac{3}{4}\) percent interest rate limitation effectively precluded flotations of longer term U.S. Government securities after the early part of the year. Hence, the Federal Government was forced to do much of its needed financing in

the same maturity range in which commercial banks were reducing their holdings of Government obligations.

Investment sources outside the commercial banking system absorbed the new offerings of Federal securities, as well as bank sales of short- and intermediate-term Federal obligations, but at a substantial increase in rates. Non-financial corporations expanded their holdings by $5 billion mostly in very short-term securities; foreign and international accounts, savings and loan associations, and individuals likewise added to their portfolios.43

None of these statements indicate that the policies of the Federal Reserve System have in any way interfered with housing and home construction, with expansion of consumer credit, or the financing of State and local bond issues for those projects demanded by the voters in their respective localities.

It should be emphasized that an increase in the interest rates does not necessarily profit large institutional investors or commercial banks since the value of their present bond portfolio is immediately reduced. Furthermore, interest received on Federal securities in most cases is fully taxable, and a large portion of it reverts back to the Treasury.

The majority’s report continues to raise an emotional issue rather than to deal with an economic fact; namely, how the Treasury can best refund its obligations which are maturing at a rate of about $80 billion annually. As long as a large portion of the national debt consists of short-term securities, the financial community will be subject to continuing pressures which impede loans to small business which is the object of this committee’s apparent concern.

If a larger portion of the Government debt were sold to institutional investors who are necessarily interested in long-term securities at a competitive yield, the pressure on short-term borrowers and those concerned with the purchase of homes and consumer goods or requiring funds for financing small business would abate. High interest rates for these classes of borrowers are the direct responsibility of this Congress, which has refused to take the action recommended for their relief.

The majority’s report in its discussion of monetary policy expresses particular concern with the financing of homes. Page 209 of the President’s Economic Report, table D-46, shows a continuing growth in conventional mortgage financing which reached an all-time peak in 1959 of $77 billion, an increase of $9.4 billion over 1958. On the other hand, there was a decline in Veterans’ Administration mortgages of $300 million and an increase in Federal Housing Administration-insured mortgages of only $4.2 billion.

Artificial interest rates do not build homes, and they represent a disservice to those in the construction industry as well as to those who are seeking new housing.

These views were reinforced in testimony before the Joint Economic Committee by Dr. George Cline Smith, vice president and chief economist of F. W. Dodge Corp., on February 1. He commented on the role of interest rates as a factor in the growth of conventional mortgages and Government-underwritten mortgages. Dr. Smith said—

43 Ibid.
* * * there are many who believe that housing should be used as a balance for the rest of the economy, and it is obvious that it has tended to serve in this capacity. The question has been raised, however, whether it is (a) fair to those in labor and management whose incomes are tied to this industry to make use of it in such a manner, and (b) wise to interrupt the progress that might otherwise be made in such a social necessity as better housing.

I am firmly convinced that the principal, if not the only important cause of the cyclical movements of housing in the postwar period is the interest-rate structure—and only in the FHA-VA sectors of housing, at that. Demand as such for new housing has remained steady, year after year, as far as I can make out. Regardless of interest-rate changes, conventionally financed housing has not shown any significant cycle. The entire roller coaster in housing starts is accounted for by the FHA-VA-insured programs.

It is easy to deduce that the solution to the housing cycle lies either in maintaining steady and relatively low interest rates or in making the FHA and VA rates flexible enough to compete in the money markets. The first solution, in my opinion, is incompatible with our economic system. The latter solution has been requested by the President again in his messages to Congress.44

VI. CONCLUSIONS

Public Law 304, 79th Congress, the Employment Act of 1946, expressly provides that:

Sec. 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential consideration of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.45

It will be noted that all actions recommended by the Congress or the Executive should foster and promote free competitive enterprise. There are greater values involved than merely economic questions in this formulation of basic policy. Our forefathers provided that American citizens were to be afforded the maximum opportunity to determine how they shall live their lives under God. They had just fought a war to be free from the economic decisions imposed by a

Parliament who thought that they were more competent to determine how the settlers on this continent could best fulfill their lives.

Free competitive enterprise embraces a freedom of choice in disposing of one's income and in maximizing one's satisfactions, as long as it is not done at the expense of others. It embraces the freedom to work where one wishes, to purchase what one wants, to speak, think, and worship as one pleases. These are the basic tenets of the American way of life.

President Eisenhower in his Economic Report said:

However, we must go further in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can successfully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.

Our system of free institutions and shared responsibility have served us well in achieving economic growth and improvement. From our past experience, we are confident that our changing and increasing needs in the future can be met within this flexible system, which gains strength from the incentive it provides for individuals, from the scope it affords for individual initiative and action, and from the assurance it gives that Government remains responsive to the will of the people.46

The Chairman of the President's Council of Economic Advisers, Dr. Raymond J. Saulnier, has repeatedly stated that the ultimate purpose of the American economy is to produce more consumer goods. He stated that the objective of everything that we are seeking is to produce things for consumers. This philosophy is consistent with the freedoms embodied in our basic history. On the other hand, there are many individuals who believe that the objectives of our economy are not merely the production of more consumer goods which in turn is predicated on free consumer choice, but rather more facilities provided by Government. These thoughts have appeared in many books and papers written in recent years, which are predicated on the premise that we have become "an affluent society." Their concept is based on Government planning rather than consumer choice in the marketplace.

I reject this philosophy unequivocally. The policies and recommendations embodied in the majority's report, if they are ever enacted into law, would, in time, result in the elimination of those freedoms which Americans cherish.

The American economy is based on voluntary decisions rather than planning by an all-wise bureaucracy. It is relatively easy to plan an economy where living standards are low. The only consideration is to insure that everyone shall have a basic subsistence.

Fortunately, we are living in a country where competition in the marketplace for the patronage of consumers who are free to buy or not to buy provides the motivating force, and our living standards are the highest in the world. If Government spending and taxes

rise to a point where the collective decisions represent too large a share of our gross national product, the incentive system which has made this country great will be destroyed.

This committee is necessarily concerned with maintaining a rate of growth which will not only advance the well-being of our people, insure the maximum employment consistent with the maintenance of free enterprise, but also insure our ability to assist other countries in the free world to maintain their way of life free from aggression from any source. Many attempts have been made to justify excessive Government direction of the economy on the basis of Russia's supposed rise in productivity.

One of the most distinguished economists of this age is Colin C. Clark, formerly of Australia, and presently director of research for the Econometric Institute, Inc., who testified before the Joint Economic Committee on September 28, 1959. Mr. Clark, who has contributed so much to modern economics, dealt with this subject in his testimony before the committee, but this again was never referred to in the majority's views in Senate Report No. 1043. The following colloquy between the chairman and Mr. Clark is basic to an understanding of our problem:

The CHAIRMAN. In recent years the rate in Western Europe has had a higher growth rate than we? Western Continental Europe?

Mr. CLARK. Yes. But these figures are of their nature misleading, because you are taking countries which have been devastated by war, and you are measuring their rate of recovery. I think it is a fair parallel to take a doctor who is treating a child recovering from a serious illness, plotting its weight on a diagram, seeing how rapidly it rises, and saying that within a year the child will weigh more than its father. If a doctor did that, we would regard him as unfit to practice medicine. But economics is still a very unsophisticated science. And a lot of these claims which are made about the Russian growth rate are entirely wide of the mark. The idea seems to have got general acceptance that the Russian growth rate is two or three times the American.

In fact, over the long period—and I submit the detailed evidence—the Russian growth rate in product per man-hour is very considerably below the American.

The CHAIRMAN. The Russians are undoubtedly unscrupulous at handling figures. How can you be clever enough to detect the degree of their unscrupulousness and deflating figures properly?

Mr. CLARK. It has taken more than 20 years of continuous study, Mr. Chairman. I first published a book on this subject in 1939, and I have relied a good deal on other critical work, particularly by Jasny, Nove, and Chapman. I should also add that the work done by Professor Nutter in the National Bureau of Economic Research comes to exactly the same conclusion using an entirely different method, because I have worked using figures of actual consumption and investment. He has worked by using manpower productivity in sectors of manufacture. And he has come to just the same conclusion.
You can understand the zeal with which Soviet and fellow-traveling propagandists tried to make their case, because the Russian philosophy is a materialist one. The Russian people have been called upon to sacrifice their property and their freedom and their family life and their religious beliefs and everything else for the sake of productivity, and it is a bit hard to find, as they are finding, that all they have is a very second-class improvement in productivity in return for sacrificing everything else.

Coming back to American prospects, I should say there is no serious prospect of the 2.3 per annum productivity growth being increased. Or, if it is to be changed, it will only be changed very slowly. These productivity changes in nearly every country take place continuously and slowly. 47

To preserve the freedoms that we cherish, Government expenditures and taxation must be curbed. This philosophy is contrary to the entire thesis of the majority's report. It is unfortunate that Mr. Clark's earlier testimony was not reflected in the preparation of the majority's views. Mr. Clark testified:

You may remember, Mr. Chairman, in 1952 you presided over a radio debate between myself and Professor Heller, who took the view that high levels of taxation did no economic harm. That is the view held, I am afraid, by the majority of economists. And when we concluded the debate, we left the matter undecided, and I said, "Well, if I come back after a few years, I am afraid I shall find American prices very much higher than they are now in 1952." And I am afraid that has been the case. The rise has been persistent, even though we have had two quite sharp business recessions during the intervening years.

I first reached this conclusion about 25 percent of the national income's being the safe limit for taxation in an article published in the Economic Journal in 1945. And it is an interesting point that the editor of the Economic Journal who published the article was Lord Keynes, and in addition he wrote me a personal letter in 1944 in which he said that he agreed with my conclusions. In fact, during the last years of his life Keynes went out of his way to say that he himself was not a Keynesian, and he did not agree with the ideas which were being advocated in his name. 48

In spite of the fact that no one has refuted Mr. Clark's conclusion that 25 percent of the national income is a safe limit for taxation, in 1958, the last year for which total figures are available, Federal, State, and local taxes combined to consume more than 30 percent of our national income. Furthermore, the Federal Government was operating with a deficit of $13.3 billion. 49

Unfortunately, these same ideas are now being advanced by individuals far less able than Keynes to understand their full implications to our way of life.

48 Ibid, p. 2459.
ADDITIONAL VIEWS OF SENATOR JACOB K. JAVITS

Government is the servant of the people, not their master. It exists to serve their requirements, to create the climate and the security within which they can pursue the means to achieve a high standard of living and a creditable national destiny. Hence Government spending—additions to the gross national product by Government itself—is not the optimum way in which to achieve the highest aggregate well-being or to increase most effectively the Nation’s resources or its productivity.

It is vital to recognize two factors:

First, our efforts in respect of slum clearance and urban renewal, resources development, schools, aid to depressed areas in the United States, health and medical research, and similar programs must be directed toward facilitating and improving the people’s opportunity and capability to produce and to enjoy, rather than being considered to constitute production in and of themselves. Second, increase of production and growth of productivity is not in itself an absolute objective in a private economy; such growth must be selective in order to have the greatest and most meaningful impact on the welfare of the people and the interests of the Nation. For example, increases in housing, modernization of our railroads, and slum clearance and urban renewal are far more important for meaningful growth in the economic system than is the production of ever more expensive, complex, and extravagant luxuries. While luxuries may make our lives more enjoyable—and we certainly value them as an essential part of the American way of life—there must be a certain balance between the extent of such production and other uses of our productive resources within the totality of the national balance sheet.

It is these two major points which are basic to my disagreement with the majority, which it seems to me does not give them the weight they deserve, in their discussion of growth and the utilization of our national resources. It is for that reason that I feel impelled to state my views separately. I also wish to note that I feel it is the duty of the Joint Economic Committee, in reviewing and reporting on economic conditions to the Congress and the Nation, to narrow and point up the divergences in our different points of view, while indicating the wide areas where agreement exists, rather than to widen divergences of view, which has been, I regret to state, the effect of recent reports.

Whatever else might have developed since the time of the President's 1959 Economic Report, one thing is now clear: There appears to be general agreement that while the danger of a hot war in the struggle between freedom and communism has diminished lately, the reality of the economic and social struggle has grown more real and urgent. It has also become clear that in this economic and social struggle the final decision is going to be won “at home,” considering the whole free world as home. For the battleground of decision is seen with constantly greater clarity to be the less developed and relatively uncommitted nations and areas of the free world in south and southeast Asia, Asia Minor, Africa, and Central and South America.
In this struggle two questions will decide: First, can the free world help the people of the less developed areas attain an adequate rate of development, leading them as quickly as they have a reasonable right to expect toward more tolerable living conditions, and second, will the Communists be able to persuade the peoples of these less developed areas that the way to attain their social and economic objectives is by accepting at one and the same time the tyranny, suppression of human dignity, and iron discipline of communism? Upon these two questions hinges the fate of the free world, and therefore of mankind.

In the Economic Report of the President, taken together with the President's message on foreign economic assistance which was sent to the Congress on February 16, 1960, we are beginning to spell out these issues and questions, and the ways to answer them.

The challenge of the free world is its own economic and social integration. It is now clear that whatever the Communists may do, the effective combination of free men can frustrate and defeat them and win the epic struggle of our times for freedom.

Basic to the economy of the free world, especially of the newly developing areas to which an active foreign trade in the primary commodities is indispensable, is a liberal U.S. trade policy. Such a trade policy is required in fairness to consumers in the United States and calls, also, for the increased competitive sharpness of our domestic production system. It calls for increased exports, particularly in the face of our substantial balance of payments deficit, exports which are in themselves a test of our productive capacity and competitiveness in the struggle between free institutions and communism. It requires that the other industrialized nations of the free world must join in the work of economic development of the less developed areas. The potential for this cooperation exists, the will is there, and a start has been made at the recent Paris conference of January 1960, with the proposals of Under Secretary of State Douglas Dillon, aimed at the establishment of a 20-nation organization of Atlantic economic cooperation which can pursue coordinated economic policies.

In these endeavors we must also keep very much in the mind the possibility of economic dislocation in certain segments of the economy, which can result from increased imports—while we recognize that exports employ eight or more times as many Americans as are adversely affected by such imports. We know we cannot sell (export) if we do not buy (import), but we must establish machinery to assist those economic areas which are adversely affected by the overall U.S. foreign trade policy by making available to such industries and employees low interest loans, reconversion and retraining assistance, and, where necessary, aid in relocation. We must never forget the impact at home of our national policies, nor must we place ourselves in the situation where our failure to meet these domestic needs will adversely affect our long-range national economic policy requirements, which have their impact on the economy as a whole.

Of great importance to the outcome of the economic struggle will be the degree to which U.S. civilians enlist directly in the effort to
promote peace and prosperity in the free world by working overseas for businesses and voluntary organizations, as well as for the Government. A national drive should be launched to usher in a new era in 1960, an era of thousands of well-trained, dedicated, versatile young Americans abroad, as businessmen, students, workers, teachers, missionaries, technicians, and doctors, together with their families, ready and willing to teach or to train as well as to listen and learn.

Person-to-person diplomacy by 500,000 American civilians working overseas compared to the 100,000 working overseas now is a realistic short-range goal, if U.S. public and private overseas assistance continues to expand and grow as it should in less developed areas and as U.S. colleges and universities equip themselves to train thousands for overseas assignments. The great majority of these Americans working abroad are destined to be stationed in the front lines of the new economic struggle, for the less developed areas are the favorite target for the Communist bloc's economic penetration.

It seems clear that an increase in productivity is essential not only to enable us to meet the needs of our growing population, but to improve as well our overseas position in terms of our balance of payments and to enable us to carry the leadership of the free world for peace.

A conscious effort to increase our productivity may well be made with help from our wartime experience, during which 5,000 labor-management productivity councils were registered with the Federal Government. The Department of Labor in cooperation with the Department of Commerce and other appropriate agencies should begin to lay plans for the development of local and regional labor-management productivity councils. Such councils should have representatives of the trade unions, management, and possibly local government. They could at this time plan for improving labor-management relations, the transition to automation, improving plant efficiency and safety, improving job training and apprenticeship programs, reducing avoidable absenteeism, and establishing better mutual understanding between industry and the community. I am planning to introduce legislation in the near future which would promote the establishment of such councils.

I fully recognize the validity of the President's position with respect to the Federal Government's fiscal policy, requesting favorable action by the Congress on his recommendations for appropriations and revenue measures contained in the 1961 budget; the use of an expected $4.2 billion surplus for debt retirement; and action by the Congress with respect to the interest ceiling on issues of long-term Federal bonds. But, I must point out that none of these points are immutable or inflexible in their specific implementation.

The financial viability of this Nation is a major element in national security, growth and high production, employment and income, and therefore we cannot lay aside budgetary considerations; at the same time, it would be folly to permit them to become the primary determinants of our national policy. We must achieve the ability to
meet the domestic and international economic challenges which confront us, without making a budget surplus our sole aim—yet with the intent to balance the budget and to achieve a meaningful surplus for the reduction of the national debt wherever possible, by a careful, hardheaded regard for budget and fiscal necessities. The budget may well have to yield to such exigencies as adequate aid to education and still could show a substantial surplus—while in return, the results of sufficient Federal assistance in this area today will result in substantially greater benefits to the national strength, income and revenues.

A little loosening of the budget could be joined with tax revision and tax reform. I recognize the obligation to support an adequate tax structure, both in terms of continuing for the present the existing scale of most excise taxes and in terms of closing tax loopholes which presently permit large segments of the economy to escape their responsible share of the burden of Government. That is why I favor a reasonable reduction in the 27 1/4-percent oil depletion allowance, in excessive mineral depletion allowances, and in other special tax privileges. Also consideration needs to be given to the encouragement of foreign private investment, the retirement needs of middle-income earners, and small business.

The current red-hot debate over the existence of a U.S. "missile gap" and the adequacy of our defenses, and the implications of these factors for the destiny of the United States as the leading free world power, have projected into even greater prominence the status of our higher education system and our dependence on its capability in the years ahead to train and develop the talent essential to free world leadership in the space age—scientifically, technologically, and culturally.

With respect to the importance of debt management policy to price stability, budgetary control and the strength of the economy, there can be little doubt. But even here there can be flexibility in meeting the requirements of the Economic Report. For example, the President's recommendation with respect to interest rates on long-term bonds—those with maturities over 5 years—could be met by granting this request with respect to bonds issued during a term of years—perhaps the next three—thus retaining residual congressional control, with provision for a review of the operations of the Treasury while freed from the ceiling during the intervening years. In addition, I continue to urge that the Treasury meet at least part of its need for long-term funds through fuller utilization of the special role of savings bonds. The particular anti-inflationary character of these issues, their substantially lower interest costs to the Government, and the leeway which now exists with respect to their interest rates, set at 3.75 percent by the Treasury, but subject to a ceiling of 4.25 percent, calls for a vast increase in their sales. Right now they are at a new low ebb as a means of Federal Government finance with redemptions rising and sales falling.

Irrespective of congressional action on long-term marketable bond interest rates, I urge that there be a drive to sell to the public what we now call savings bonds, but what should be renamed "peace bonds"—this drive to feature a special $25 billion issue which would seek to attract millions of new investors in a significant shift of the national
debt into these securities. These should carry an interest rate higher than the present 3.75 percent if that is necessary to achieve the desired amount of sales. My colleague, Senator Williams of Delaware, has suggested a most commendable plan for such savings bonds which would call for an immediate rise in their interest rates to 4.25 percent.

It should be clear that to meet our economic and production needs, reliance cannot be on monetary and fiscal policy primarily. These are tools and catalysts; they do not create and produce goods in themselves. It is the potentials of labor and capital, of inventiveness and managerial skills which produce and which increase productivity. The potentials of the United States with respect to such real productivity increases are great and they must be achieved to make our economic position secure. The real problems here require us to come abreast of such specific national needs as an adequate transportation system, as reflected in the problems of the railroads in terms of modernization, research and development of new techniques. In this specific area, I have just introduced legislation to establish a National Advisory Committee on Rail Transportation, with the specific duty of undertaking and guiding research and development programs to enable this vital industry to modernize its facilities and upgrade its operational efficiency and services in the discharge of its present and future responsibilities. This committee would function along the lines of the National Advisory Committee on Aeronautics, which led in the technological development breakthrough of the aviation industry to the healthy giant it is today.

We must not ignore the ancient maxim that man does not live by bread alone, nor forget that a healthy and strong economy must find a proper place for the democratic aspirations and the cultural needs of its citizens. Purely in terms of economic welfare and strength, these factors are vital, for the human resources of all our peoples, regardless of race, color, religion or national origin must be equally available to strengthen and contribute to the economic requirements of the country. When prejudice and discrimination deprive us of the services of one person, or deprive one person of the opportunity to achieve, through adequate education, the ability to serve to the best of his potential, every American suffers the consequences. Discrimination is a luxury we cannot afford; in addition, it is a drain on the body politic which weakens it far beyond the loss to any individual worker. A free economy depends on a free society—one in which the opportunity of economic choice and the opportunity of political and social choice go hand in hand.

Similarly, the morality of the Nation, as reflected in its attitude toward minorities and in its support of cultural activities, goes not only toward strengthening it in its productive powers, but also continues to assure that what we are fighting for in the struggle of economic and social systems between freedom and communism will be attained at home.

In all these considerations, I think that the greatest importance should be placed on finding the methods which will maximize the use of the private sector of the economy to meet the needs of our people and our Nation, both at home and abroad. We must find the areas
in which, without sacrificing the basic economic precepts of free enterprise and individual choice, we can expand our wealth, production, and employment while, at the same time, protecting our standard of living, our fiscal stability, and the value of the dollar. Our task is to balance our needs, not with the thought that one goal must be sacrificed to achieve another, but with the full realization that we may be able to achieve most or all of them through a judicious use of our resources.

Survival is not a noble end in itself. It is meaningful only if what survives in our Nation is our freedom, our cultural heritage, and our standards of values and morality for which our peoples have striven so heroically in the past, and will always strive.
PUBLICATIONS OF THE JOINT ECONOMIC COMMITTEE

January 1947–February 1960


Hearings on Current Price Developments and the Problem of Economic Stabilization (June 24, 25, 26, July 2, 8, 9, 10, 14, 15, 16, and 17, 1947): July 1947.


*Hearings on Anti-inflation Program as Recommended in the President’s Message of November 17, 1947 (November 21, 24, 25, 26, 28, December 2, 3, 4, 5, and 10, 1947): December 1947.


*Hearings on Allocation of Grain for Production of Ethyl Alcohol (February 5 and 6, 1948): February 1948.


Hearings on Increases in Steel Prices (March 2, 1948).


*Statistical Gaps, Current Gaps in Our Statistical Knowledge (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: July 1948.

Consumers’ Price Index (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: December 1948.

*Hearings on Profits (December 6, 7, 8, 9, 10, 15, 16, 17, 20, 21, 1948): December 1948.


Hearings, January 1949 Economic Report of the President (February 8, 9, 10, 11, 14, 15, 16, 17, 18, 1949): March 1949.


1 Single copies of the publications listed may be obtained from the Joint Economic Committee except as otherwise noted. Additional copies of committee publications may be purchased from the Superintendent of Documents, Washington 25, D.C., at the price given. The prices shown are for single copies. There is a discount for quantity orders. Out-of-print publications are denoted by an asterisk. Publications available only from Superintendent of Documents are denoted by a dagger (†).

*Employment and Unemployment (initial report of the Subcommittee on Unemployment), committee print: July 1949.

*Economy of the South (the impact of Federal policies on the economy of the South), committee print: July 1949.

Factors Affecting the Volume and Stability of Private Investment (materials on the investment problem assembled by the staff of the Subcommittee on Investment), Senate Document 232: September 1950; reprinted from committee print of October 1949.


*Selected Government Programs Which Aid the Unemployed and Low-Income Families (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families), committee print: November 1949.

Low-Income Families and Economic Stability (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families), Senate Document 231: September 1950; reprinted from committee print of November 1949.

Compendium of Materials on Monetary, Credit, and Fiscal Policies (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others), Senate Document 132: January 1950; reprinted from committee print of November 1949.


Basic Data Relating to Steel Prices (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings), committee print: January 1950.

Highways and the Nation’s Economy (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145: January 1950.

*Hearings, Subcommittee on Monetary, Credit, and Fiscal Policies, Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949): January 1950.


*Handbook of Regional Statistics* (material assembled by the staff of the Joint Committee on the Economic Report), committee print: April 1960.


*General Credit Control, Debt Management, and Economic Mobilization* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print: January 1951.

*Underemployment of Rural Families* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print: February 1951.


*Making Ends Meet on Less than $2,000 a Year, Case Studies of 100 Low-Income Families* (communication to the Joint Committee on the Economic Report from the Conference Group of Nine National Voluntary Organizations Convened by the National Social Welfare Assembly), committee print: July 1951.


*The Need for Industrial Dispersal* (materials prepared for the Joint Committee on the Economic Report by the committee staff), Senate Document 55: August 1951.

*National Defense and the Economic Outlook* (materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: August 1951.

*Inflation Still a Danger* (report of the Joint Committee on the Economic Report together with materials on national defense and the economic outlook included in committee print mentioned above), Senate Report 644: August 1951.

*Questions on General Credit Control and Debt Management* (prepared by staff of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report), committee print: October 1951.

*Monetary Policy and the Management of the Public Debt. Their Role in Achieving Price Stability and High-Level Employment* (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management): February 1952.


The Taxation of Corporate Surplus Accumulations, The Application and Effect, Real and Feared, of Section 102 of the Internal Revenue Code dealing with Unreasonable Accumulation of Corporate Profits (study prepared for the Joint Committee on the Economic Report by Dr. J. K. Hall), committee print: May 1952.

*Hearings, Subcommittee on General Credit Control and Debt Management, Monetary Policy and the Management of the Public Debt (March 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, and 31, 1952): May 1952.


Federal Tax Changes and Estimated Revenue Losses under Present Law (Materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: November 1952.

Sustaining Economic Forces Ahead (Materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: December 1952.

†Pensions in the United States (A study prepared for the Joint Committee on the Economic Report by the National Planning Association), committee print (sale price 30 cents): December 1952.


*Historical and Descriptive Supplement to Economic Indicators: December 1953.

*Hearings, January 1954 Economic Report of the President (February 1, 2, 3, 4, 5, 8, 9, 10, 11, 15, 16, 17, 18): March 1954.


Congressional Action on Major Economic Recommendations of the President, 1954 (Materials prepared by the Joint Committee on the Economic Report by the Committee Staff), committee print: September 1954.

†Potential Economic Growth of the United States During the Next Decade (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 15 cents): October 1954.


Historical and Descriptive Supplement to Economic Indicators: November 1955.

*Hearings, Subcommittee on Economic Stabilization, Automation and Technological Change (October 14, 15, 17, 18, 24, 25, 26, 27, and 28, 1955) (sale price $2.00): November 1955. (Reprinted September 1959.)


†Hearings, Subcommittee on Tax Policy, Federal Tax Policy for Economic Growth and Stability (December 5, 6, 7, 8, 9, 12, 13, 14, 15, and 16, 1955) (sale price $2.00): January 1956.


†Characteristics of the Low-Income Population and Related Programs (Materials prepared by the staff of the Subcommittee on Low-Income Families), committee print (sale price 60 cents): October 1955.


Hearings, January 1956 Economic Report of the President (January 31, February 1, 2, 3, 6, 7, 8, 9, 14, 15, 17, and 28, 1956): March 1956.


*Employment Act of 1946, as Amended, and Related Laws, and Rules of the Joint Economic Committee (prepared by staff of the Joint Economic Committee) committee print: January 1957.


Hearings, Subcommittee on Fiscal Policy, Fiscal Policy Implications of the Economic Outlook (June 3, 4, 5, 6, 7, 13, and 14, 1957) (sale price $1.00): June 1957.

†Productivity, Prices, and Incomes (Materials prepared for the Joint Economic Committee by the committee staff), committee print (sale price 70 cents): June 1957.

Soviet Economic Growth: A Comparison with the United States (A study prepared for the Subcommittee on Foreign Economic Policy of the Joint Economic Committee by the Legislative Reference Service of

1957 Historical and Descriptive Supplement to Economic Indicators (Prepared for the Joint Economic Committee by the Committee Staff and the Office of Statistical Standards, Bureau of the Budget), committee print (sale price 40 cents): September 1957. (New edition late 1960.)


†The Relationship of Prices to Economic Stability and Growth (Papers submitted by panelists appearing before the Joint Economic Committee), committee print (sale price $2.00): March 1958.


The Relationship of Prices to Economic Stability and Growth (Commentaries submitted by economists from labor and industry appearing before the Joint Economic Committee), committee print (sale price 65 cents): November 1958.


†Economic Policy in Western Europe (Report based on conferences on economic policy matters held in seven countries of Western Europe late in 1958 together with selected materials assembled by the committee staff), committee print (sale price, $1.25): July 1959.

Comparison of the United States and Soviet Economies (Papers submitted by panelists appearing before the Subcommittee on Economic Statistics), committee prints.
†Part I (sale price, $1.00): October 1959.
†Part II (sale price, 45 cents): November 1959.


†Hearings, Automation and Energy Resources, hearings before the Subcommittee on Automation and Energy Resources, October 12, 13, 14, 15, 16 (sale price, $1.25): November 1959.

Employment Act of 1946, as Amended, and Related Laws, and Rules of the Joint Economic Committee (prepared by staff of the Joint Economic Committee), committee print: November 1959.
REPORTS, HEARINGS, AND STUDY PAPERS FROM THE STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

†Staff Report on Employment, Growth, and Price Levels (committee print) (sale price $1.50): December 1959.


†Part 2. Historical and Comparative Rates of Production, Productivity, and Prices, April 7–10, 1959 (sale price $1.00): May 1959.


†Part 9A. Constructive Suggestions for Reconciling and Simultaneously Obtaining the Three Objectives of Maximum Employment, an Adequate Rate of Growth, and Substantial Stability of the Price Level, October 26, 27, 28, 29, 30, November 2, 3, 4, 5, and 6 (sale price 70 cents): December 1959.

†Part 9B. Same title as 9A. (Materials submitted by 12 organizations at the invitation of the Joint Economic Committee) (sale price 45 cents): December 1959.

†Part 10. Additional Materials Submitted for the Record (sale price 60 cents): January 1960.

†No. 1 Recent Inflation in the United States by Charles L. Schultze (sale price 40 cents): September 1959.
Nos. 2 and 3 Steel and the Postwar Inflation by Otto Eckstein and Gary Fromm; An Analysis of the Inflation in Machin...lean price 25 cents): November 1959.

Nos. 4 and 5 Analysis of the Rising Costs of Public Education by Werner Z. Hirsch; Trends in the Supply and Demand of Medical Care by Markley Roberts (sale price 30 cents): November 1959.


ECONOMIC INDICATORS

Economic Indicators (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (sale price 20 cents a copy, $2.00 a year): Issued monthly.
Experience in the 1950's demonstrated the immense resiliency, strength, and adaptability of our free enterprise economy. As we enter the decade of the 1960's, the economic outlook is indeed encouraging. But we should not permit a favorable outlook to lull us into unwarranted complacency. The challenge that confronts us -- not solely in Government, but every individual, group, and institution in this country as well -- is to conduct our affairs in such manner as to prolong the prosperity that we are now enjoying.

Our budget projection of the economy for 1960 reflects this favorable outlook. It is always difficult, of course, to make specific assumptions covering a budget which extends over the next 18 months. Our best judgment is, however, that a gross national product of $510 billion can be reasonably projected for the calendar year 1960, compared with a $479 billion total for the calendar year 1959. Our projection of personal income for this calendar year is $402 billion, as compared with $380 billion in 1959. Our projection of corporate profits of $51 billion in this year compares with a $48 billion figure for the calendar year which has just been completed. All of these estimates are stated in terms of present price levels. We believe these estimates represent a realistic appraisal of the current outlook and fully support our projection of $84 1/2 billion of Federal Government revenue for the fiscal year 1961.

We must make certain that the growth we experience this year -- and in the decade as a whole -- is growth at a sustainable pace, unwarped by the distortions, imbalances, and excesses that, if allowed to emerge, inevitably sow the seeds of reaction and recession. This need for balanced growth emphasizes the necessity for combatting any incipient build-up of inflationary pressures.

Inflation -- either in the form of a gradual, insidious rise in the price level, or as a rapid increase of costs and prices -- is in fact the enemy of sustainable growth. Inflation breeds the very recessions and unemployment that stand as a barrier to sustained growth. And either the fear or the fact of inflation, by impairing the will to save in traditional, fixed-dollar forms, will in the long run lead to a shortage of savings to finance the real investment in plant and equipment that is so essential to the growth process.
The fact that inflation, if allowed to occur, can be expected to stunt our rate of growth in the future provides sufficient reason for determined efforts to prevent further erosion in the purchasing power of the dollar. We must also be continuously mindful of the impact of inflation on various groups in the economy, particularly those people whose incomes are relatively fixed, who live on the proceeds of pensions, annuities, social security, and similar types of savings.

Beyond these considerations is the important fact that further inflation can only impede our efforts to reduce the deficit in our international balance of payments -- a deficit which threatens to hamper our efforts to contribute as we should to the military security and economic strength of the free world. Our attack on this problem will continue to be consistent with our vital goal of promoting multilateral world trade. It will, in short, be directed -- not toward protectionism and restriction -- but toward liberalization and expansion of world commerce. We shall continue to search out appropriate ways of encouraging American exports of goods and services; to press for removal of discriminatory restrictions on dollar imports abroad; and to encourage other industrial countries to participate more adequately in the provision of capital to under-developed countries.

It would be an empty achievement, indeed, if we were apparently successful in these efforts, only to find that internal inflation in this country had impaired our competitiveness in foreign markets. Thus, international developments provide still another important reason for maintaining stability in the price level as we pursue our goals relating to growth and employment.

Inflation was held largely in check in 1959. Although consumer prices -- reflecting a continued uptrend in prices of all major groups except food -- rose by a small amount during the year, the wholesale price index actually declined slightly. While this performance was good, and is a cause for satisfaction, it is no cause for relaxation of our efforts to protect the purchasing power of the dollar.

In an economy so large and highly diversified, the causes of inflation are bound to be complex, and it follows that there is no single, simple cure. We know, for example, that inflationary pressures are fostered by waste and inefficiency, whether these occur with respect to business management, labor practices, individual actions, or the activities of government. A rise in certain types of costs of production faster than increases in productivity can also contribute to inflationary pressures. In addition, undue concentration of market power may permit certain industries to raise prices in the face of declining demands, and shifts of demand from one type of goods and services to another may also exert a net inflationary impact. The nature of some of these forces is not yet fully understood; further study and evaluation are necessary before policies to deal with them can be formulated.
But of one thing we can be certain: the over-all relationship between the demand for and supply of total output is still basic to any meaningful attempt at inflation control. Consequently, unless we are especially diligent in our efforts to prevent an unsustainable upsurge in economic activity during a period of expansion, we almost surely must resign ourselves to the price increases that result from such excesses. Moreover, as pointed out earlier, unsustainable upsurges tend to be followed by corrective recessions and consequent unemployment of labor and other resources.

Federal financial policies -- including Government actions with respect to the budget, monetary management, and public debt operations -- are generally recognized as having a significant impact on total demand for goods and services in the economy. As a result, the constructive use of these policies must stand in the forefront of our efforts to fight inflation, as well as our efforts to combat recessionary tendencies. We must recognize that, while such policies alone cannot assure success in our efforts to attain sustainable economic growth, their utilization in a prudent and responsible manner is essential.

Opinions differ as to how these three policies should be used, and this is especially true with respect to budget policy. According to one view, a period of actual or threatening inflation, reflecting at least in part the pressures of demand, would call for a large surplus in the Federal budget. This would be achieved by an increase in tax rates, a cut in expenditures, or some combination of the two. Such a surplus, it is argued, would help dampen total demand inasmuch as Government spending would fall short of revenues.

This program would, according to this view, be consciously and actively reversed during a recession. Reductions in tax rates and increases in expenditures would contribute to a large deficit in the budget; such a deficit would stimulate total demand, inasmuch as Government spending would exceed revenues.

This approach has some serious shortcomings in practice. For one thing, decisions as to taxes and spending programs often reflect many factors other than broad economic considerations. Moreover, the timely use of budget policy as a conscious countercyclical weapon is hampered by the fact that authority over taxation and spending is the joint responsibility of the Executive and the Congress and is not centered in one branch of the Government.

In addition, experience since the end of the Second World War indicates that it is much easier to achieve a budget deficit in a recession than a surplus in a period of economic expansion. Sizable deficits in recessions -- only partially offset by modest surpluses in periods of expansion -- tend to complicate the task of achieving sustainable growth in at least two ways. The net deficit over a period of years probably adds to inflationary pressures and secondly,
the growth in the public debt that is implied by such deficits, along with the difficulties encountered in managing a growing debt, is likely to complicate the flexible and timely administration of monetary policy.

Moreover, recent experience supports the view that conscious and active attempts to vary tax rates and spending to help avoid inflation and combat recession may well have perverse effects. Changes in tax rates and spending may sometimes take so long to plan, legislate, and put into effect that many months may pass from the time the need for a change in budget position becomes clear until the change actually affects total spending in the economy. By the time the actions become effective, the economy may have changed radically. As a consequence, large deficits may have their major impact during periods of rising business activity; surpluses may in fact be encountered during a business slump. Any proposals for an arrangement that would permit some sort of administrative variation in tax rates to counter cyclical trends, such as vesting additional authority in the Executive Branch, do not seem to be consistent with the system of checks and balances that is so important in our form of government.

Are we thus left only with the alternative of striving for a rigorous balance in the budget, year in and year out? I do not think that we are. The goal of a net surplus in the budget -- not only in prosperous periods but, on the average, over a longer period of time also -- is highly desirable. Furthermore, budget deficits of moderate size are probably unavoidable -- and indeed, desirable -- during periods of economic recession.

We should, in my opinion, follow some variation of the stabilizing budget proposal, in which budget policy, year in and year out, would be geared to the attainment of a surplus under conditions of strong economic activity and relatively complete use of labor and other resources. On this basis, the automatic decline in revenues and increase in expenditures during a recession -- reflecting in part the operation of the so-called "built-in stabilizers" -- would generate a moderate budget deficit. In prosperous periods, tax receipts would automatically rise and certain types of spending would contract, producing a budget surplus.

Over a period of a complete business cycle, a surplus for debt retirement would be achieved, but without the disrupting effects of necessarily attempting to balance the budget in recession. While intentional variations in tax rates and spending for cyclical purposes would thus be kept to a minimum, conditions might well arise in which such variations would be desirable.
The budget submitted by the President for fiscal year 1961 is fully consistent with this approach; about 5 percent of Federal revenues are earmarked as a surplus for debt retirement. If economic conditions were to change drastically and recession were to set in — a contingency which does not seem likely but is of course possible — the surplus would automatically be converted into a moderate deficit as tax revenues decreased and certain types of expenditures rose.

With the economy operating at high and rising levels of activity, the achievement of a $4.2 billion surplus in the Federal budget will help reduce the burden on monetary policy and will also facilitate debt management. In my judgment, the lack of adequate surpluses in the prosperous years following the Second World War -- which has resulted in a more than $30 billion increase in the public debt since the end of 1946 -- has meant that monetary policy has been called upon to bear more than its proper share of the burden in promoting sustainable economic growth. This unavoidably heavy reliance on monetary policy may have contributed to wider swings in interest rates and capital values than would have been necessary if budgetary surpluses had been adequate. But it seems incorrect to argue that monetary policy has tried to assume too large a role; the conclusion is rather that the degree of monetary restraint has had to be greater than would have been the case if budgetary surpluses had been adequate.

To some observers, Treasury debt management -- the third Federal financial policy -- affords a highly useful technique for promoting sustainable economic growth. Although the Treasury attempts to manage the public debt in a manner consistent with the attainment of our basic economic goals and, insofar as possible, tries actively to promote these objectives, the vigorous use of debt management in this fashion is sometimes impeded by important practical considerations. Inasmuch as these difficulties have been described in detail in the material supplied by the Treasury to this Committee in connection with its recently completed study of employment, growth, and price levels, I shall not discuss them at this time.

During a period of strong business activity, however, the Treasury should at least possess sufficient flexibility in debt management to be able to avoid debt operations that actively promote inflationary pressures. Otherwise, the beneficial effects of prudent budget and monetary policies may in part be offset. In particular, reliance on inflationary short-term financing should be minimized, and a reasonable amount of long-term securities should be marketed, either through cash issues or in advance refunding of outstanding securities.
Under today's market conditions, however, the 4-1/8 percent interest rate ceiling on new issues of Treasury bonds effectively prevents the Treasury from issuing any significant amount of new marketable securities of more than five years' maturity, either for cash or in exchange for securities at maturity or in advance of maturity. The Treasury is thus prevented from achieving any meaningful amount of debt lengthening -- or even of holding the average maturity of the debt close to its present length of only 4 years and 3 months. The interest rate ceiling is therefore forcing the Treasury to pursue inflationary debt management policies.

To the extent the Treasury concentrates its new issues in the four to five year maturity range, the decrease in the average maturity of the debt can be slowed, but there is a limit to the amount of securities of this maturity that can be sold without driving interest rates in this sector of the market to very high levels. Moreover, experience has indicated that undue concentration of new cash issues in the four to five year range, at the rates the Treasury would have to pay, might have a strong impact on the capital market -- and particularly the mortgage market -- as individuals withdraw funds from savings institutions to purchase the Treasury issues.

The restriction on interest rates that the Treasury can pay on new marketable bonds is in effect preventing the effective and proper use of Federal financial policies to promote sustainable economic growth. It would be regrettable indeed, if the salutary effects of prudent budget and monetary policies were permitted to be offset in part by so artificial a restriction. The President has once again urged removal of this harmful restriction, and it is to be hoped that early action in this respect will be taken, so that debt management can also bear its proper share of the burden in our efforts to achieve our vital economic goals.

Dear Tom:

Many thanks for putting my statement in the Congressional Record. I have appreciated very much your constructive and helpful attitude and certainly wish you well in all that you do.

Cordially yours,

Wm. McC. Martin, Jr.

The Honorable Thomas B. Curtis,
House of Representatives,
Washington 25, D.C.
February 29, 1960.

Dear Bill:

It is a pleasure to take the time to acknowledge such a nice note. I am glad you thought the statement was understandable and to the point.

With all good wishes,

Sincerely yours,

Wm. McC. Martin, Jr.

Mr. William J. Korsvik,
Assistant Vice President,
The First National Bank of Chicago,
Chicago,
Illinois.
February 26, 1960

Mr. William McC. Martin, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Chairman Martin:

Your statement before the Joint Economic Committee on February 2, which appeared in the Bulletin which arrived today, was excellent. Your discussion of the saving investment process and the role of the rate of interest was particularly clear and lucid. It is to be hoped that the statement will be carefully read by many persons.

Please do not take the time to acknowledge this note.

Best regards.

Sincerely yours,

William J. Korsvik
Assistant Vice President

WJK:nl
February 12, 1960.

Dear Norris:

It is nice to hear from you and I am pleased to send you a copy of my testimony on February 2 and hope you will approve of it.

With all good wishes,

Sincerely yours,

Wm. McC. Martin, Jr.

Enclosure

Mr. Norris O. Johnson,
53 Wall Street
New York 15,
New York.
February 11, 1960

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

Dear Bill:

If you could send me a copy of your testimony before the Joint Economic Committee I would be grateful.

With warmest regards,

Sincerely yours,
Airmail

February 8, 1960.

Dear Kim:

I thought you might be interested in my testimony last week.

With all good wishes,

Cordially yours,

Wm. McC. Martin, Jr.

Enclosure

The Honorable Cameron F. Cobbold,
Governor,
The Bank of England,
London,
England.
February 8, 1960.

Dear Stanley:

I thought you might be interested in reading this as it gives a little summary of the way in which the Treasury deficit was financed.

Cordially yours,

Wm. McC. Martin, Jr.

Enclosure

Mr. Stanley R. Jacobs,
120 Broadway,
New York, New York.
February 8, 1960.

Dear Jim:

I thought you might be interested in my testimony last week.

With all good wishes,

Cordially yours,

Wm. McC. Martin, Jr.

Enclosure

The Honorable J. E. Coyne,
Governor,
Bank of Canada,
Ottawa, Ontario, Canada.
By Wright Patman, M. C.

THE FEDERAL RESERVE HAS CONFIRMED MY STATEMENT CONCERNING THE MISUSE OF PUBLIC FUNDS.

Chairman Martin, it was more than seven months ago, on June 26 last year, that I released a statement setting out many, many examples of misuse, improper use -- and, I think, illegal use -- of public funds by various Federal Reserve banks. Your public relations team, it seemed to me, went to work immediately because there promptly appeared editorials in the financial journals and in many of the newspapers of the country to the effect that I had unfairly accused you and had misrepresented the facts. These editorials seemed all cut of the same cloth.

Now, seven months later, on February 1, 1960, you have transmitted your formal comments on my statement. It appears that you have had a team of writers writing for the full seven months because your document runs to 107 legal-size pages of single-space type. It is what I believe is called these days a "snow job". You have surrounded the facts I set out with thousands of words of explanation. Yet, when I plow through all of this lengthy explanation, I do not find any item where you have pointed out that my statement of seven months ago is incorrect in any particular. In point of fact, anyone who has the time to read all this will find that you have made a complete admission to everything I charged. You have just surrounded your confessions with a lot of verbiage and a lot of irrelevancies.

To illustrate let us begin with the first item on the first page of your comments. You began first by repeating my statement and then proceeded to answer my statement. My statement was as follows:

"The most glaring example of a continuation of an expenditure commented upon in previous reports by the examiners was with respect to Christmas remembrances given by the Chicago Bank. In the 1956 report, the examiners questioned a charge of $1,909.00 on December 23, 1955, covering expenses of Christmas remembrances to persons other than bank's own employees who rendered valuable service to the bank during 1955. In the 1957 report, the examiners called attention to the propriety and compliance with the rules and regulations of the Reserve Bank and the Board of Governors. Again in December 1956, Christmas remembrances involving an expenditure of $1,842.40 were commented upon..."

Then this is your answer:

"The recipients of such gifts have been municipal and private police, delivery men, equipment servicemen, hotel and transportation reservation clerks, and janitors and elevator
operators serving quarters the Bank occupies as tenant. It is an established custom in Chicago for business organizations to remember at Christmas time with gifts of cash and merchandise any employees of other organizations who, in the performance of their regular duties, render service to them in a capacity where the quality of the service could depend to some extent on the personal inclinations of such individuals.

"Most cash gifts are $10 a person and the top limit has been $25 for exceptional cases. All cash payments are made by check. The 1955 remembrances, totaling $1,909.94 for cash and merchandise, went to 593 people. The 1956 list had already been prepared at the time of the examination. As this involved in some instances the submission of names of their employees by the service organizations, the Reserve Bank stated that it was not possible to remove many names already on the list; however, individual amounts were reduced in a number of instances.

"As a result, the expense for that year was $1,867.40 for gifts to 629 individuals. In 1957, however, the list was reduced to 127 individuals and the total cost was $758.69. From a careful analysis of this list, it is the Bank's belief that the result represents the minimum conformance to local custom which will assure it of services reasonably comparable with those received by the rest of the business community."

Now, I think we can make these observations:

First, you do not deny that the money was given away or spent for Christmas remembrances.

Second, you do not claim that this use of public funds is proper. You simply claim that since this practice was first questioned the Chicago bank has cut down on the total amount of the gift-giving and has also spread the gift-giving around to a larger number of people.

Third, you do give information concerning the recipients of these gifts which was not available before. You claim they were for municipal police, private police, delivery men, equipment servicemen, hotel and transportation reservation clerks, janitors, and elevator operators. In other words, the picture pointed here is that the Federal Reserve bank is distributing its largesse to plain people and people, for the most part, in rather lowly jobs. Christmas time and all that, though you do not say anything about the poor little old lady who stands in the rain and snow selling violets and bringing a word of cheer and comfort to everybody.
Finally, you do suggest -- though you do not claim it -- that the level to which you have now reduced this gift-giving -- only $758.69 in 1957 as compared to $1,867.40 in the previous year -- is proper. Thus you say that the 1957 gift-giving is believed to represent "the minimum conformance to local custom." I am happy, of course, that this particular item of expense has gone in gifts to financially small and worthy people such as the Chicago police. In total, the expense is very small as compared with the more than $120-million a year the Reserve banks spend in providing free services of all kinds for the private commercial banks. Even so, these facts do not come to grips with the issue. The issue is whether the Federal Reserve banks have any right to spend or give away public funds for such purposes. I think you have no right and I think it is illegal.

This is the question I have posed, and it has not been answered yet, and I would like an answer. If the Federal Reserve Bank in Chicago or any other city can give away public funds -- funds which would otherwise go back into the U. S. Treasury -- for gifts for the local policemen, reservation clerks, elevator operators, and so on, why should not the local post offices and the local tax collection offices and all other Federal agencies in the locality do the same thing?

Now, I have one more question: In view of the 107-pages of very serious indictments -- extremely serious instances of misuse, abuse, and loose handling of public funds -- contained in this document, and in view of the fact that most of these same practices have been pointed out before and are still not cleaned up, why wouldn't the public agency under responsible direction and leadership welcome an investigation? Certainly the Federal Reserve's opposition to an investigation leads to no conclusion except it is still trying to hide and cover up matters that should be exposed to the public view.
This article is protected by copyright and has been removed.

Author: Leslie Gould

Article Title: Martin and Groundhog-Both Confused on the Weather Ahead

Journal Title: New York Journal-American

Date: February 4, 1960
This article is protected by copyright and has been removed.

Author: Bernard D. Nossiter

Article Title: Federal Reserve's Head Rejects Plea for More Money, Rate Cuts

Journal Title: Washington Post

Date: February 3, 1960
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This article is protected by copyright and has been removed.

**Article Title:** Economic: Six Economists Pointed Out Today Some Economic Weak Spots and Deflationary Forces They Said Will Bear Watching in 1960 Despite the Nation's Robust General Health

**Journal Title:** Associated Press News Wires

**Date:** February 3, 1960
Note:

These charts NOT INCLUDED IN FINAL DRAFT OF TESTIMONY (prepared for use in considering earlier drafts)
CHART 1

CREDIT ADVANCED, BY SECTOR
(BILLIONS OF DOLLARS)


TOTAL

FINANCIAL INTERMEDIARIES

CONSUMER AND BUSINESS

COMMERCIAL BANKING
CHART 2

MAJOR FINANCIAL INVESTMENTS BY CONSUMERS AND BUSINESS

(BILLIONS OF DOLLARS)

MARKETABLE SECURITIES AND LOANS

SAVINGS ACCOUNTS AND SAVINGS BONDS

DEMAND DEPOSITS AND CURRENCY

INDUSTRIAL PRODUCTION AND POPULATION

Seasonally adjusted, ratio scale

1957 = 100


INDUSTRIAL PRODUCTION

POPULATION

Millions of Persons

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis
CONSUMER GOODS AND INDUSTRIAL PRODUCTION

1957 = 100, seasonally adjusted
Chart 5

MARKET GROUPINGS, INDUSTRIAL PRODUCTION
1947-49 = 100, seasonally adjusted


EQUIPMENT
incl. defense

MATERIALS

CONSUMER GOODS

Ratio scale

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis
Senator Paul H. Douglas [D., Ill.] announced today that Secretary of the Treasury, Robert B. Anderson, whose earlier appearance had to be postponed because of illness would be heard in open hearing before the Joint Economic Committee on Tuesday, February 16, at 10:00 A.M. in the Auditorium of the New Senate Office Building, Room G-308.

Secretary Anderson will be the last of the witnesses to be heard on the 1960 Economic Report of the President.
In deciding what policy recommendations I as an economist ought to make, I must first judge what the betting odds are for the trend of business activity in 1960. On the information now available, I believe the prudent man must agree that the Administration's estimate of a 1960 Gross National Product averaging about 510 billion dollars is an acceptable one.

This also means that the tax receipts estimated in the Budget are reasonable — on the assumption of course that Congress follows all the President's recommended tax programs. However, few Washington observers are rash enough to predict that will happen; and perhaps fewer still expect Congress to enact the postal rate increases and other expenditure programs in quite the form called for in the Budget. Moreover, the predicted cost of our agricultural program under present legislation seems to me to be understated in the Budget estimates.

For the above reasons I find it more relevant to drop the official figure of a 4.2 billion dollar surplus in the Administrative Budget. For policy discussion we might more realistically think in terms of a budget surplus of 2 to 3 billion dollars. And what does this imply for the economically more important concept of the cash budgetary surplus? After we cut through all the bookkeeping details and shams, we find a likely surplus.
of what the government actually takes from the community in receipts over what it pays out to the community of something over 4 billion dollars -- as against the corresponding official Cash Budget of almost 6 billions.

II

Evidently there are some important public misunderstandings about the economic meaning of the expected budget surplus. First, many Wall Street traders have been saying that such a surplus is deflationary and have been attributing much of the sharp but orderly January decline in common stock prices to the prospect of a budget surplus. Second, there is the widely-expressed belief that a budget surplus is of itself a powerful force making for easier money. Both views are, to say the least, misleading.  

Two other current fallacies are worth mentioning. Often we hear that selling government securities to the banks is inflationary. This is certainly wrongly stated: selling them to the Federal Reserve Banks and thereby expanding member bank reserves would be inflationary; but, with the same Reserve Bank Credit, lodging bonds firmly in the banking system would help to cut down on their expanding loans and would if anything damp down on inflation. Purchases of bonds by the non-banks have not been because people and businesses have been cutting down on their normal consumption and investment spending; so such a shift in debt holding from the banking system to the public has served to step up the velocity of circulation of money.

Another fallacy is involved in the belief by the same men that (1) when the Treasury sells short-term debt, that is peculiarly inflationary; but (2) when the Federal Reserve, under the "Bills Only" doctrine that I shall discuss later, sells short-term rather than long-term bonds to the banking system via its ordinary open-market operations, that is the optimal way to fight inflation.
Remember that the budget surplus will not be the result of new tax increases or expenditure reductions. The surplus will come solely from the built-in flexibility of our fiscal system: if the surplus comes at all it will come as the result of expansionary strength in over-all demand; and this means that the creation of a surplus will serve to moderate the strength of the expansion rather than reverse the tide and create contraction. I ought to mention in this connection that the envisaged surplus is not of an unusual magnitude: it will be less than one per cent of GNP, which is a lower ratio than prevailed in the expansion following the 1953-54 Recession.

By the same token, the expansionary conditions which are a prerequisite to the surplus will tend to put upward pressures on our already tight money market. When the economy pays taxes in excess of its receipts, businessmen and consumers must scramble for enough liquidity to meet their tax obligations; so even if the government were to retire public debt without any delay, there would be no net improvement in the over-all liquidity of the economy and hence no reason to expect lower interest rates and greater availability of credit. (What is true is this: in the long run, as surpluses are used over a period of time to reduce the amount of outstanding federal bonds that have to be held, the yields on governments should fall relatively to yields on corporate and municipal bonds; and to the degree that our economy attains the same nearness to full employment by levying higher rather than lower tax rates, the Federal Reserve can afford to create that much easier credit and lower interest rates -- with the result that the community consumes less and invests more for growth.)
III

What general policy implications follow from the above remarks?

First, the fact that we have a surplus is not an invitation to cut taxes. Modern economists of diverse schools and philosophies preach in season and out of season that if you are bound to cut tax rates, the time to cut them is in recession, not in boom. Otherwise you are vitiating the important built-in stabilizing effect of fiscal policy. (Thus, if I were a Senator who believed that first-class postal rates should be raised so as to make this service help cover other costs, I'd think 1960 a good year to raise those rates. And I certainly approve at any time the Administration's recommendation that the capital gains loophole be denied assets which have been granted past depreciation tax allowances.)

Second, and for exactly the above reasons, the economy can less afford a border-line governmental expenditure when over-all demand is high than when low. This creates the paradoxical but economically valid statement that, other things being equal, we can afford more expenditure when we are already running a deficit than when we are running a substantial surplus. I wish the President and his Secretaries of Treasury would learn both halves of this whole-truth.

IV

In a complicated subject like economics you've learned from bitter experience not to expect ever to get simple, unhedged advice. So I must hasten to make two qualifications.
1. If there are vital public expenditure programs that you think the well-being of the economy makes mandatory -- such as an enhanced space, missile, and aid spending -- you must not let the fact that resources are in generally brisk demand stop you. Increase such programs, knowing that it is sound economic doctrine that our nation can afford the public activities it needs. This, however, is not an invitation to extravagance; for the same sound economic doctrines would call for increasing taxes by as much or more than such expenditures if they threaten to bring you to over-full employment and zooming general prices. America is far from reaching the economic limit of taxation and getting farther below it with each passing year of productivity advance.

2. My remarks about encouraging a surplus under present conditions are, among other things, premised upon the correctness of the view expressed in the Economic Report of the President:

"As we look ahead, there are good grounds for confidence that this economic advance can be extended through 1960. . . . /And/ can carry well beyond the present year" (p. iii, my italics).

Some economists, perhaps a minority, expect there to be a business downturn within the second half of 1960 itself. More economists expect that there will be a slowing down of the rate of expansion in the last half of 1960 with a downturn to follow sometime in 1961. So it may be the majority view of the experts that the Report's words "well beyond the present year" are a trifle overoptimistic or at least euphemistic.

Inasmuch as you are now planning for a period which will not be over until July 1, 1961, some seventeen months from now, the possibility of a
recession beginning in 1961 must be given some weight in your thinking. In view of the notorious difficulty in forecasting very far ahead, I would not urge too much consideration to this issue were it not for another fact carefully avoided in this year's Economic Report.

The Council of Economic Advisers cannot be accused of having made a pessimistic forecast for 1960. Yet surely they know that a GNP of 510 billions must necessarily imply an unemployment rate of appreciably more than 4 per cent of the labor force. Why was this fact deliberately soft-pedalled in the Economic Report? I can only guess, but it seems a reasonable hypothesis that they also know the American people do not share their complacency about the 5 1/2 per cent unemployment rate that has prevailed on the average during the expansion and contraction periods that have occurred while the present Council has been in office. Certainly few legislators, on the floor of Congress or back home, would stand by the first part of the Report's assertion:

"In general, unemployment rates in the United States have not been high for an economy which allows and experiences considerable labor mobility and job change, but they can and should be lower."

Scholars who have studied job mobility here and abroad, in this decade and in earlier times, know very well that unemployment rates of 4, 5, and 6 per cent are not attributable to ordinary job turnover.

What is the bearing of this on policy? If unemployment were the only consideration, the desirability of preserving a sizeable budget surplus in fiscal 1961 would be very much less than I indicated in my remarks. It is to the degree that you deliberately hope to rely on a sizeable level of excess unemployment in the economy to counteract inflationary pressures and our "unfavorable balance" of international payments that you will be eager to push
toward surpluses as high as or higher than those recommended by the President for a 1960 GNP of $510 billion.

In conclusion I ought to say a few words about monetary policy, especially since the present Administration considers this outside its own province, being instead the responsibility of the Federal Reserve and the Congress to which the Federal Reserve is in turn responsible.

Time requires me to be brief, but I shall be glad to enlarge on my views in our later discussion.

1. Our gold position is not now acute. And for precisely that reason this is the time, while we are in strength, to take those desirable actions which it would be more embarrassing to take in the midst of an emergency.

   I strongly recommend that Congress speedily remove the 25 per cent gold requirement which the Federal Reserve Banks are now required to hold against their notes and deposits.

   Such reserve requirements have no technical economic foundation. They are archaic and do not serve a useful purpose in controlling inflation. Any psychological effects abroad of such a move would at this time be temporary and will in the longer run be favorable. Reputable financial experts like Roy Reierson, vice-president of the Bankers Trust Company, and Sir Oliver Franks, president of Lloyd's Bank of London, have already recommended legislation to remove this gold requirement. I heartily concur.

2. Last year, before this had become a national issue, I told this Committee that the time might soon come when you would want to repeal the
archaic 4 1/4 per cent interest ceiling on government bonds of over five years' maturity. Except as a symbol of dissatisfaction with a policy of tight money to fight inflation, such a ceiling accomplishes no useful purpose and does limit the efficiency of the Reserve Authorities and Treasury. Similarly, the public debt ceiling is not a desirable economic policy.

Having said this, and established my credentials so to speak, I ought to point out that the interest ceiling is not the vital issue that Wall Street purports to believe.

3. Since 1953 the Federal Reserve Board has by its own volition been confining its ordinary open-market operations to short-term government securities. This "Bills Only" doctrine was hotly contested at the time by the New York Federal Reserve Bank, and were it not for fear of the Washington authorities, there would have been even greater opposition from other Regional Reserve Districts.

I recall that out of twenty supposed expert economists gathered in Washington for an informal policy meeting only three were in favor of "Bills Only," with another few willing to reserve judgment until experience had accumulated. The remaining majority of two-thirds thought the doctrine would, if anything, weaken orthodox central banking and thus undermine both stabilization and the degree of freedom from more direct controls that our enterprise economy can enjoy.

Events of the last six years do not seem to have borne out the claims of the "Bills Only" (or "Bills Usually") doctrine. Bond markets have not
been noticeably more orderly. To get the same expansionary effects in the
1953-54 Recession, the Fed had to create that much more bank reserves than
would have been necessary with orthodox open-market purchase of long-term
governments. To be sure, by open-market operations in bills alone, one can
also affect long-term rates and long-term investment spending. But the
process becomes unnecessarily indirect; and the burden of debt management
is not thereby avoided, but instead is needlessly thrown completely on the
shoulders of the Treasury rather than being handled in a coordinated manner.
(Coordination does not mean keeping money cheap for the Treasury but rather
has the goal of optimal monetary policy for reasonably high growth, employ-
ment, and price stability.)

Although it is not Chairman Martin's intention, adherence to "Bills
Only" might, ironically, increase the likelihood under present institutions
that the debt would come to consist primarily only of short-term securities.
Bills only leading to only bills is an eventuality no one really wants.

In the present situation, without "Bills Only" the Federal Reserve
could right now be operating in the open market by selling long-term bonds
if inflationary dangers called for pushing more long-term debt on the public
and banking system. And when interest rates later ease, the Fed could buy
back such bonds or help the government lengthen out its debt structure --
thereby achieving the claimed interest economies and other advantages of an
extended debt, and enabling all this to happen without jeopardizing the sti-
mulus to long-term investment at that time so desirable.

More than ever the "Bills Only" doctrine is an albatross around our
necks. As Professor Kereken of Minnesota has rightly pointed out, the state
of our balance of payments may in the years ahead put constraints on our
pursuing a short-term interest rate policy most conducive to stabilization.
All economists fear this. Why, then, should the Federal Reserve be stuck
with a policy that prevents it from using to the national advantage dif-
ferential movements in yields on long-term government securities?

For those reasons, I would urge members of both political parties in
Congress, to which the Federal Reserve System is and ought to be responsible,
to make known by resolution, moral suasion or legislation the prudent desir-
ability of removing the hobbles to central bank policy represented by the
"Bills Only" doctrine.

Finally, let me mention in connection with monetary policy that the
interest cost of the debt has been rising in recent years. I am not one of
those unduly alarmed by this fact or apprehensive that the resulting increase
in disposable income will result in a net inflationary impact. But there are
people who so worry. May I suggest to them that there is an alternative to
meeting this problem other than that of engineering cheaper money. Instead,
the Federal Reserve could (1) raise legal reserve requirements of the member
commercial banks while (2) at the same time carrying out any needed offsetting
open-market purchases of government securities. This could give us (a) a re-
duction in net interest outlay by the government (since enhanced Federal
Reserve earnings are returned to the government); and (b) at the same time
we can continue to have as restrictive a credit policy as the economic situ-
ation really calls for.
Chairman Douglas Announces Hearings on the President’s Economic Report

Senator Paul H. Douglas (D., Illinois), chairman of the Joint Economic Committee, has announced plans of the Joint Committee to hold hearings, beginning February 1, on the President’s Economic Report which was transmitted to Congress yesterday.

Under the Employment Act of 1946, the President’s Economic Report is referred to the Joint Economic Committee, which is to review it and "...file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report ..."

The Committee has approved a plan for hearings as set forth in the attached schedule of witnesses and subjects.

Joint Economic Committee

Paul H. Douglas, Senator, Illinois, Chairman
Wright Patman, Representative, Texas, Vice Chairman

Senate
John Sparkman, Alabama
J. W. Fulbright, Arkansas
Joseph C. O’Mahoney, Wyoming
John F. Kennedy, Massachusetts
Prescott Bush, Connecticut
John Marshall Butler, Maryland
Jacob K. Javits, New York

House of Representatives
Richard Bolling, Missouri
Hale Boggs, Louisiana
Henry S. Reuss, Wisconsin
Frank M. Coffin, Maine
Thomas B. Curtis, Missouri
Clarence E. Kilburn, New York
William B. Widnall, New Jersey

John W. Lehman, Clerk and Acting Executive Director
SCHEDULE OF HEARINGS ON THE
1960 ECONOMIC REPORT OF THE PRESIDENT

Monday, February 1, 10:00 A.M.—Old Supreme Court Chamber, Senate wing, Capitol

The Economic Outlook for 1960 -- Panel Discussion

Outlook for federal, state, and local government expenditures

LOUIS PARADISO, Office of Business Economics
U. S. Department of Commerce

Outlook for inventories, plant, and equipment

MARTIN GAINSBROUGH, National Industrial Conference Board

Outlook for housing construction and consumer expenditures

GEORGE CLINE SMITH, F. W. Dodge Corporation

Outlook for labor force and employment

PETER HENLE, AFL-CIO

Outlook for demand and supply of funds and interest rates

ROY REIERSON, Bankers Trust Company

Outlook for agriculture

GEORGE BRANDOW, Pennsylvania State University

Monday, February 1, 2:00 P.M.—Old Supreme Court Chamber, Senate wing, Capitol

ROBERT B. ANDERSON, Secretary of the Treasury

Tuesday, February 2, 10:00 A.M.—Old Supreme Court Chamber, Senate wing, Capitol
(Executive Session)

RAYMOND J. SAULNIER, Chairman, Council of Economic Advisers

Tuesday, February 2, 2:00 P.M.—Old Supreme Court Chamber, Senate wing, Capitol

WILLIAM McCHESNEY MARTIN, Chairman, Board of Governors,
Federal Reserve System
Wednesday, February 3, 10:00 A.M.—Old Supreme Court Chamber, Senate wing, Capitol

Current Fiscal and Monetary Policy and Recommendations — Panel Discussion

Monetary Policy

WARREN SMITH, University of Michigan

Fiscal Policy

RICHARD MUSGRAVE, Johns Hopkins University

Thursday, February 4, 10:00 A.M.—Old Supreme Court Chamber, Senate wing, Capitol

Labor and Management Comments on the Economic Report

Labor Comments
10:00 A.M. AFL-CIO

Management Comments
11:00 A.M. Chamber of Commerce of the United States of America
11:30 A.M. National Association of Manufacturers

Additional Comments by Other Group Representatives

2:00 P.M. Farm Bureau Federation, National Farmers Union, and National Grange.
(Panel Discussion)

3:30 P.M. Committee for Economic Development

4:00 P.M. Federal Statistics Users Conference

Friday, February 5, 10:00 A.M.—Old Supreme Court Chamber, Senate wing, Capitol

Policy Recommendations — Panel Discussion

ROBERT A. GORDON, University of California
PAUL SAMUELSON, Massachusetts Institute of Technology
WILLIAM F. BUTLER, The Chase Manhattan Bank
B. U. RATCHFORD, Duke University
Senator Kerr said today he would support a temporary removal of the 4 1/4 per cent ceiling on interest rates on long term Government bonds "if the Treasury makes a case for it."

Article Title: Senator Kerr said today he would support a temporary removal of the 4 1/4 per cent ceiling on interest rates on long term Government bonds "if the Treasury makes a case for it."

Journal Title: Associated Press Ticker

Date: January 20th, 1960
PRELIMINARY SCHEDULE OF HEARINGS
ON THE 1960 ECONOMIC REPORT
OF THE PRESIDENT

(All hearings will be held in the Old Supreme Court Chamber,
Senate wing, U. S. Capitol)

Monday, February 1, 10:00 A.M.

The Economic Outlook for 1960 -- Panel Discussion

Outlook for federal, state, and local government expenditures
LOUIS PARADISO, Office of Business Economics
U. S. Department of Commerce

Outlook for inventories, plant, and equipment
MARTIN GAINSBRUGH, National Industrial Conference Board

Outlook for housing construction and consumer expenditures
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Outlook for labor force and employment
PETER HENLE, AFL-CIO

Outlook for demand and supply of funds and interest rates
ROY REIERSON, Bankers Trust Company

Outlook for agriculture
GEORGE BRANDOW, Pennsylvania State University

Monday, February 1, 2:00 P.M.

ROBERT B. ANDERSON, Secretary of the Treasury

Tuesday, February 2, 10:00 A.M. (Executive Session)

RAYMOND J. SAULNIER, Chairman, Council of Economic Advisers

Tuesday, February 2, 2:00 P.M.

WILLIAM McCHESNEY MARTIN, Chairman, Board of Governors
Federal Reserve System
Wednesday, February 3, 10:00 A.M.

Fiscal and Monetary Policy and Recommendations -- Panel Discussion

Monetary Policy

WARREN SMITH, University of Michigan

Fiscal Policy

RICHARD MUSGRAVE, Johns Hopkins University

Thursday, February 4, 10:00 A.M.

Labor and Management Comments on the Economic Report

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10:00 A.M. Representative of AFL-CIO

Management comments
11:00 A.M. Representative of U.S. Chamber of Commerce
11:30 A.M. Representative of National Association of Manufacturers

Additional comments by Group Representatives

Farm group comments
2:00 P.M. Representatives of Farm Bureau Federation, National Farmers Union, and National Grange (To be heard individually).
3:30 P.M. Representatives of other groups will be invited -- Committee for Economic Development, and Federal Statistics Users Conference (To be heard individually).

Friday, February 5, 10:00 A.M.

Policy Recommendations -- Panel Discussion

ROBERT A. GORDON, University of California
PAUL SAMUELSON, Massachusetts Institute of Technology
WILLIAM F. BUTLER, The Chase Manhattan Bank
B. U. RATCHFORD, Duke University
Mr. William McC. Martin  
Chairman, Board of Governors,  
Federal Reserve System  
Washington, D. C.  

Dear Mr. Martin:

This will confirm our invitation and the arrangements which the staff has made with your office for you to appear as a witness before the Joint Economic Committee at hearings on the 1960 Economic Report of the President. Your appearance is scheduled for Tuesday afternoon, February 2, at 2 o'clock in the Old Supreme Court Chamber, Senate wing, U. S. Capitol. The discussion will, of course, deal primarily with monetary policy for the coming year.

I hope it will be possible for you to confine your introductory remarks to 30 minutes or less so that substantial time will be available for discussion and questioning.

It would aid the Committee and the press if we could have 75 to 100 copies of your opening statement, preferably by Monday morning, February 1. Copies sent by mail should be addressed to John W. Lehman, Senate Post Office, Washington 25, D. C. If the copies are being delivered by special messenger they should go to Room G-133, New Senate Office Building.

Attached is a preliminary schedule of the hearings. A final schedule and accompanying press release will be sent to you when issued.

Faithfully yours,

(Sgd.) Paul H. Douglas

Paul H. Douglas  
Chairman
PRELIMINARY SCHEDULE OF HEARINGS
ON THE 1960 ECONOMIC REPORT
OF THE PRESIDENT

(All hearings will be held in the Old Supreme Court Chamber,
Senate wing, U. S. Capitol)

Monday, February 1, 10:00 A.M.

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WILLIAM F. BUTLER, The Chase Manhattan Bank
B. U. RATCHFORD, Duke University
Mr. Shay informed mm, and Mr. Martin on 1/6, of his "call" to testify before the Joint Economic Committee on the President's economic report the afternoon of Tuesday, February 2. The report is due on January 20; Saulnier will testify on Monday, 2/1; Secy Anderson the morning of 2/2.
Subcommittee No. 2
House Banking and Currency Committee

Paul Brown (ga.) Chairman
Abraham J. Multer (N. Y.)
William A. Barrett (Penn.)
Charles A. Vanik (Ohio)
Joseph W. Barr (Ind.)
William S. Moorhead (Penn.)

Edgar W. Hiestand (Calif.)
Paul A. Fino (N. Y.)
Edward J. Derwinski (Ill.)

Brent Spence, Chairman of the Full Committee, is ex officio member of all subcommittees.
Mr. Chairman and Members of the Committee:

In recent years a substantial number of banks have been absorbed by other banks. In an average year of the past decade, about a hundred and fifty banks have ceased to exist as separate institutions. To put it another way, in the ten years 1950 through 1959, over fifteen hundred banks—more than ten per cent of all banks in the country—have been absorbed by others. Most of the banks thus taken over have been relatively small institutions, but some large banks, also, have merged with other already large institutions.

Under provisions of the Federal Deposit Insurance Act and the statutes governing national banks, many amalgamations of banks require the approval of either the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Board of Governors of the Federal Reserve System. A substantial number, however, may and do take place without being subject to any requirement of approval by Federal supervisory agencies, including both absorptions effected through exchange of stock and absorptions through purchase of assets and assumption of liabilities.
The main objective of the bill S. 1062 is to provide that no bank subject to Federal Government supervision (which comprises over ninety-five per cent of all banks in the country) may be taken over by another unless the transaction has first been approved by the Comptroller of the Currency, if the absorbing bank is a national bank, by the Board of Governors, if the absorbing bank is a State member bank, and by the Federal Deposit Insurance Corporation, if the absorbing bank is a nonmember insured bank. Before approving or disapproving a proposed merger, the supervisory authority would be required to consider the banks' financial history, condition, and prospects; the character of their management; the convenience and needs of the communities involved; and whether the effect of the merger "may be to lessen competition unduly or to tend unduly to create a monopoly".

The Board believes that the number of bank mergers in recent years has been sufficiently great to give cause for concern, and that there is a clear need for legislation to prevent bank mergers that would so lessen competition as to be incompatible with the public interest. On the basis of its study, over the years, of many suggested approaches to this problem, the Board has concluded that the procedure prescribed by S. 1062 would be a sound and effective procedure, and accordingly the Board endorses this bill.
In a few relatively minor respects, which do not affect the main purpose and benefits of the measure, the Board believes that S. 1062 might be amended to advantage. In the first place, in its present form the bill would permit the supervisory agency, in emergency cases, to act on proposed mergers without obtaining the views of the Attorney General or—in less pressing emergencies—to obtain his views upon quite short notice. The Board recommends that the bill be amended to include similar provisions with respect to obtaining the views of the other supervisory agencies in emergency situations.

The bill would require each of the supervisory agencies to submit to Congress special semiannual reports with respect to mergers approved by it during the preceding six months. It does not appear that special reports on this subject at such frequent intervals are necessary to apprise Congress adequately of developments in this field. Accordingly, it is recommended that, in lieu of the provision mentioned, the supervisory agencies be instructed to include, in their Annual Reports to Congress, information with respect to bank mergers approved during the preceding year.

The last clause of the bill would require each of the bank supervisory agencies to include in its Reports to Congress "a summary of the substance of the report made by the Attorney General" to the agency with respect to each proposed merger which it thereafter approved. The Board questions the advisability of having the views of
one agency on such involved matters summarized by a different agency; it would seem preferable to require the supervisory agencies to include in their Annual Reports either "a summary by the Attorney General of the substance of his report" or the entire report of the Attorney General on each case.

In closing, I should like to emphasize again that the Board is strongly in accord with the aims of S. 1062, and the general approach of that bill to the bank merger problem.
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Article Title: Notice in Advance on Rulings Debated Before House Unit
Journal Title: American Banker
Date: Feb. 18, 1960
This article is protected by copyright and has been removed.

**Article Title:** Gidney and Martin Split On Merger Bill Versions: Justice Control an Issue; Both Hit Report Feature

**Journal Title:** American Banker

**Date:** February 17, 1960
JUDICIAL REVIEW

No provision for judicial review of agency decisions as to bank mergers is necessary. Under present law, a person aggrieved by the agency's decision could seek judicial review of the agency's action, either through a suit for a declaratory judgment or an injunction, or a combination of the two, wherein a court of law could determine whether the agency's decision was capricious or arbitrary or in excess of its statutory authority.
REGULATION OF BANK Mergers

REPORT

OF THE
COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH CONGRESS
SECOND SESSION

on

S. 1062

MARCH 23, 1960.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1960
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REGULATION OF BANK MERGERS

MARCH 23, 1960.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 1062]

The Committee on Banking and Currency, to whom was referred the bill (S. 1062) to amend the Federal Deposit Insurance Act to provide safeguards against mergers and consolidations of banks which might lessen competition unduly or tend unduly to create a monopoly in the field of banking, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

That subsection (c) of section 18 of the Federal Deposit Insurance Act is amended by striking out the third sentence and inserting in lieu thereof the following: "No insured bank shall merge or consolidate with any other insured bank or, either directly or indirectly, acquire the assets of, or assume liability to pay any deposits made in, any other insured bank without the prior written consent (i) of the Comptroller of the Currency if the acquiring, assuming, or resulting bank is to be a national bank or a District bank, or (ii) of the Board of Governors of the Federal Reserve System if the acquiring, assuming, or resulting bank is to be a State member bank (except a District bank), or (iii) of the Corporation if the acquiring, assuming, or resulting bank is to be a nonmember insured bank (except a District bank). Notice of any proposed merger, consolidation, acquisition of assets, or assumption of liabilities, in a form approved by the Comptroller, the Board, or the Corporation, as the case may be, shall (except in a case where the furnishing of reports under the seventh sentence of this subsection is not required) be published, at appropriate intervals during a period (prior to the approval or disapproval of the transaction) at least as long as the period allowed under such sentence for furnishing such reports, in a newspaper of general circulation in the community or communities where the main offices of the banks involved are located (or, if there is no such newspaper in any such community, then in the newspaper of general circulation published nearest thereto). In granting or withholding consent under this subsection, the Comptroller, the Board, or the Corporation, as the case may be, shall consider the financial history and condition
REGULATION OF BANK Mergers

of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, and whether or not its corporate powers are consistent with the purposes of this Act. In the case of a merger, consolidation, acquisition of assets, or assumption of liabilities, the appropriate agency shall also take into consideration the effect of the transaction on competition (including any tendency toward monopoly), and shall not approve the transaction unless, after considering all of such factors, it finds the transaction to be in the public interest. In the interests of uniform standards, before acting on a merger, consolidation, acquisition of assets, or assumption of liabilities under this subsection, the agency (unless it finds that it must act immediately in order to prevent the probable failure of one of the banks involved) shall request a report on the competitive factors involved from the Attorney General and the other two banking agencies referred to in this subsection (which report shall be furnished within thirty calendar days of the date on which it is requested, or within ten calendar days of such date if the requesting agency advises the Attorney General and the other two banking agencies that an emergency exists requiring expeditious action). The Comptroller, the Board, and the Corporation shall each include in its annual report to the Congress a description of each merger, consolidation, acquisition of assets, or assumption of liabilities approved by it during the period covered by the report, along with the following information: the name and total resource of each bank involved; whether a report has been submitted by the Attorney General hereunder, and, if so, a summary by the Attorney General of the substance of such report; and a statement by the Comptroller, the Board, or the Corporation, as the case may be, of the basis for its approval.

Amend the title so as to read: "An Act to amend the Federal Deposit Insurance Act to require Federal approval for mergers and consolidations of insured banks."

WHAT THE BILL WOULD DO

The bill as reported by your committee prohibits mergers of federally insured banks without the approval of the appropriate Federal bank supervisory agency. If the merger is to result in a national bank or a District of Columbia bank, approval must be obtained from the Comptroller of the Currency; if it is to result in a State bank that is a member of the Federal Reserve System, approval must be obtained from the Federal Reserve Board; if it is to result in an insured nonmember State bank, approval must be obtained from the Federal Deposit Insurance Corporation. In acting on a merger application, the agency having jurisdiction over the transaction will consider the following factors: The financial history and condition of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, whether the bank's corporate powers are consistent with the purposes of the Federal Deposit Insurance Act, and the effect of the transaction on competition (including any tendency toward monopoly). Approval will not be given unless, after considering all such factors, the agency finds the transaction to be in the public interest. Except where immediate action is needed to save a failing bank, the agency having jurisdiction over the transaction will request a report on the competitive factors involved from the other two banking agencies and from the Attorney General.

1 For ease of reading this report ignores the technical distinctions between a true merger and other transactions by which two banks may end up as one through consolidation, acquisition of assets, or assumption of liabilities. The bill, however, covers all such cases.

2 As indicated in footnote 1, this report ignores certain technical distinctions. The report uses "resulting bank" to include what is more accurately described in the bill as the "acquiring, assuming, or resulting bank."
THE COMMITTEE AMENDMENT

Your committee has agreed upon an amendment to the bill, striking out all after the enacting clause and inserting substitute provisions worked out by Subcommittee No. 2 of this committee, under the able chairmanship of Hon. Paul Brown. The principal effect of the substitute amendment relates to the standard used in acting on mergers. Both the Senate bill and the committee substitute require the appropriate banking agency to consider the six banking factors listed first in the preceding paragraph. The Senate bill added a seventh factor to be considered: whether the transaction would “unduly lessen competition or tend unduly to create a monopoly.” The committee substitute requires consideration of the six banking factors plus “the effect of the transaction on competition (including any tendency toward monopoly)”; it also bars approval unless, after weighing all these factors, the agency finds the transaction to be in the public interest.

The committee substitute also makes certain changes in the procedures for obtaining reports from the other banking agencies and the Attorney General, and for reporting actions on bank mergers to Congress. These changes are explained more fully in the discussion of the reporting provisions of the bill (beginning p. 12).

The committee substitute also provides for notice of proposed mergers to be published in newspapers. This provision is explained on page 14.

NEED FOR IMPROVED CONTROLS OVER BANK MERGERS

Vigorous competition between strong, aggressive, and sound banks is highly desirable. Competition in banking takes many forms—competition for deposits by individuals and corporations and by personal and business depositors; competition for individual, business, and governmental loans; competition for services of various sorts. Competition for deposits increases the amounts available for loans for the development and growth of the Nation’s industry and commerce. Competition for loans gives the borrowers better terms and better service and furthers the development of industry and commerce. Vigorous competition in banking stimulates competition in the entire economy, in industry, commerce, and trade. There is no question that competition is desirable in banking, and that competitive factors should be considered in all aspects of the supervision and regulation of banks.

The number of commercial banks in the United States has been slowly but steadily declining in the past 10 years. On January 1, 1950, there were 14,174 commercial banks in the country, but on December 31, 1959, the number had dropped to 13,460, a loss of 714 banks for the period. This occurred in spite of a tremendous increase in the country’s need for banking services, and despite the fact that 887 new banks were chartered during the period. The net loss resulted from a strong trend toward mergers; on the average, 150 banks per year ceased to exist as separate institutions during this period. The 1,503 banks which disappeared represent more than 10 percent of all the banks in the country.
REGULATION OF BANK MERGERS

Annual figures for this period, as furnished by the Comptroller of the Currency during the hearings on this bill, are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Total number of commercial banks</th>
<th>New banks chartered during previous year</th>
<th>Banks absorbed by merger during previous year</th>
<th>Other banks discontinuing business during previous year</th>
<th>Total commercial banks, Dec. 31, previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 1950</td>
<td>14,174</td>
<td>67</td>
<td>91</td>
<td>13</td>
<td>14,137</td>
</tr>
<tr>
<td>Jan. 1, 1951</td>
<td>14,157</td>
<td>64</td>
<td>84</td>
<td>10</td>
<td>14,107</td>
</tr>
<tr>
<td>Jan. 1, 1952</td>
<td>14,067</td>
<td>71</td>
<td>99</td>
<td>12</td>
<td>14,007</td>
</tr>
<tr>
<td>Jan. 1, 1953</td>
<td>14,010</td>
<td>72</td>
<td>210</td>
<td>6</td>
<td>13,950</td>
</tr>
<tr>
<td>Jan. 1, 1954</td>
<td>13,950</td>
<td>113</td>
<td>225</td>
<td>13</td>
<td>13,860</td>
</tr>
<tr>
<td>Jan. 1, 1955</td>
<td>13,860</td>
<td>122</td>
<td>185</td>
<td>7</td>
<td>13,737</td>
</tr>
<tr>
<td>Jan. 1, 1956</td>
<td>13,737</td>
<td>190</td>
<td>199</td>
<td>77</td>
<td>13,580</td>
</tr>
<tr>
<td>Jan. 1, 1957</td>
<td>13,580</td>
<td>168</td>
<td>168</td>
<td>80</td>
<td>13,380</td>
</tr>
</tbody>
</table>

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Federal Reserve Bank of St. Louis
REGULATION OF BANK MERGERS

All commercial banks, 1950-59—Continued

Jan. 1, 1958:

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of commercial banks</td>
<td>13,580</td>
</tr>
<tr>
<td>New banks chartered during 1958</td>
<td>100</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Banks absorbed by merger during 1958</td>
<td>166</td>
</tr>
<tr>
<td>Other banks discontinuing business during 1958</td>
<td>55</td>
</tr>
<tr>
<td>Total commercial banks Dec. 31, 1958</td>
<td>13,514</td>
</tr>
</tbody>
</table>

Jan. 1, 1959:

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of commercial banks</td>
<td>13,514</td>
</tr>
<tr>
<td>New banks chartered during 1959</td>
<td>123</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Banks absorbed by merger during 1959</td>
<td>177</td>
</tr>
<tr>
<td>Other banks discontinuing business during 1959</td>
<td>54</td>
</tr>
<tr>
<td>Total commercial banks Dec. 31, 1959</td>
<td>13,460</td>
</tr>
</tbody>
</table>

SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of commercial banks Jan. 1 1950</td>
<td>14,174</td>
</tr>
<tr>
<td>New banks chartered during period 1950-59</td>
<td>857</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Banks absorbed by merger during period 1950-59</td>
<td>1,503</td>
</tr>
<tr>
<td>Other banks discontinuing business during period 1950-59</td>
<td>98</td>
</tr>
<tr>
<td>Total commercial banks Dec. 31, 1959</td>
<td>13,460</td>
</tr>
</tbody>
</table>

The large numbers of mergers in recent years, the vast resources involved in these mergers, and the increases in the size of the largest banks, particularly those which have grown through mergers, all give rise to concern for the maintenance of vigorous competition in the banking system and in the industry and commerce served by the banking system. The reduction in the number of banks and the loss of competition between merged banks also give rise to concern. There are differing views about the effect and the significance of the mergers which have taken place. But there is general agreement that legislation providing for uniform and effective regulation of mergers is required for the future.

Controls over bank mergers are incomplete and confusing, particularly with respect to the competitive factors involved. There are gaps in the controls exercised by the Federal banking agencies under banking statutes, and even where Federal approval is required before a merger may be completed, the standards are not clearly spelled out. Only two State statutes regulating bank mergers specifically authorize consideration of competition as a factor in approving or disapproving a merger, although in other States this factor is undoubtedly considered under some other standards. The Federal antitrust laws are also inadequate to the task of regulating bank mergers; while the Attorney General may move against bank mergers to a limited extent under the Sherman Act, the Clayton Act offers little help.

MERGERS COVERED BY THE BILL

S. 1062 would apply to all bank mergers involving a bank insured by FDIC—National banks, State member banks, and insured nonmember banks. This would cover the vast majority of American banks. Approximately 95 percent of the banks in the United States are insured, and the insured banks hold over 97 percent of the total assets of all banks in the United States. The coverage of the bill can be judged by the following chart, showing a breakdown of bank mergers

H. Rept. 1416, 86-2—2
for the past 3 years as to type of bank, which was furnished by the Federal Deposit Insurance Corporation:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total</th>
<th>Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
<td>State members</td>
</tr>
<tr>
<td>All absorbed commercial banks, 1957-59</td>
<td>472</td>
<td>258</td>
</tr>
<tr>
<td>Included at beginning of year of absorption among the 100 largest commercial banks</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Among the 200 largest commercial banks</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Among the 400 largest commercial banks</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Among the 800 largest commercial banks</td>
<td>128</td>
<td>71</td>
</tr>
<tr>
<td>Not among the 300 largest banks</td>
<td>324</td>
<td>119</td>
</tr>
</tbody>
</table>

**ASSETS (IN THOUSANDS) OF ABSORBED COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total</th>
<th>Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
<td>State members</td>
</tr>
<tr>
<td>All absorbed commercial banks, 1957-59</td>
<td>$7,537,729</td>
<td>$2,720,491</td>
</tr>
<tr>
<td>Included at beginning of year of absorption among the 100 largest commercial banks</td>
<td>2,486,498</td>
<td>34,75</td>
</tr>
<tr>
<td>Among the 200 largest commercial banks</td>
<td>594,929</td>
<td>34,75</td>
</tr>
<tr>
<td>Among the 400 largest commercial banks</td>
<td>313,158</td>
<td>222,204</td>
</tr>
<tr>
<td>Among the 800 largest commercial banks</td>
<td>1,221,628</td>
<td>900,475</td>
</tr>
</tbody>
</table>

**PRESENT FEDERAL BANKING LAWS ON BANK MERGERS**

**National banks**

Where a proposed merger will result in a national bank, it can normally be completed only if the Comptroller of the Currency approves. But the statute governing such mergers sets forth no standards for the Comptroller to follow in acting on such proposals. In addition, there are special cases where, due to the form the transaction takes, approval is not directly required. That is, if the transaction is not a merger or consolidation in the technical sense, but takes the form of a national bank purchasing the assets and assuming the liabilities of another bank, the Comptroller's approval is not directly required unless the capital stock or surplus of the assuming bank will be less than the aggregate capital or surplus of the combining banks. Where there is no such diminution, the Comptroller can exercise indirect control through his power to approve the necessary increase in the capital of the assuming bank, and if one of the banks is to be continued as a branch, his approval is also required. The bill, however, would remove any confusion or doubt about the Comptroller's
power to act directly in these cases, and would set forth the standards on which he is to act, including the competitive factor specifically.

**Federal Reserve member banks**

The only direct authority the Federal Reserve Board has over mergers of member banks derives from section 18(e) of the Federal Deposit Insurance Act, which requires advance approval of the Board before a merger may take place which will result in a member bank with a smaller capital or surplus than the combined capital or surplus of the banks involved in the transaction. In most cases the resulting bank can be provided with capital and surplus as high as those of the merging banks. This means that usually the absorbing bank has it in its own power to prevent the Board from reviewing the merger directly.

The Board exercises an indirect control over mergers where one of the banks involved will continue as a branch of the resulting member bank, since the Board’s approval is required before such a branch may be established. In such a case, the Board considers what effect the branch will have on competition, but the Board’s authority to do so has been challenged in recent litigation; it was upheld in the trial court but appeal has been taken.\(^3\)

In 1959, out of 42 mergers resulting in member banks, 19 mergers, involving total resources of almost $2 billion, did not require direct approval of the Board.

**Insured State nonmember banks**

The Federal Deposit Insurance Corporation’s approval is required before any bank whose deposits it insures may merge with any noninsured bank. It also has, with respect to insured nonmember banks, the same power the Federal Reserve Board has with respect to member banks, in merger cases involving diminution of capital or surplus. Its power to exercise indirect control by approving or disapproving establishment of branches is also comparable to that of the Federal Reserve Board.

In the past 5 years there have been 162 mergers resulting in a State nonmember bank; in 66 of these FDIC approval was not required. In 1959, FDIC passed on 23 of 40 possible cases; in the 17 cases not requiring FDIC approval, total assets of $106 million were involved—75 percent more than the assets involved in the cases where approval was required.

The Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, a former chairman and long-time member of the Banking and Currency Committee, Hon. Jesse P. Wolcott, summed up this state of affairs as follows: “There is no question, then, that our present act is largely ineffective when it comes to control of bank mergers.”

**Summary**

The effect of the gaps in Federal banking laws on mergers in recent years is summarized in the following material furnished by the Comptroller of the Currency:

\(^{3}\) *Old Kent Bank & Trust Co. v. Martin et al.* (U.S. District Court for the District of Columbia, Civil Action No. 1933-38).
Recapitulation of consolidations, mergers, assumptions, not requiring approval of appropriate Federal bank supervisory agency, 1955 through 1959

I. State bank member of Federal Reserve System the continuing bank: Approval of Board of Governors of Federal Reserve System not required because the total capital stock or surplus of the resulting or assuming bank was not less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks or all of the parties to the assumption of liabilities.

<table>
<thead>
<tr>
<th>Year</th>
<th>Requiring Board approval</th>
<th>Not requiring Board approval</th>
<th>Total requiring Board's approval</th>
<th>Total resources, cases not requiring Board's approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>38</td>
<td>30</td>
<td>68</td>
<td>$6,431,028,718</td>
</tr>
<tr>
<td>1956</td>
<td>30</td>
<td>24</td>
<td>54</td>
<td>214,312,332</td>
</tr>
<tr>
<td>1957</td>
<td>21</td>
<td>20</td>
<td>41</td>
<td>276,574,436</td>
</tr>
<tr>
<td>1958</td>
<td>21</td>
<td>19</td>
<td>40</td>
<td>375,268,033</td>
</tr>
<tr>
<td>1959</td>
<td>19</td>
<td>10</td>
<td>29</td>
<td>1,988,000,797</td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>116</td>
<td>249</td>
<td>9,434,189,722</td>
</tr>
</tbody>
</table>

II. State bank insured by Federal Deposit Insurance Corporation, but not a member of Federal Reserve System, the continuing bank: Approval of Federal Deposit Insurance Corporation not required because the total capital stock or surplus of the resulting or assuming bank was not less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks or all of the parties to the assumption of liabilities.

<table>
<thead>
<tr>
<th>Year</th>
<th>Requiring FDIC approval</th>
<th>Not requiring FDIC approval</th>
<th>Total not requiring FDIC approval</th>
<th>Total resources, cases not requiring FDIC approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>23</td>
<td>9</td>
<td>34</td>
<td>$328,922,419</td>
</tr>
<tr>
<td>1956</td>
<td>16</td>
<td>11</td>
<td>27</td>
<td>30,472,058</td>
</tr>
<tr>
<td>1957</td>
<td>14</td>
<td>21</td>
<td>35</td>
<td>286,765,741</td>
</tr>
<tr>
<td>1958</td>
<td>18</td>
<td>18</td>
<td>36</td>
<td>322,238,533</td>
</tr>
<tr>
<td>1959</td>
<td>25</td>
<td>17</td>
<td>42</td>
<td>105,621,323</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>66</td>
<td>162</td>
<td>563,759,199</td>
</tr>
</tbody>
</table>

III. National bank the continuing bank: Approval of Comptroller of the Currency not required to assumption of liabilities cases only because the capital stock or surplus of the assuming national bank was not less than the aggregate capital stock or aggregate surplus, respectively, of all the parties to the assumption of liabilities. While the Comptroller had no authority to approve or disapprove these transactions because there was no diminution in capital or surplus, the increase in capital by the resulting national bank did require the approval of the Comptroller. (Comptroller of the Currency required to approve or disapprove all consolidations or mergers where the continuing bank is a national bank under the provisions of specific statutes.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consolidations and mergers requiring Comptroller's approval</th>
<th>Assumption cases requiring Comptroller's approval</th>
<th>Total requiring Comptroller's approval</th>
<th>Total resources, cases not requiring Comptroller's approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td></td>
<td>Requiring Comptroller's approval</td>
<td>126</td>
<td>$1,969,394,636</td>
</tr>
<tr>
<td>1956</td>
<td></td>
<td>Not requiring Comptroller's approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td></td>
<td></td>
<td>106</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td></td>
<td></td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td></td>
<td></td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>282</td>
<td>$1,969,394,636</td>
</tr>
</tbody>
</table>

* Includes 3 District of Columbia nonnational banks.
CONTROL OVER BANK MERGERS UNDER ANTITRUST LAWS

The Sherman Antitrust Act prohibits any contract, combination, or conspiracy in restraint of interstate or foreign trade or commerce, and makes it illegal to monopolize, or to combine, conspire, or attempt to monopolize, any part of such trade or commerce. Section 7 of the Clayton Act prohibits acquisitions of bank stock "where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly." Because section 7 is limited, insofar as banks are concerned, to cases where a merger is accomplished through acquisition of stock, and because bank mergers are accomplished by asset acquisitions rather than stock acquisitions, the act offers "little help," in the words of Hon. Robert A. Bicks, acting head of the Antitrust Division, in controlling bank mergers. Although the Sherman Act applies to asset acquisitions as well as to stock acquisitions, it has been of little use in controlling bank mergers. It has been used only once in court (in a proceeding initiated in March 1959) against a bank merger.

S. 1062 would not in any way affect the applicability of the Sherman Act or the Clayton Act to bank mergers.

SPECIAL STANDARDS NEEDED TO CONTROL BANK MERGERS

Sad experiences in our history have demonstrated that to maintain a sound banking system in this country banks must be regulated much more strictly than ordinary businesses. A bank charter may be obtained only after the supervisory authorities are convinced that there is a need for the bank in the community and its prospects of success are good. Once it is in operation, it is subjected to careful and continuing supervision, in order to avoid "wildcat banking" and other excesses which did much to bring on panics in earlier days.

This point is brought out in the following quotation from "Banking Under the Antitrust Laws," by A. A. Berle (49 Columbia Law Review (1949) 589, at 592):

Operations in deposit banking not only affect the commercial field, but also determine in great measure the supply of credit, the volume of money, the value of the dollar, and even, perhaps, the stability of the currency system. Within this area considerations differing from and far more powerful than mere preservation of competition may be operating under direct sanction of law. It is the theory, in ordinary commercial fields, that competition is the desirable check on price levels—the process by which the efficient are rewarded by survival, and the inefficient eliminated by failure. The price of business failures is not regarded as too high for the community to pay in view of advantages to consumers, stimulus toward greater efficiency, and freedom of enterprise. But it is doubtful (to say the least) whether any such assumption is indulged in with respect to deposit banks; certainly the theory is not there accepted to the full extent of its logic. A bank failure is a community disaster, however, wherever, and whenever it occurs.

Because banking is a licensed and strictly supervised industry that offers problems acutely different from other types of business, the
bill vests the ultimate authority to pass on mergers in the Federal bank supervisory agencies, which have a thorough knowledge of the banks, their personnel, and their types of business. For the same reason, the bill requires consideration of the six banking factors now listed in section 6 of the Federal Deposit Insurance Act. Thus the supervisory agency would consider the financial history and condition of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, and whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

Reference to these factors, while essential, would not alone suffice, because the section 6 standards do not give sufficient weight to the factor of competition.

THE COMPETITIVE FACTOR

The most difficult task your committee faced in considering the bill was in framing a standard to guide the supervisory agencies in weighing the effects of a proposed merger on competition. But out of the hearings one principle emerged, on which all witnesses seemed to agree, as a starting point: Some bank mergers are in the public interest, even though they lessen competition to a degree. Thus, most witnesses agreed that a bank merger would serve the public interest, even though it might lessen competition substantially, where there is a reasonable probability of the ultimate failure of the bank to be acquired; or where because of inadequate or incompetent management the acquired bank's future prospects are unfavorable and can be corrected only by a merger with the resulting bank; or where the acquired bank is a problem bank with inadequate capital or unsound assets and the merger is the only practicable means of solving the problem; or where several banks in a small town are compelled by an overbanked situation to resort to unsound competitive practices, which may eventually have an adverse effect on the condition of such banks, and the merger would correct this situation.

Recognizing that other factors may outweigh an adverse effect on competition, the Senate bill provided that the banking agency acting on a proposed merger should consider whether it would "unduly lessen competition or tend unduly to create a monopoly." In the Senate Banking and Currency Committee's report this language was interpreted as follows:

The word "unduly" is used to show that any lessening of competition or tendency to monopoly which may be found by the agency—whether "appreciable," "perceptible," "slight," "substantial," "serious," or "great"—must be weighed and considered by the banking agency as just one of the several factors which will go to form its balanced judgment, on the basis of all of the factors involved.

Several witnesses before Subcommittee No. 2 objected to this language, on the ground that it is too ambiguous. They argued that the Clayton Act test should be applied because it has acquired more definite meaning through a long series of court interpretations. Your committee notes, however, that there have been relatively few cases
REGULATION OF BANK Mergers

interpreting the Clayton Act since it was substantially changed in 1950, and that in one of these few cases it was interpreted as banning mergers having a given effect on competition, regardless of the benefits flowing from the merger. To meet this objection, the suggestion was made to apply the Clayton Act test generally, but write in specific exemptions to allow approval of mergers in the cases referred to above, involving probable failures, management problems, inadequate capital or unsound assets, or overbanked communities. This course seems unnecessarily hazardous, however, in view of the wide variety of situations in which a merger may be proposed in all good faith as a means of providing better banking service. Your committee concluded that it would be unwise to attempt to anticipate all possible situations where a merger would benefit the public, and incorporate them in a rigid, specific list of exemptions.

Your committee is convinced the Senate's approach is basically sound. Where demonstrable benefits would flow from a proposed merger, these should be weighed against any adverse effect on competition. Your committee feels, however, that the language of the Senate bill can be improved, to insure that the intent indicated in the legislative history of the bill in the Senate will be properly carried out. Your committee concurs with the Senate committee report's repeatedly expressed intent to allow approval of bank mergers that would be in the public interest, and with the following description of the process by which this question should be decided:

The decision in most cases can be expected to be clear. In many cases the proposed merger will not reduce competition at all and there will be sound and convincing banking reasons for authorizing the merger. In other cases the proposed merger will clearly increase and strengthen competition, and there will be no banking factors which might lead to rejection of the merger. In still other cases, there will be serious danger of very considerable reduction in competition, and few or no sound banking reasons to approve the merger. In any of these cases, there need be little hesitation in approving or denying the application.

The committee recognizes that in a relatively small number of cases, the balancing of the various factors will be difficult—some banking factors may be favorable, some may be unfavorable; some competitive factors may be favorable, others unfavorable.

In such cases, the decision will not be simple. Full consideration will have to be given to the basic purposes of the statute: to promote a sound banking system, in the interest of the Government, borrowers, depositors, and the public; and to promote competition as an indispensable element in a sound banking system.

We are concerned, however, with some indications that under the Senate bill a merger could be approved even though it "unduly" lessened competition. While this result presumably was not intended, there are conflicting statements on this question in the legislative history of the bill in the Senate, and in the record of our hearings. Doubts on this score should obviously be removed. We are convinced, also, that approval of a merger should depend on a positive
showing of some benefit to be derived from it. As previously indi­
cated, your committee is not prepared to say that the cases enumerated
in the hearings are the only instances in which a merger is in the
public interest, nor are we prepared to devise a specific and exclusive
list of situations in which a merger should be approved. We do,
however, reject the philosophy that doubts are to be resolved in favor
of bank mergers. At the risk of saying the same thing another way,
we feel the burden should be on the proponents of a merger to show
that it is in the public interest, if it is to be approved. After all the
factors have been weighed, the transaction should be approved only
if the supervisory agency is satisfied that, on balance, its effect will be
beneficial. For these reasons, we recommend adoption of the com­
mittee substitute.

REPORTS FROM THE OTHER BANKING AGENCIES

The bill divides responsibility over bank mergers among three
separate agencies. This arrangement is a sound one, because as a
general rule it will mean that the decision will be made by the Federal
agency most thoroughly familiar with the banks involved. At the
same time, it poses a practical problem, which was forcibly brought
out during the hearings by the National Association of Supervisors of
State: Banks. In the-words of Hon. Robert Myers, secretary of
banking of the Commonwealth of Pennsylvania:

Unless there is uniformity of application of the standards
relating to merger approval to be applied by the Federal
agencies to bank mergers, the equality of competitive position
between the two banking systems so necessary for the con­
tinued existence of the dual system, which Congress has
always carefully tried to preserve, will be impaired.

Your committee agrees that every effort must be made to avoid a
situation where one Federal agency is "tough" about mergers and
another one is "easy," where there might be an inducement to arrange
mergers so as to result in the kind of bank where approval could be
easily obtained. To help guard against this kind of development, the
bill provides that the agency having jurisdiction over a proposed
merger shall request a report from the other two banking agencies on
the competitive factors involved, unless it must act immediately to
prevent a bank failure. The committee substitute differs from the
Senate bill as to the mechanics of this consultation. Following a
suggestion made by Chairman Martin of the Federal Reserve Board,
the procedure for obtaining the views of the other two banking
agencies is made to conform with the procedure for obtaining a report
from the Attorney General. That is, under the committee substitute
(but not under the Senate bill) the supervisory agency having jurisdic­
tion over the transaction can act to save a failing bank without
seeking the views of the other banking agencies; and the other banking
agencies are required to submit their views within 30 days (or within
10 days if an emergency exists requiring expeditious action). The
committee substitute also provides that the report shall be requested
on the competitive factors, rather than on all factors to be considered.
The problem of obtaining uniformity is particularly acute in regard to the competitive factors, and it is expected that this uniformity can be obtained without asking the other two banking agencies for reports on the banking factors, which could result in an unnecessary Federal encroachment on supervision of State banks. It is expected, however, that the other banking agencies will be furnished with any available information needed to render a competent opinion on the competitive factors involved.

The State bank supervisors expressed considerable concern whether the system of consultation called for by S. 1062 would achieve the necessary uniform standards, and therefore recommended that ultimate approval of all mergers involving insured banks be placed in the hands of one agency, the Federal Deposit Insurance Corporation. Under this recommendation, all mergers where a national bank survives would be approved by the Comptroller and the Federal Deposit Insurance Corporation, and a merger with a State insured bank surviving would be approved by the State bank supervisor and the FDIC. The committee recognizes considerable merit in the State bank supervisors' recommendation but believes that the consultation provided for by S. 1062 will achieve their purposes.

The State bank supervisors also recommended that the Comptroller of the Currency should not be consulted as to a merger involving just State insured banks, on the grounds that such consultation is inconsistent with the principles of the dual banking system. Your committee, however, believes the development of uniform standards in the administration of S. 1062 is of fundamental importance in preserving the dual banking system, and that such consultation is essential to the development of such uniform standards.

REPORTS FROM THE ATTORNEY GENERAL

The committee substitute retains a feature of the Senate bill which should prove most helpful in providing effective control of bank mergers. That is, it would require the appropriate bank supervisory agency to seek the views of the Attorney General as to the competitive factors involved in a proposed merger before acting on it. As in the case of the report from the other banking agencies, the report need not be sought where immediate action is needed to save a failing bank. Normally, the report must be filed within 30 days, but provision is made for filing within 10 days in an emergency. It should be emphasized that the report from the Attorney General is purely advisory, just as the reports from the other banking agencies are. The banking agency has the power and responsibility to approve or disapprove. At the same time, the Justice Department's long years of experience in the antitrust field have qualified them to render valuable advice to the bank supervisory agencies in regulating bank mergers. Your committee is happy to note that Chairman Martin of the Federal Reserve Board indicated he would give careful weight to the Attorney General's report. The cooperation between the Federal Reserve Board and the Attorney General in the administration of the Bank Holding Company Act of 1956 has been most commendable.
REGULATION OF BANK MERGERS

REPORTS TO THE CONGRESS

The bill provides that each of the three bank supervisory agencies shall include in its annual report to the Congress a description of the mergers it has approved during the period covered by the report. The report is to include the following information: The name and total resources of each bank involved; whether a report has been submitted by the Attorney General and, if so, a summary of its substance prepared by him; and a statement by the banking agency involved of the basis for approval. While the bill does not attempt to specify the particular factual situations in which mergers may be approved, this reporting requirement will provide the Congress with the opportunity to review how the standards specified in the bill are being applied, on a case-by-case basis.

The committee substitute differs from the Senate bill in two respects as to these reports. First, the Senate bill requires a special report on mergers, to be submitted semiannually. The committee substitute provides, instead, for including this information in the agency's annual report. Your committee recommends this change because it does not appear that special reports every 6 months are necessary to apprise Congress adequately of developments in this field. The second change makes it clear that the summary of the Attorney General's report on a merger shall be prepared by the Attorney General. Your committee feels it is not advisable to have the views of one agency on such involved matters summarized by a different agency.

PUBLICATION OF NOTICE OF PROPOSED MERGERS

Your committee included in the bill as reported a provision requiring that notice of a proposed merger be published in a newspaper of general circulation in the community or communities where the main offices of the banks involved are located. This requirement is geared to the time limits specified for reports from the other banking agencies and the Attorney General, so as not to occasion any unnecessary delay. That is, in the normal case, notice must be published at appropriate intervals for at least 30 days before the banking agency finally approves or disapproves the merger; in an emergency, this may be shortened to 10 days. The bill does not require any such notice where a merger is needed to save a failing bank. This makes no substantial change in existing law for most mergers resulting in national banks, inasmuch as such notice is already required to run for at least 4 weeks under the act of November 7, 1918, as revised by section 20 of Public Law 86-230 (12 U.S.C. 215), which applies to all such mergers except those in the form of an acquisition of assets and assumption of liabilities. Thus, for most national bank mergers, the only change the bill makes is to add 2 days to the notice period in some cases.

Notice is also required now for mergers resulting in State banks, under the laws of many States.

This requirement will not, therefore, occasion any delay, or impose any unnecessary burden on the persons seeking to arrange a bank merger. It will, however, provide a means by which the people of the community served by the banks involved may be given an opportunity to consider the effects of a proposed merger and express their views concerning it in cases where they are sufficiently interested.
COMPLIANCE WITH STATE LAW

In the case of every merger where the resulting bank will be a State bank, approval by the appropriate State supervisor or other banking authority will, of course, have to be obtained, in accordance with the applicable State law, before the Federal Reserve Board or the FDIC will have an opportunity to review an application under this bill.

If the State supervisor refuses his approval of the merger, no application to the Federal Reserve Board or to the FDIC would even be considered. There is, therefore, no possibility that the Board or the FDIC would approve a merger which the appropriate State authorities had finally rejected.

The only possibility of conflict is that the Board or the FDIC might deny an application for a merger which the State supervisor had approved. This kind of conflict is not new under the dual system of banking, however regrettable any specific instance may be. Under the Board's or the FDIC's standards, the Board may always deny membership, and the FDIC may always deny insurance, to a State bank chartered by the appropriate State authority. The bank may still proceed to operate as a State-chartered bank, without membership or without FDIC insurance, so long as the State supervisor authorizes it to do so.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as passed by the Senate, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

**SUBSECTION (C) OF SECTION 18 OF THE FEDERAL DEPOSIT INSURANCE ACT**

(c) Without prior written consent by the Corporation, no insured bank shall (1) merge or consolidate with any noninsured bank or institution or convert into a noninsured bank or institution or (2) assume liability to pay any deposits made in, or similar liabilities of, any noninsured bank or institution or (3) transfer assets to any noninsured bank or institution in consideration of the assumption of liabilities for any portion of the deposits made in such insured bank. No insured bank shall convert into an insured State bank if its capital stock or its surplus will be less than the capital stock or surplus, respectively, of the converting bank at the time of the shareholders' meeting approving such conversion, without prior written consent by the Comptroller of the Currency if the resulting bank is to be a District bank, or by the Board of Governors of the Federal Reserve System if the resulting bank is to be a State member bank (except a District bank), or by the Corporation if the resulting bank is to be a State nonmember insured bank (except a District bank). No insured bank shall (i) merge or consolidate with an insured State bank under the charter of a State bank or (ii) assume liability to pay any deposits made in another insured bank, if the capital stock or surplus of the resulting or assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks or of all the parties to the assumption of liabilities, at the time of the

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4 This is specifically required by statute in virtually all States.
shareholders' meeting which authorized the merger or consolidation or at the time of the assumption of liabilities, unless the Comptroller of the Currency shall give prior written consent if the assuming bank is to be a national bank or the assuming or resulting bank is to be a District bank; or unless the Board of Governors of the Federal Reserve System gives prior written consent if the assuming or resulting bank is to be a State member bank (except a District bank); or unless the Corporation gives prior written consent if the assuming or resulting bank is to be a nonmember insured bank (except a District bank).]

No insured bank shall merge or consolidate with any other insured bank or, either directly or indirectly, acquire the assets of, or assume liability to pay any deposits made in, any other insured bank without the prior written consent (i) of the Comptroller of the Currency if the acquiring, assuming, or resulting bank is to be a national bank or a district bank, or (ii) of the Board of Governors of the Federal Reserve System if the acquiring, assuming, or resulting bank is to be a State member bank (except a district bank), or (iii) of the Corporation if the acquiring, assuming, or resulting bank is to be a nonmember insured bank (except a district bank). In granting or withholding consent under this subsection, the Comptroller, the Board, or the Corporation, as the case may be, shall consider the factors enumerated in section 6 of this Act. In the case of a merger, consolidation, acquisition of assets or assumption of liabilities, the appropriate agency shall also take into consideration whether the effect thereof may be to lessen competition unduly or to tend unduly to create a monopoly, and, in the interests of uniform standards, it shall not take action as to any such transaction without first seeking the views of each of the other two banking agencies referred to herein with respect to such question. In the case of a merger, consolidation, acquisition of assets, or assumption of liabilities, the appropriate agency shall request a report from the Attorney General on the competitive factors involved in the merger. The Attorney General shall furnish such report to such agency within thirty calendar days of the request: Provided, however, That in case the agency finds an emergency exists the agency may advise the Attorney General thereof and may thereupon shorten the period for the Attorney General to report to ten calendar days: Provided further, That where the agency finds that an emergency makes necessary immediate action in order to prevent the probable failure of one of the merging banks, the appropriate agency may act without obtaining such report from the Attorney General: And provided further, That the Comptroller, the Board, and the Corporation shall each submit to the Congress a semiannual report with respect to each merger, consolidation, acquisition of assets, or assumption of liabilities approved by the Comptroller, the Board, or the Corporation, as the case may be, which shall include the following information: the name of the receiving bank; the name of the absorbed bank; the total resources of the receiving bank; the total resources of the absorbed bank; whether a report has been submitted by the Attorney General hereunder; and if approval has been given, a summary of the substance of the report made by the Attorney General, and a statement by the Comptroller, the Board, or the Corporation, as the case may be, in justification of its findings. No insured State nonmember bank (except a District bank) shall, without the prior consent of the Corporation, reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.
May 11, 1960.

Dear Sir:

On May 6, 1960, the Senate passed the Bank Merger Bill S-1062 and it appears that it will soon be applicable to all mergers, consolidations, and absorptions of banks.

The staff has been working with representatives of the Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation to prepare a form of application which could be used by banks applying to the Federal supervisory agencies for approval of mergers, consolidations, or absorptions under the new law. The enclosed draft of form of application is submitted for possible comments and suggestions and it will be appreciated if we can have your views within the next two weeks.

Pending the formal adoption of a form of application, it is suggested that you request the State member banks to submit their applications for mergers, consolidations, or absorptions in a form similar to this draft. Such applications should be forwarded to the Board promptly followed in due course by your memoranda and recommendation. Inasmuch as the statute provides that these proposals be submitted by us to the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Department of Justice, it is requested that an original and three copies of the application and exhibits be furnished the Board, in addition to copies needed for use of your bank.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure
The House today passed the bank merger bill (S. 1062) without objection under a suspension of the House rules.

The bill now goes back to the Senate, which may ask for a conference on the amendments made to the bill by the House or proceed to consider the bill in its amended form without going to conference.

cc: Mr. Hackley
    Mr. Solomon
    Mr. Sherman
This morning, the House Banking and Currency Committee ordered favorably reported the bank merger bill (S. 1062) in the form recently approved by the Brown Subcommittee, except for one change.

The change made by the full Committee was to add to the bill a requirement under which a bank merging other banks would have to publish advance notice of the proposed merger in a local newspaper of general circulation. This requirement is much the same as that already applicable under the law with respect to national banks and some State statutes have similar requirements.

The bill, as ordered reported by the Committee with the one change, was approved on voice vote without objection.

cc: Mr. Sherman
    Mr. Solomon
    Mr. Hexter
February 19, 1960

The Honorable Paul Brown, Chairman,
Subcommittee No. 2,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with the request made at the hearing before your Subcommittee on February 16, 1960, with respect to S. 1062, I am enclosing a copy of a letter that was sent to Senator Robertson by Governor Balderston of the Board on May 8, 1959, setting forth the Board's views regarding an amendment to the bank merger bill introduced by Senator O'Mahoney on May 7, 1959.

As was indicated at the hearing on February 16, the Board reported unfavorably on Senator O'Mahoney's amendment. It should be pointed out that the exceptions contained in his amendment regarding cases of probable bank failures, incompetent management, inadequate capital, and over-banked situations would be important and relevant only if Congress should adopt legislation like Senator O'Mahoney's amendment prohibiting a banking agency from approving any merger that would substantially lessen competition. However, these exceptions would be unnecessary if Congress should follow the approach of S. 1062, since it would leave the banking agencies free to consider all pertinent factors; under that bill it would be possible for the agencies to consider situations of the kind described in Senator O'Mahoney's amendment as warranting approval of a merger notwithstanding lessening of competition.

Sincerely yours,

(SIGNED) WM. McC. Martin, Jr.

Enclosure

cc: Miss Muehlhaus
    Mr. Shay

HHH:jc
2-18-60
The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

It is understood from the Chief of Staff of your Committee that you wish to have the views of the Board regarding an amendment introduced by Senator C'Mahoney on May 7, 1959, to the bill S. 1062, relating to bank mergers which was favorably reported by your Committee on April 17.

The Board strongly opposes enactment of the proposed amendment. In the Board's opinion, adoption of the amendment would be directly at variance with the underlying purposes of the bill as reported by your Committee. The reasons for the Board's position are set forth in detail in the enclosed memorandum.

Briefly stated, the proposed amendment would (1) prohibit the Federal bank supervisory agencies from approving any bank merger if its effect might be substantially to lessen competition or to tend to create a monopoly, except in certain limited circumstances described in the amendment; (2) require the appropriate bank supervisory authority to hold a hearing in any case in which either of the other two Federal bank supervisory authorities or the Attorney General expresses disapproval of a proposed merger; (3) allow an appeal from the decision of the bank supervisory authority, to the Court of Appeals for the District of Columbia, by any party adversely affected or by the Attorney General; and (4) require each of the bank supervisory agencies to submit a report twice a year with respect to all bank mergers approved by it, indicating the names and resources of the banks involved and submitting a copy of the report made by the other Federal bank supervisory agencies and by the Attorney General regarding the competitive factors involved in the merger.

The proposed amendment, by prohibiting approval of any merger that might substantially lessen competition, would bar all consideration of other factors that might make a proposed merger desirable, or even essential, in the public interest. This would
represent a fundamental change in the concept of the reported bill which contemplates that due weight should be given to financial condition, character of management, and convenience and needs of the community, as well as effect upon competition. The amendment would make "substantial lessening" of competition the controlling factor in all cases.

The holding of hearings with respect to bank mergers as required by the amendment would be inadvisable and in many cases could have detrimental effects upon the banks involved, their customers, and the general public. The provisions of the proposed amendment granting judicial review of orders of the bank supervisory agencies at the instance of aggrieved parties are unnecessary.

The authority that would be given the Attorney General to obtain judicial review of the banking agency's decision would vest in the Attorney General an effective control over bank mergers that would tend to minimize, if not ignore, factors that should be considered in determining whether such a merger is in the over-all public interest. Again, this would be inconsistent with the concept of giving due weight to all factors pertinent to the public interest and not to competition alone. It would also be at variance with the concept of the bill of vesting judgment in the bank supervisory agencies with respect to all of the statutory factors including the competitive effect of a particular merger. Furthermore, the Attorney General would be placed in the anomalous position of representing the United States in appealing from the decision of a Federal agency while at the same time representing the agency itself as appellee, unless, of course, special arrangements were made for the use by such agency of its own counsel.

For these reasons the Board earnestly hopes that the proposed amendment will not be adopted.

Sincerely yours,

C. Canby Balderston, Vice Chairman.

Enclosure
MEMORANDUM REGARDING AMENDMENT SUGGESTED BY
SENATOR O'MAHONEY TO BANK MERGER BILL (S. 1062)

(1) The proposed amendment would prohibit any merger the effect of which "may be substantially to lessen competition, or to tend to create a monopoly". The obvious effect of this prohibition would be to make "substantial" lessening of competition, the standard now contained in the Clayton Act, the controlling test as to bank mergers. It would require disapproval of any merger which might quantitatively lessen competition, notwithstanding offsetting favorable factors that would clearly make the proposed merger desirable in the public interest. While the proposed amendment would purport to set forth certain situations in which this prohibition would not apply, there is no assurance that the situations described in the amendment are exhaustive of the types of situations that might require consummation of a bank merger even though it would lessen competition. In other words, the proposed amendment would be directly contrary to a fundamental concept of the reported bill, which is designed to enable the bank supervisory agencies to consider and weigh various factors affecting the public interest, including but not limited to the effect of the merger upon competition.

As stated in the Report of the Senate Banking and Currency Committee of April 17, 1959, it is essential in the case of a bank merger that any lessening of competition "should not be used as a controlling or determinative factor in and of itself" (p. 22) and "that the competitive factors, however favorable or unfavorable, are not, in and of themselves, controlling on the decision". (p. 24)

(2) The proposed amendment would require the holding of a hearing with respect to every merger considered by one of the three Federal bank supervisory agencies as to which either of the other bank supervisory authorities or the Department of Justice have expressed disapproval. Such a hearing requirement could well be detrimental to the public interest. The standards stated in the reported bill would require the appropriate bank supervisory agency to consider the financial condition and competency of management of the banks involved, as well as the competitive effect of the proposed merger. In order to provide a complete record, a hearing would of
necessity contain references to the internal condition and management of a bank that for good reasons should not be disclosed other than to the authority considering the matter.

Various items of information of this kind, taken alone, could easily give rise to unfounded rumors as to the financial condition of a bank, the adequacy of its capital structure, or the character of its management, and might well result in irreparable injury to the bank, its stockholders, its depositors, and the public. It is for this reason that such information has always been treated in the most confidential manner by all bank supervisory authorities. Furthermore, revelation of all information relating to the required consideration of the competitive effect of a proposed merger could easily result in giving competing banks information now held in confidence which might unjustly injure the competitive position and business prospects of the bank involved.

(3) Apart from the inadvisability of such hearings, the holding of hearings with respect to bank mergers is questionable. The Federal bank supervisory agency that would be required to pass on a bank merger would be the agency that normally has supervision of the bank that would continue after the merger. That agency would therefore have available to it, or could obtain, full information as to the financial condition, management, and other factors pertinent to a decision as to whether the merger should be permitted. A hearing would add little or nothing to the information available to that agency and needed by it in order to appraise the merger in the light of the statutory standards.

(4) The proposed amendment would require hearings even in those cases in which, because of emergency circumstances, a report would not be required under the reported bill to be obtained from the Attorney General. For example, if one of the Federal bank supervisory agencies should express its disapproval of the proposed merger, for whatever reason, a hearing would be mandatory, despite the existence of emergency conditions requiring immediate action.

(5) The provisions of the proposed amendment authorizing appeal from a bank supervisory agency's decision on a proposed merger are unnecessary. Under present law, a person aggrieved by the agency's decision could seek judicial review of the agency's action, either through a suit for a declaratory judgment or an injunction, or a combination of the two, wherein a court of law could determine whether the agency's decision was capricious or arbitrary or in excess of its statutory authority.
(6) The provision of the proposed amendment that would give the Attorney General a right of appeal from the decision of one of the bank supervisory agencies as to a proposed merger would obviously afford the Department of Justice an effective power to substitute its judgment for the judgment of the banking agency and to assert that power solely on the basis of the Department's opinion as to the effect of the merger upon competition, without regard to any favorable factors that would make the proposed merger desirable in the public interest. Again, this result would clearly be contrary to the basic intent of the reported bill.

In this connection, it is important to observe that in the event an appeal should be taken by the Attorney General pursuant to the proposed amendment, unless the agency involved obtained its own counsel, there would result a situation in which the Attorney General would appear before the appellate court both as the appellant and also as representative of the appellee, the particular bank supervisory authority whose decision would be in question. This result would, of course, follow from the fact that the Attorney General, as the legal officer of the United States, normally represents agencies of the Federal Government in suits involving such agencies.

The proposed amendment would give the Attorney General an unqualified right to challenge the decision of the appropriate bank supervisory agency by appeal to a court solely on the basis of his disapproval of the merger on the ground of its competitive effect. Nevertheless, the Attorney General's right to appeal would not be limited to cases in which he might disagree with the banking agency's judgment as to effect on competition; on appeal he could challenge that agency's judgment as to factors related to financial condition, character of management, and other matters wholly unrelated to competitive effect.

It should be borne in mind that, if a proposed merger approved by one of the banking agencies should in fact violate the antitrust laws, the Attorney General would continue to have power to prevent the merger pursuant to his jurisdiction under the Sherman Act. In the absence of such a situation, however, the proposed amendment would have the effect of substituting the judgment of the Attorney General for that of the banking agency as to all statutory factors, including competition, notwithstanding the banking agency's specialised experience in the field of banking. This would be in direct conflict with the sound philosophy of the reported bill and the proposed amendment itself, both of which would
place in the banking agencies charged with primary supervision of
the institutions involved the responsibility for exercising judg-
ment as to all of the statutory factors including the competitive
effects of a proposed bank merger.

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The Board would be opposed to a requirement that hearings be held with respect to bank mergers. Such a hearing requirement could well be detrimental to the public interest. The standards stated in the bill would require the appropriate bank supervisory agency to consider the financial condition and competency of management of the banks involved, as well as the competitive effect of the proposed merger. In order to provide a complete record, a hearing would of necessity contain references to the internal condition and management of a bank that for good reasons should not be disclosed other than to the authority considering the matter.

Various items of information of this kind, taken alone, could easily give rise to unfounded rumors as to the financial condition of a bank, the adequacy of its capital structure, or the character of its management, and might well result in irreparable injury to the bank, its stockholders, its depositors, and the public. It is for this reason that such information has always been treated in the most confidential manner by all bank supervisory authorities. Furthermore, revelation of all information relating to the required consideration of the competitive effect of a proposed merger could easily result in giving competing banks information now held in confidence which might unjustly injure the competitive position and business prospects of the bank involved.
Apart from the inadvisability of such hearings, it is questionable whether they would serve any useful purpose. The Federal bank supervisory agency that would be required to pass on a bank merger would be the agency that normally has supervision of the bank that would continue after the merger. That agency would therefore have available to it, or could obtain, full information as to the financial condition, management, and other factors pertinent to a decision as to whether the merger should be permitted. A hearing would add little or nothing to the information available to that agency and needed by it in order to appraise the merger in the light of the statutory standards.
THE STANDARD OF COMPETITION: "UNDULY" V. "SUBSTANTIALLY"

One of the principal points of discussion in connection with the bank merger bill has related to the phrasing of the provision regarding consideration of the factor of competition. Several alternatives have been considered:

"Unduly". - S. 1062, as it was introduced in the Senate and as it passed the Senate provided that each banking agency should consider whether the effect of a proposed merger may be to "lessen competition unduly or tend unduly to create a monopoly."

In the past, the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have espoused this approach on the theory that it avoids the exclusively quantitative connotation of the word "substantially" as used in the Clayton Act, and makes clear that the banking agencies are authorized to approve a merger that may substantially lessen competition if the prospective benefits outweigh this factor so that the merger will not unduly lessen competition. The Department of Justice has opposed use of the word "unduly" on the ground that, unlike "substantially", it has no judicially settled meaning. On the contrary, however, the term "unduly" has been used in court decisions.

"Substantially". - It is likely that suggestions will be made in the House to substitute "substantially" for "unduly" as a means of compromise - both because it would be more acceptable to Justice Department and because it has been favored by Chairman Celler of the Judiciary
Committee. However, it is probable that this substitution would be opposed by the Comptroller of the Currency and the FDIC; and it might not be acceptable to Senator Robertson.

Last March, when Governor Robertson testified in the Senate on behalf of the Board, he indicated that the Board would not oppose substitution of "substantially" for "unduly". In his statement, he said:

"It should be emphasized here that the Board's position with respect to standards is not based upon any semantic distinction between the words "substantially" and "unduly", although obviously the word "substantially" carries only a quantitative connotation, whereas "unduly" implies a broader meaning. The point of the matter is that, in passing upon a bank merger, its effect upon competition should be one, but not the only, factor to be considered. The supervisory agency having jurisdiction over a merger should be required to weigh, pro and con, all factors affecting the public interest - financial condition, management, and needs of the community, as well as competitive effect. Admittedly, the effect of a bank merger as lessening competition is always an important factor and should be carefully weighed; but, in determining whether any such merger would be inconsistent with the public interest, the test should be whether competition would be lessened to such a degree as to outweigh whatever favorable factors may be present in the particular situation."

Cardon proposal. - It is possible that certain "compromise" language suggested by Mr. Cardon, Clerk of the House Banking Committee, may be brought up at the hearing on February 16. That suggestion was to require the banking agencies to consider whether the effect of a merger might be "substantially" to lessen competition, and if the agency should find that the merger would have such an effect, to prohibit the agency from giving its consent unless it finds "that the transaction would nevertheless be in the public interest because, after considering
the factors enumerated in section 6 [the "banking" factors], it finds that the benefits to the public to be derived from the transaction outweigh the adverse effect on competition."

The Comptroller's Office has indicated that it would oppose this suggestion. However, representatives of the ABA and, apparently, representatives of the FDIC, felt that it would be unobjectionable, provided the words "in the public interest" were changed to "consistent with the public interest." (This raises the "philosophic" question whether a merger should be approved only if it will affirmatively promote the public interest.)

"Preservation of competition". - In order to avoid use of either "unduly" or "substantially", it may be suggested that the bill be changed to require the banking agency to consider whether the merger will be "inconsistent with the preservation of competition in the field of banking." This is similar to language used in the Bank Holding Company Act. It would seem to have some advantages as a possible compromise. However, it is doubtful whether it would be acceptable to the Department of Justice.

Effect upon competition. - A final alternative would be to require the banking agency to consider simply the "effect of the proposed merger upon banking competition." This would permit consideration of whether the merger would result in too much as well as too little competition. Logically, it would seem to be the most appropriate language. However, in view of the history of the matter, it is unlikely that such language would satisfy the Department of Justice.
Tactical considerations. - On principle, the alternative last mentioned would be the preferable one. Tactically, however, it may be desirable to settle for any of the alternatives indicated if it is made clear that lessening of competition is not necessarily the decisive factor, but only one that is to be weighed along with other factors. Adamant insistence upon the use of the word "unduly" might well result in failure of this bill and passage of legislation of the kind advocated by the Justice Department, which would place bank mergers under the Clayton Act and in effect give the Department of Justice and the banking agencies concurrent antitrust control over the merger of banks. In that event, the sole consideration would be whether the merger would "substantially" lessen competition, and other aspects affecting the public interest would be ignored.
HOLDING COMPANY'S ACQUISITION OF STOCK OF

Bank in Paducah, Texas

A small holding company controls a bank in Childress (at the base of the Texas Panhandle) and another in nearby Oklahoma. In addition, it owned 5 per cent of the stock of a bank in Paducah, 30 miles south of Childress. It requested the Board to approve acquisition of another 5 per cent.

The areas served by the bank in Childress and the one in Paducah may potentially overlap to some degree, although at present the people of the area tend to deal with the nearest bank. The majority of the Board (two dissented) concluded that the proposed increase in the holding company's ownership of the Paducah bank from 5 per cent to 10 per cent would not "expand the size or extent of the bank holding company system involved beyond limits consistent with . . . the preservation of competition", having in mind the existence of a number of other banks within a radius of 30 to 40 miles over straight, good roads.

The Texas Banking Commissioner objected on the ground that the holding company's charter prohibited the proposed acquisition. The Board took the position that this was a matter within the jurisdiction of the State rather than that of the Board.

Representative Patman objected on the grounds that (1) the Holding Company Act forbids the acquisition because Texas law prohibited branch banking, and (2) the Board had violated the Holding Company Act by failing to notify the Texas Banking Commissioner.
Both of these objections seemed clearly untenable, and the first was dealt with in the Board's Statement in this case. Other objections made by Representative Patman were (3) that the proposed acquisition would violate the antitrust laws and (4) that the Board's decision reached the wrong result in view of the facts generally. The Board did not consider it necessary to mention these objections specifically in its Statement.
REASONS AGAINST COVERING BANK MERGERS UNDER THE CLAYTON ACT

Some pending bills would seek to meet the problem by bringing acquisitions of bank assets, and therefore bank mergers, within the coverage of section 7 of the Clayton Act. Some of these bills would, in addition, require prior notification to be given to the Attorney General and the Board with respect to all bank mergers involving banks with combined capital, surplus, and undivided profits of more than $10 million, subject to certain exceptions.

In recent years, the Board has consistently expressed the view that the most effective approach to the problem would be through an amendment to the banking laws which would require prior approval of all bank mergers by the appropriate Federal bank supervisory agencies. The bill S. 1062 reflects this approach. The Board favors this approach rather than an amendment to the Clayton Act because of (1) the desirability of preventing mergers of insured banks without the advance approval of the appropriate Federal bank supervisory agency, (2) the greater enforcement problems resulting from coverage of bank mergers by the antitrust laws, and (3) the need for more flexible standards than the standard prescribed by the Clayton Act.

Advance approval would afford opportunity to consider all aspects of the public interest and, at the same time, would avoid the difficulties arising from after-the-fact consideration of the question.
whether a consummated bank merger is consistent with the public interest. By contrast, expansion of the Clayton Act to cover bank mergers would place upon the Government the burden of taking the initiative to restrain or undo any merger deemed to violate the law. Under a bill like S. 1062, the burden would be on the banks in every case to obtain approval of a proposed merger; and if the proposal was found to be contrary to the public interest, for competitive or other reasons, the merger would never take place.

As to enforcement, the Federal banking agencies are believed to be qualified by experience to determine whether a proposed merger should be approved as being in the public interest. No new enforcement problems would be presented. On the other hand, extension of section 7 of the Clayton Act to cover bank mergers would give rise to all of the multitude of problems inherent in attempting to undo a merger that has already taken place. Practical and legal difficulties would be involved in unscrambling the assets and liabilities of constituent banks after a merger has occurred, particularly if a considerable period of time has elapsed. These difficulties would be far greater than those involved in requiring divestment of stock illegally acquired under the Clayton Act.

In addition to these problems, coverage of bank mergers by the Clayton Act would substantially add to the Board's responsibilities in the antitrust field. At present, the Board has enforcement authority under the Clayton Act where banks are involved, but that
authority is limited to stock acquisitions, and its significance has been considerably lessened by the fact that under the Bank Holding Company Act the Board must pass in advance upon acquisitions of bank stock by bank holding companies. However, an extension of the Clayton Act to cover acquisitions of bank assets would impose upon the Board enforcement responsibility with respect to every bank merger, even though it may already have been considered and approved by one or more other bank supervisory agencies.

The principal responsibilities and functions of the Federal Reserve System lie in the fields of monetary and credit regulation and bank supervision. The prosecuting functions incident to the enforcement of the antitrust laws are of a character quite different from the administrative functions normally exercised by the Board in passing in advance upon particular transactions in the bank supervisory field. In brief, enforcement of the antitrust laws and bank supervision represent different spheres of governmental operation, despite the fact that both may involve questions of possible adverse effects upon competition.

Finally, if bank mergers were brought under the Clayton Act, the sole test would be whether a particular merger would substantially lessen competition or tend to create a monopoly, to the exclusion of other considerations that might have an equally important bearing upon sound banking and the public interest. Thus, every bank merger that would result in a substantial lessening of competition
would be made unlawful, no matter how desirable the merger might be in order to improve the financial condition or quality of management of the banks involved or to protect the community against the growth of unsound banking practices. There may well be instances in which the over-all public interest would be clearly served by a bank merger even though it would lessen competition. For example, a bank may be an uneconomic unit, too small to provide the banking services needed by its community; or a bank may be one of a number of banks in an over-banked community where excessive competition for business may lead to unsound banking practices. In such situations, the public interest might actually be promoted by the merger of two banks, even though a lessening of competition might result.

Banking, perhaps more than any other type of business, directly affects credit conditions and the basic economy of the country. Accordingly, there is a need to maintain strong competition in the banking field in order to make certain that business and the public will have access to adequate alternative sources of banking services. But there is also a need, of at least equal importance, for the maintenance of sound, strong, and efficient banks that will be able to meet the credit and financial requirements of growing communities. Both of these needs must be considered in determining whether a particular bank merger will be in the public interest.
### MERGERS, CONSOLIDATIONS AND ABSORPTIONS BY STATE MEMBER BANKS

<table>
<thead>
<tr>
<th>Number of Mergers and Consolidations</th>
<th>Number of Absorptions (Purchase of assets)</th>
<th>Size of banks taken over</th>
<th>Number of cases requiring Federal Reserve Board approval</th>
<th>Number of cases not requiring Federal Reserve Board approval</th>
<th>Existing branches acquired in takeover</th>
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</thead>
<tbody>
<tr>
<td>1951</td>
<td>16</td>
<td>$,000,000 - $10,000,000</td>
<td>11</td>
<td>18</td>
<td>33</td>
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<tr>
<td>1952</td>
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<td>$,000,000 - $10,000,000</td>
<td>12</td>
<td>18</td>
<td>28</td>
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<tr>
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<td>12</td>
<td>$,000,000 - $10,000,000</td>
<td>12</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>1954</td>
<td>9</td>
<td>$,000,000 - $10,000,000</td>
<td>12</td>
<td>12</td>
<td>10</td>
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<tr>
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<td>8</td>
<td>$,000,000 - $10,000,000</td>
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<td>13</td>
<td>12</td>
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<tr>
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<td>5</td>
<td>$,000,000 - $10,000,000</td>
<td>12</td>
<td>13</td>
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<tr>
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<td>10</td>
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<tr>
<td>1959</td>
<td>5</td>
<td>$,000,000 - $10,000,000</td>
<td>12</td>
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</table>

**List of Banks With Assets Over $50 Million Which Were Merged into or Absorbed by State Member Banks**

<table>
<thead>
<tr>
<th>Date</th>
<th>Banks taken over</th>
<th>Assets</th>
<th>By</th>
<th>Assets</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-15-50</td>
<td>Brooklyn Trust Co., Brooklyn, N. Y.</td>
<td>$246,670</td>
<td>Manufacturers Trust Co., New York</td>
<td>$2,783,181</td>
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</tr>
<tr>
<td>9-14-50</td>
<td>Lawyers Trust Co., New York</td>
<td>79,960</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,152,329</td>
<td>Approval not required</td>
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<tr>
<td>8-7-50</td>
<td>Title Guarantee &amp; Trust Co., New York</td>
<td>94,238</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,152,329</td>
<td>Approval not required</td>
</tr>
<tr>
<td>3-19-51</td>
<td>National Safety Bank &amp; Trust Co., New York</td>
<td>109,127</td>
<td>National Trust Co., Buffalo</td>
<td>1,715,025</td>
<td>Approved by Board</td>
</tr>
<tr>
<td>1-23-51</td>
<td>Penn. City Trust Co., New York</td>
<td>76,120</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,633,150</td>
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<tr>
<td>9-4-51</td>
<td>Mississippi Valley Trust Co., St. Louis</td>
<td>250,392</td>
<td>Manufacturers Trust Co., New York</td>
<td>89,816</td>
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<td>11-1-51</td>
<td>Rhode Island Hospital National Bank &amp; Trust Co., Providence</td>
<td>715,777</td>
<td>Manufacturers Trust Co., New York</td>
<td>453,467</td>
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<td>11-3-51</td>
<td>Equitable Trust Co., Wilmingtton, Delaware</td>
<td>51,630</td>
<td>Manufacturers Trust Co., New York</td>
<td>120,085</td>
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<td>7-1-51</td>
<td>Phoenix State Bank &amp; Trust Co., Hartford, Conn.</td>
<td>121,595</td>
<td>Manufacturers Trust Co., New York</td>
<td>202,085</td>
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<td>8-9-51</td>
<td>Colonial Trust Co., Pittsburgh</td>
<td>140,545</td>
<td>Manufacturers Trust Co., New York</td>
<td>87,808</td>
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<td>10-18-51</td>
<td>Corn Exchange Bank &amp; Trust Co., New York</td>
<td>182,246</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,206,212</td>
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<td>1-3-55</td>
<td>Monterey Co. Trust &amp; Savings Bank, Salinas, Calif.</td>
<td>65,526</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,323,312</td>
<td>Approved by Board</td>
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<tr>
<td>2-21-55</td>
<td>Second National Bank, Boston, Massachusetts</td>
<td>180,000</td>
<td>Manufacturers Trust Co., New York</td>
<td>215,321</td>
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<td>3-21-55</td>
<td>Bronx County Trust Company, New York</td>
<td>75,616</td>
<td>Manufacturers Trust Co., New York</td>
<td>168,993</td>
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<td>4-1-55</td>
<td>Chase National Bank, St. Louis</td>
<td>5,661,059</td>
<td>Manufacturers Trust Co., New York</td>
<td>1,685,993</td>
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<td>4-11-55</td>
<td>Public National Bank &amp; Trust Co., New York</td>
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<td>Manufacturers Trust Co., New York</td>
<td>2,207,022</td>
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<td>10-3-55</td>
<td>First National Bank, Philadelphia</td>
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<td>9-1-55</td>
<td>Detroit-Wabash Bank &amp; Trust Co., Detroit, Mich.</td>
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<td>1-29-59</td>
<td>Upper Darby National Bank, Upper Darby, Pa.</td>
<td>34,510</td>
<td>Manufacturers Trust Co., New York</td>
<td>663,615</td>
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<tr>
<td>Date</td>
<td>Banks taken over</td>
<td>Assets</td>
<td>By</td>
<td>Assets</td>
<td>Comment</td>
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The Board of Governors of the Federal Reserve System has issued an Order approving the application of Farmers and Mechanics Trust Company, Childress, Texas, filed pursuant to section 3(a) of the Bank Holding Company Act of 1956, for prior approval of the acquisition of 5 per cent (150 shares) of the outstanding voting shares of The First National Bank, Paducah, Texas.

This Order was issued after publication of a Notice of Tentative Decision in the Federal Register and after the expiration of the period specified in that Notice for the filing of comments on or objections to the Board's proposed action. Comments received by the Board were taken into consideration prior to the issuance of the Board's Order.

Attached are the Board's Order and accompanying Statement. A Dissenting Statement by Governors Szymczak and Robertson in support of their vote against this action is also attached.

Attachments
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

FARMERS AND MECHANICS TRUST COMPANY
Childress, Texas

for prior approval of acquisition of voting shares of The First National Bank, Paducah, Texas

ORDER APPROVING APPLICATION UNDER BANK HOLDING COMPANY ACT

There having come before the Board of Governors pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.1 (a)(2)), application on behalf of the Farmers and Mechanics Trust Company, Childress, Texas, for the Board's prior approval of the acquisition of 5 per cent (150 shares) of the outstanding voting shares of The First National Bank, Paducah, Texas; a Notice of Tentative Decision referring to a Tentative Statement on said application having been published in the Federal Register on December 5, 1959 (24 F.R. 9801); said Notice having provided interested persons an opportunity, before issuance of the Board's final order, to file objections to or comments upon the statements of fact and conclusions reached in the Tentative Statement; and the time for filing such objections and comments having expired and comments received having been duly considered;
IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application by Farmers and Mechanics Trust Company for approval of the acquisition of 5 per cent of the outstanding voting shares of The First National Bank, Paducah, Texas, be and hereby is granted and approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C., this 13th day of January, 1960.

By order of the Board of Governors.

Voting for this action: Chairman Martin, Vice Chairman Balderston and Governors Mills, Shepardson and King.

Voting against this action: Governors Szymczak and Robertson.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

(SEAL)
APPLICATION BY FARMERS AND MECHANICS TRUST COMPANY,  
CHILDRESS, TEXAS, FOR PRIOR APPROVAL OF ACQUISITION OF  
VOTING SHARES OF THE FIRST NATIONAL BANK, PADUCAH, TEXAS  

STATEMENT  

Farmers and Mechanics Trust Company ("Farmers"), a bank  
holding company, has applied, pursuant to section 3(a)(2) of the Bank  
Holding Company Act of 1956 ("the Act"), for the Board's prior approval  
of its acquisition of 5 per cent (150 shares) of the outstanding voting  
shares of The First National Bank, Paducah, Texas ("National").  

Views and recommendations of supervisory authorities. - Sec-
tion 3(b) of the Act requires the Board, upon receipt of an application  
for approval under section 3, to "give notice to the Comptroller of  
the Currency, if the applicant company or any bank the voting shares  
or assets of which are sought to be acquired is a national banking  
association or a District bank, or to the appropriate supervisory  
authority of the interested State, if the applicant company or any bank  
the voting shares or assets of which are sought to be acquired is a  
State bank ...". Farmers, the applicant company, is not a bank. The  
bank, the voting shares of which are sought to be acquired, is a national  
bank. Pursuant to the requirements of the Act, notice of the receipt of  
this application was given to the Comptroller of the Currency, and the  
Comptroller recommended that the application be approved.
Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Farmers presently has two subsidiary banks: one, with deposits of about $2.3 million, in the town of Childress in Childress County, Texas, and the other, with deposits of about $2.7 million, in the town of Hollis in Harmon County, Oklahoma. Harmon County is northeast of, and partly contiguous to, Childress County. National, the bank in which Farmers seeks to acquire stock, is located in Paducah in Cottle County, Texas, which is just south of Childress County. National is the only banking office in Cottle County, and holds deposits of about $4 million.

At present, Farmers owns 5 per cent of National's stock. The proposed acquisition of 150 additional shares of stock would cause Farmers to own 10 per cent of National's outstanding stock. National would not become a "subsidiary" of the holding company within the meaning of the Act, since subsidiary status is based upon ownership of 25 per cent or more of the voting shares of a bank.
Insofar as the first three statutory factors are concerned, it appears that the financial history and condition of Farmers and National are satisfactory and that their prospects and the character of their management are good. As to the fourth factor, Farmers asserts that its increased stock ownership of National would enable it to use its greater influence in the management of the bank to expand the bank's loan operations to accommodate worthy farmers, ranchers, and businessmen in the Paducah area. However, there is no evidence that National has not been serving its area adequately or that demand for loans by qualified borrowers has not been satisfied. In the Board's opinion, the proposed stock acquisition would not substantially contribute to, although it would not be inconsistent with, the "convenience, needs, and welfare of the communities and the area concerned".

Turning to the fifth statutory factor, there is no suggestion that the proposed expansion of the size or extent of the holding company system involved would be inconsistent with adequate and sound banking. The crucial question is whether such expansion would be consistent with the public interest and the preservation of competition in the field of banking.

The area concerned is sparsely populated and the towns are relatively small. Paducah accounts for a large part of the population of Cottle County. The nearest town with banking facilities is Childress, 31 miles to the north, which has two banks. One is a subsidiary of Farmers, as previously mentioned; the other is about twice the size of Farmers' bank and is not controlled by a holding company. There are four banks located in three other towns in adjoining counties, located from 32 to 42 miles distant from Paducah.
To the extent that the proposed transaction might result in a diminution of banking competition, it would, in the Board's opinion, be limited to the area between and around Paducah and Childress in which there are three banks, one being Farmers' subsidiary in Childress. Assuming that the acquisition by Farmers of additional stock of National would tend to draw further within its influence a second of the three banks in this area, it might diminish, to some degree, the availability to residents of the area of alternative sources of banking services under separate and independent control. However, one of the remaining alternative sources would be the second bank in Childress, the largest bank in the area; and, as previously indicated, there are four other banks in towns which, in view of geographic and population factors, may be regarded as only a relatively short distance from the Childress-Paducah area.

After consideration of the foregoing facts in the light of the purposes of the Act and the factors contained in section 3(c) thereof, it was the Board's tentative decision, notice of which was duly published in the Federal Register, that approval of this application would be consistent with the statutory objectives and the public interest. As permitted by that notice, certain objections and comments were submitted to the Board; and all of such objections and comments have been carefully considered.

One of the objections received and considered by the Board urges that the acquisition by Farmers of additional voting shares of National cannot lawfully be approved by the Board because the acquisition proposed by Farmers would be ultra vires, that is, beyond the powers
conferred on Farmers as contained in its charter granted by the State of Texas. In the Board's opinion this objection cannot be sustained.

In connection with bills that preceded the passage of the Bank Holding Company Act of 1956, Congress considered various proposals that would have precluded approval by the Board of any acquisition in conflict with applicable State law. Congress rejected all such proposals, with the single exception, not here pertinent, of the provision contained in section 3(d) of the Act that prohibits approval of acquisitions across State lines. The Board has previously taken the position that no provision of the Bank Holding Company Act operates to preclude the Board from approving a particular transaction merely because it appears to be in contravention of a State statute. (In the matter of the Applications of First New York Corporation, et al., 44 Federal Reserve Bulletin 902, 905 (1958)) This position is here reaffirmed; and the same principle must be applied to a provision in an applicant's corporate charter. This does not mean, of course, that a particular transaction need not meet the requirements of any statute, Federal or State, that might be applicable to any aspects of such transaction. It is not the province of the Board, however, to determine whether such a transaction would violate State law or exceed the charter powers of a State corporation; such questions are within the jurisdiction of the appropriate State administrative and judicial authorities.

Another objection received by the Board in this case urges that common control of two or more banks in the State of Texas contravenes that State's prohibition against branch banking and, as a
consequence, contravenes the provisions of the Bank Holding Company Act. In the Board's view, this objection is clearly answered by the legislative history of that Act.

Chief among the proposals considered by Congress for limiting the Board's discretionary authority under the Act was that contained in a bill passed by the House of Representatives which would have prohibited approval of any acquisition of stock of a bank in any State except "within geographic limitations that would apply to the establishment of branches of banks under the statute law of such State", unless the acquisition was affirmatively authorized by the law of the State. This proposal, however, was rejected by the Senate, and the bill finally enacted into law contained no provision that would require the Board to consider the existence or not of branch banking legislation within a particular State in passing upon an application that would result in holding company expansion within that State. At the time of passage of the Act, Congress was apparently aware of the existence of legislation in several States that prohibited branch banking. Congress was presumably aware of the fact also that in the National Bank Act it had specifically taken into consideration the existence of State branch banking laws in authorizing the Comptroller of the Currency to approve the establishment or operation of a branch by a national bank only if State laws specifically and affirmatively authorized State banks to have such branches. No mandatory reference to State branch banking provisions was included in the Bank Holding Company Act. Thus, notwithstanding proposals made on the floor of the Congress regarding the relation of State branch banking laws to holding company expansion, the existence in a particular State of a prohibition against branch banking cannot be
weighed as an adverse consideration by the Board in exercising its judgment on a holding company's application to acquire stock of a bank in that State.

It appearing that the proposed acquisition would be consistent with the statutory objectives and the public interest, it is the judgment of the Board that the application should be approved. It is so ordered.

Dissenting Statement of Governors Szymczak and Robertson

The proposed acquisition in this case would tend to lessen banking competition. At present, persons residing in the area between and around Paducah and Childress have three conveniently available choices of banking services: The First National Bank of Paducah and the two banks in Childress, one of which is a subsidiary of the holding company. The Holding Company already owns 5 per cent of the stock of the Paducah bank. Its acquisition of an additional 5 per cent will admittedly and purposefully increase its influence in the affairs of that bank and to that extent will likely result in a diminution of competition between the Paducah bank and the holding company's subsidiary bank in Childress.

Against this adverse factor of probable lessening of competition, there are no offsetting favorable considerations. It is apparent that the Paducah bank is adequately meeting loan demands in its community. There is no positive indication that the proposed stock acquisition would in any way tend to improve banking services or otherwise contribute to the public interest.

The facts that the holding company and the bank involved in this case are relatively small and that the area concerned is now sparsely populated (although it may not always be so), do not warrant a departure from the general principles that would be applied in a case involving larger institutions and more heavily populated areas, when considered in the light of the factors stated in section 3(c) of the Bank Holding Company Act. In our judgment, the application should be denied.

1/13/60
Office Correspondence

Date: February 12, 1960.

Subject: Briefing material with respect to bank merger hearing on February 16

With the thought that it may be of assistance to you in preparing for the hearing on the bank merger bill on February 16, I am attaching brief notes on certain questions that might be raised in the course of the hearing. These notes relate to the following matters:

(1) Standards as to competition ("unduly" v. "substantially"). This note is merely for your information and background.

(2) Reasons against covering bank mergers under the Clayton Act. This is almost a literal paraphrase of the Board's statement last year before the Senate Committee and it could be available for reading at the House hearing if necessary.

(3) Hearings on bank mergers. This note also is a paraphrase of a statement sent to Senator Robertson by the Board last year and could, if necessary, be read in the event a question of this kind is raised.

(4) Judicial review. Again, this reflects a statement made by the Board last year and could be read at the hearing.

(5) A brief statement regarding the recent case in which the Board approved a bank holding company's acquisition of stock of a bank in Paducah, Texas. This note is solely for your information and background and would not be suitable for reading.

I shall, of course, be glad to discuss any of these matters with you or to prepare any additional material that you may think desirable.

Attachments
February 10, 1960

To: Board of Governors

Subject: Testimony on proposed bank merger legislation

From: Mr. Hexter

There is attached for the Board's consideration a draft of a statement to be made by Chairman Martin on February 16 before the House Banking Committee regarding S. 1062, which passed the Senate in the 1959 Session with the support of the Board and other Federal bank supervisory agencies.

The attached draft is much shorter than the statement on S. 1062 that was made by Governor Robertson before the Senate Banking Committee on March 18, 1959. It omits certain "orienting" information that seems unnecessary at this time, and also omits any discussion contrasting S. 1062 with bills that would bring bank mergers within the coverage of section 7 of the Clayton Antitrust Act. Likewise, the statement would not go into the question of the relative merits of the terms "unduly" and "substantially" in the proposed legislation, nor the compromise solution of this controversy informally suggested by Mr. Cardon, the Clerk of the House Banking Committee. However, brief discussions of these questions are being prepared for use in the event that they are taken up with Chairman Martin in the course of his testimony.

It is understood that the Comptroller of the Currency, in his statement before the Committee, will indicate a preference for S. 1062 as originally introduced. It was then identical with H. R. 4373, which also is pending before the Committee. (S. 1062 and H. R. 4373 were introduced by Senator Robertson and Representative Kilburn, respectively, at the request of the Treasury Department.) The proposed statement by Chairman Martin would deal with S. 1062 as amended by the Senate, and would support its aims and general approach without drawing any distinction between the bill as introduced and as amended. It is believed that this is appropriate because the Senate amendment, although probably unnecessary, does not materially undermine the desirable main features of the bill. However, if the question should arise it is presumed that Chairman Martin would inform the Committee that the Board prefers S. 1062 in the form in which it was introduced.

Attachment

Board of Governors

Subject: Bank merger legislation -
Further meeting with representatives of the Comptroller of the Currency and Federal Deposit Insurance Corporation

Mr. Hackley

This supplements my memorandum of January 26 regarding bank merger legislation. As indicated in that memorandum, Mr. Jennings had agreed to advise me of the thinking of the Comptroller of the Currency regarding this matter, particularly as to the draft of a possible amendment to the merger bill submitted by Mr. Cardon.

This morning, at the request of Mr. Jennings, a meeting was held in my office attended also by Mr. Englert, Mr. Coburn, Mr. Greensides, Mr. Hexter and me.

Briefly, Mr. Jennings indicated that the present view of Mr. Gidney is that he would prefer the bank merger bill as it was originally introduced in the Senate (S. 1062), but that he would support the bill as it passed the Senate in May 1959. He would not wish to see a change in the bill that would substitute "substantially" for "unduly"; and he would not wish, therefore, to consider the draft of amended language suggested by Mr. Cardon. Mr. Coburn indicated that Chairman Wolcott of the FDIC has similar views.

Mr. Coburn made it clear that when Mr. Cardon had given him his draft of a possible amendment, it was understood that Mr. Cardon was asking only for the informal attitude of Mr. Coburn and the staffs of the Comptroller's Office and the Board. It was not intended as a request for an official expression of views by the banking agencies. In this connection, Mr. Jennings indicated that his office would not call Mr. Cardon or volunteer any views unless expressly requested by the Committee. I said again that the matter had not been considered by the Board and that it was my understanding that the Board had not been requested for its comments.
This afternoon the Brown Subcommittee (No. 2) of the House Committee on Banking and Currency ordered favorably reported to the full Committee, with amendments, the bank merger bill (S. 1062), on which you testified on February 16.

The amendments adopted by the Subcommittee were offered by Mr. Multer. Briefly, they include the three recommended by the Board in your formal statement before the Subcommittee: (1) the same latitude would be granted with respect to obtaining reports from other bank supervisory agencies as was extended by S. 1062 as passed by the Senate with respect to reports from the Attorney General on any pending merger; (2) annual reports with respect to bank mergers approved during the year would be permissible, rather than semi-annual reports, as required by S. 1062 as passed by the Senate; and (3) these annual reports would be required to contain a summary of his views on the merger, prepared by the Attorney General rather than by the agency to which the views were rendered, as would have been the case under S. 1062 as passed by the Senate. The most important of Mr. Multer’s amendments, however, would require a banking agency in acting on a merger to take into consideration (in addition to the so-called “banking factors”) “the effect of the transaction on competition (including any tendency toward monopoly), and shall not approve the transaction unless, after considering all of such factors, it finds the transaction to be in the public interest.”

The above quoted provision would supersede the provision in the Senate-passed bill, merely specifying that the agency shall take into consideration whether a particular merger may lessen competition unduly, or tend unduly to create a monopoly.

It is understood that the action of the Subcommittee in this matter was unanimous. It now goes before the full Committee.

cc: Each Board Member
Mr. Sherman
Mr. Young
Mr. Thomas
Mr. Molony
Mr. Fauver
Mr. Knipe
Mr. Hackley
Mr. Solomon
COPY

HOUSE OF REPRESENTATIVES

Committee on Banking and Currency

Washington

January 27, 1960

Honorable William McChesney Martin
Chairman
Federal Reserve Board
Washington 25, D. C.

Dear Mr. Martin:

This is to confirm arrangements which I understand have already been made for your appearance before Subcommittee No. 2 of the House Banking and Currency Committee on Tuesday morning, February 16th, to testify on S. 1062, a bill to regulate bank mergers. I am looking forward to the pleasure of hearing your views at that time.

With best wishes, I am

Sincerely,

(Signed) Paul Brown

Paul Brown, Chairman
Subcommittee No. 2
AN ACT

To amend the Federal Deposit Insurance Act to provide safeguards against mergers and consolidations of banks which might lessen competition unduly or tend unduly to create a monopoly in the field of banking.

1. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
2. That subsection (c) of section 18 of the Federal Deposit Insurance Act is amended by striking out the third sentence thereof and substituting in lieu thereof the following: “No insured bank shall merge or consolidate with any other insured bank or, either directly or indirectly, acquire the assets of, or assume liability to pay any deposits made in, any other insured bank without the prior written consent of the Comptroller of the Currency.”

3. Such amendment shall take effect sixty days after the enactment of this Act.
(i) of the Comptroller of the Currency if the acquiring, assuming, or resulting bank is to be a national bank or a district bank, or (ii) of the Board of Governors of the Federal Reserve System if the acquiring, assuming, or resulting bank is to be a State member bank (except a district bank), or (iii) of the Corporation if the acquiring, assuming, or resulting bank is to be a nonmember insured bank (except a district bank). In granting or withholding consent under this subsection, the Comptroller, the Board, or the Corporation, as the case may be, shall consider the factors enumerated in section 6 of this Act. In the case of a merger, consolidation, acquisition of assets or assumption of liabilities, the appropriate agency shall also take into consideration whether the effect thereof may be to lessen competition unduly or to tend unduly to create a monopoly, and, in the interests of uniform standards, it shall not take action as to any such transaction without first seeking the views of each of the other two banking agencies referred to herein with respect to such question. In the case of a merger, consolidation, acquisition of assets, or assumption of liabilities, the appropriate agency shall request a report from the Attorney General on the competitive factors involved in the merger. The Attorney General shall furnish such report to such agency within thirty calendar days of the request: Provided, however, That in case the agency finds an emergency exists
the agency may advise the Attorney General thereof and
can thereupon shorten the period for the Attorney General
to report to ten calendar days: Provided further, That where
the agency finds that an emergency makes necessary im-
mediate action in order to prevent the probable failure of
one of the merging banks, the appropriate agency may act
without obtaining such report from the Attorney General:
And provided further, That the Comptroller, the Board, and
the Corporation shall each submit to the Congress a semi-
annual report with respect to each merger, consolidation, ac-
quision of assets, or assumption of liabilities approved by
the Comptroller, the Board, or the Corporation, as the case
may be, which shall include the following information: the
name of the receiving bank; the name of the absorbed bank;
the total resources of the receiving bank; the total resources
of the absorbed bank; whether a report has been submitted
by the Attorney General hereunder; and if approval has been
given, a summary of the substance of the report made by the
Attorney General, and a statement by the Comptroller, the
Board, or the Corporation, as the case may be, in justification
of its findings."

Passed the Senate May 14, 1959.

Attest: FELTON M. JOHNSTON,
Secretary.
IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 11, 1959

Mr. KILBURN introduced the following bill; which was referred to the Committee on Banking and Currency

A BILL

To amend the Federal Deposit Insurance Act to provide safeguards against mergers and consolidations of banks which might lessen competition unduly or tend unduly to create a monopoly in the field of banking.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That subsection (c) of section 18 of the Federal Deposit Insurance Act is amended by striking out the third sentence thereof and substituting in lieu thereof the following: "No insured bank shall merge or consolidate with any other insured bank or, either directly or indirectly, acquire the assets of, or assume liability to pay any deposits made in, any other insured bank without the prior written consent

I
(i) of the Comptroller of the Currency if the acquiring, assuming, or resulting bank is to be a national bank or a district bank, or (ii) of the Board of Governors of the Federal Reserve System if the acquiring, assuming, or resulting bank is to be a State member bank (except a district bank), or (iii) of the Corporation if the acquiring, assuming, or resulting bank is to be a nonmember insured bank (except a district bank). In granting or withholding consent under this subsection, the Comptroller, the Board or the Corporation, as the case may be, shall consider the factors enumerated in section 6 of this Act. In the case of a merger, consolidation, acquisition of assets, or assumption of liabilities, the appropriate agency shall also take into consideration whether the effect thereof may be to lessen competition unduly or to tend unduly to create a monopoly, and, in the interests of uniform standards, it shall not take action as to any such transaction without first seeking the views of each of the other two banking agencies referred to herein with respect to such question; and in such a case the appropriate agency may also request the opinion of the Attorney General with respect to such question.”
Statement by Joseph H. Colman, President, First Bank Stock Corporation, Minneapolis, On behalf of the Association of Registered Bank Holding Companies to Subcommittee No. 2 of the House Committee on Banking and Currency in support of the bank merger bill, S. 1062.

February 16, 1960

My name is Joseph H. Colman, President of First Bank Stock Corporation, Minneapolis, and I have prepared this statement on behalf of the Association of Registered Bank Holding Companies, of which I am also the President.

The Association of Registered Bank Holding Companies represents twenty companies registered with the Federal Reserve Board pursuant to the Bank Holding Company Act of 1956. A list of the Association's officers and directors is attached to this statement.

S. 1062, as passed by the Senate, would amend section 18(c) of the Federal Deposit Insurance Act to give the three Federal banking agencies statutory authority to consider the competitive aspects, as well as the banking aspects, of any merger, consolidation, or acquisition of assets involving an insured bank. The bill would require all mergers by insured banks to receive the prior approval of (1) the Comptroller of the Currency, if the continuing bank is a national bank or a district bank; (2) the Board of Governors of the Federal Reserve System, if the continuing bank is a state member bank; (3) the Federal Deposit Insurance Corporation, if the continuing bank is a non-member insured bank. Thus, every merger by an insured bank would be subject to the scrutiny of one of the three Federal Banking agencies before it could be consummated.
Every Bank is Monopolistic

The National Banking Act in 1863 established the policy of the Federal government that unrestricted competition among banks is not in the public interest. Similarly, all of the state banking laws recognize that free competition in the banking field would lead to chaos.

A bank charter represents the grant of a monopoly power. No competing bank can be established without the approval of the appropriate Federal or state bank supervisory authorities. The restrictions on the granting of bank charters are designed to safeguard the public against competitive abuses. In the case of banks, the public policy involved in maintaining their financial safety (with resulting protection to their depositors) outweighs the public policy of unlimited competition which prevails as to other businesses. Undue competition between banks is contrary to our state and national policy.

The merger of banks is, in effect, the merger of monopolies and obviously involves considerations completely different from those presented by the merger of industrial corporations. Bank mergers should obviously be considered by a supervisory agency expert in the field of banking and in the degree of competition proper to maintain and not to destroy the banks' financial integrity. Bank mergers should not be regulated by an agency, such as the Justice Department, steeped in the theory of unlimited competition. The bill's requirement that the Comptroller, the Federal Reserve Board, or the Federal Deposit
Insurance Corporation, as the case may be, must request a report from the Attorney General on the competitive factors involved in each merger fully protects the interests of the Justice Department.

"Unduly" Lessening Competition

S. 1062 recognizes the unique characteristics of bank mergers by requiring the Federal banking agencies to consider both the banking and competitive aspects of such mergers. The banking factors to be considered are those enumerated in section 6 of the Federal Deposit Insurance Act and which have been used so successfully in determining the eligibility of a bank for insurance of its accounts.

The banking agencies would also be required to consider whether the effect of a proposed merger would be to "unduly" lessen competition. Opponents of this bill who favor applying the Clayton Act to all bank mergers argue that the word "unduly" injects a new criterion to determine the degree of the lessening of competition. Certainly this is a new competitive test. This is necessitated by the restrictive manner in which the courts have construed the "substantially" lessening of competition criteria of the Clayton Act.

The "failing corporation" exemption as stated by the United States Supreme Court in the case of International Shoe Company v. the Federal Trade Commission (280 U. S. 291) is often cited to show the liberality of the courts in applying the Clayton Act. The Court there stated that where the corporation acquired is --
"a corporation with resources so depleted and the prospect of rehabilitation so remote that it faced the grave probability of business failure * * * we hold that the purchase of its capital stock by a competitor (there being no other prospective purchaser), not with a purpose to lessen competition, but to facilitate the accumulated business of the purchaser and with the effect of mitigating serious injurious consequences otherwise probable * * * does not substantially lessen competition or restrain commerce within the intent of the Clayton Act."

An insured bank in the condition described by the Court would have already been taken over by the Federal Deposit Insurance Corporation in order to protect the depositors' accounts. We do not believe that the only bank mergers in the public interest are those involving failing banks. Certainly there are many other situations where bank mergers are desirable and benefit the public.

S. 1062 is designed to provide effective regulation of bank mergers while, on the other hand, the Clayton Act approach is designed to prohibit such mergers. A freeze on bank mergers results almost inevitably from the Clayton Act competitive test because that test is based on a numerical calculation and deals with businesses which, unlike banks, are not already monopolistic. For example, if two of the five banks in a community merge, only four banks are left and under the Clayton Act test competition has been "substantially" lessened. Actually, merger of two weaker banks might well result in much keener competition between the resulting four banks. While we agree that all bank mergers should be subject to prior approval of a Federal supervisory agency, we certainly do not feel that all, or substantially all, future bank mergers should be prohibited.
Relation of Bill to Bank Holding Companies

The Bank Holding Company Act requires the prior approval of the Federal Reserve Board for (1) a company to become a bank holding company by acquiring 25% of the voting shares of two or more banks; (2) a bank holding company to acquire ownership or control of more than 5% of the voting shares of a bank; (3) a bank holding company to acquire all or substantially all of the assets of a bank; or (4) any bank holding company to merge or consolidate with another bank holding company. It should be noted that the Act requires the Board to consider banking factors, as well as "the preservation of competition in the field of banking" in determining whether to approve or disapprove these acquisitions. Thus, the Congress recognized the need to consider both the competitive and the banking aspects of acquisitions under the Bank Holding Company Act, just as it is proposed to do in S. 1062.

The Bank Holding Company Act exempts mergers through asset acquisitions by a bank affiliated with a bank holding company from the requirement of prior approval by the Federal Reserve Board. Asset acquisitions by a bank affiliated with a holding company are not fundamentally a bank holding company problem but, rather, a question of the regulation of bank mergers. Thus, such mergers by affiliated banks are treated the same as mergers by banks generally, and S. 1062 would apply equally to holding company owned banks as well as all other banks.
We believe that banks affiliated with holding companies should be subject to the same ground rules as all other banks and, for that reason, we favor the approach of S. 1062. This is certainly preferable to the recommendation of the Federal Reserve Board in its May 7, 1958, Report to the Congress on the administration of the Bank Holding Company Act. The Board recommended (Recommendation No. 15) that it be given authority to approve all mergers through asset acquisitions by banks affiliated with bank holding companies. This recommendation would cut across the authority of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the state bank supervisors and would be a complete departure from the theory that the Bank Holding Company Act was designed to regulate bank holding companies and not their affiliated banks. We believe that the traditional division of authority among the banking agencies should be maintained and that the basic purposes of the Bank Holding Company Act should not be altered.

We are happy to join with the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the American Bankers Association in supporting S. 1062. We hope that the House Committee on Banking and Currency will report the bill favorably and that it will be passed by the House.
ASSOCIATION OF REGISTERED BANK HOLDING COMPANIES

Officers

President:
Joseph H. Colman
First Bank Stock Corporation
Minneapolis, Minnesota

Vice President:
Frank L. King
Firstamerica Corporation
Los Angeles, California

Vice President:
Mills B. Lane, Jr.
Citizens & Southern Holding Co.
Savannah, Georgia

Treasurer:
Henry Y. Offutt, Jr.
Trustees, First National Bank
Louisville, Kentucky

Donald L. Rogers, Secretary & Executive Director
Washington, D.C.

Directors

*Philip Eiseman
Baystate Corporation
Boston, Massachusetts

Edwin T. Holland
The First Virginia Corporation
Arlington, Virginia

*Mills B. Lane, Jr.
Citizens & Southern Holding Co.
Savannah, Georgia

*William G. Brumder
First Wisconsin Bankshares Corp.
Milwaukee, Wisconsin

J. A. Bancroft
Empire Shares Corporation
New York, New York

Jack G. Butler
General Bancshares Corporation
St. Louis, Missouri

*Frank L. King
Firstamerica Corporation
Los Angeles, California

*Baldwin Maull
Marine Midland Corporation
Buffalo, New York

*Joseph H. Colman
First Bank Stock Corporation
Minneapolis, Minnesota

*Goodrich Lowry
Northwest Bancorporation
Minneapolis, Minnesota

Henry Y. Offutt, Jr.
Trustees, First National Bank
Louisville, Kentucky

W. W. Witherspoon
Old National Corporation
Spokane, Washington

*George S. Eccles
First Security Corporation
Salt Lake City, Utah

*Arthur B. Tyler
Shawmut Association
Boston, Massachusetts

*Members of Executive Committee
Mr. Chairman and Members of the Committee:

You have asked me to comment on S. 2755, a bill to require disclosure of finance charges in connection with extensions of credit. First, I should like to say that the protection of borrowers by regulating the trade practices of those who extend credit to them is a commendable social and economic objective. As the Committee knows, this has been recognized in the passage of legislation in many States which requires lenders and vendors to set forth the charges which are made in connection with installment sales and consumer loans.

The bill before you goes further than most State laws in several respects. It covers a broader area than is generally encompassed by State legislation and it also requires that the finance charges be translated into a simple rate of interest. Its objective, as stated by the Chairman of this Subcommittee, is "to require lenders and vendors to tell the truth about interest rates and finance charges."

Before proceeding, I should like to emphasize that I am not personally an expert on finance charges in the consumer credit field. Nor is regulation of lenders' and vendors' trade practices a current responsibility of the Federal Reserve System. I am sure that there are numerous technical problems involved in applying the requirements of the bill to the wide variety of credit transactions it comprehends. Even if business loans were exempted, the proposed regulation would apply to hundreds of millions of individual transactions, carried out by over 50,000 financial institutions and hundreds of thousands of retail outlets.
As was indicated to your Committee in our written response, the Board's most immediate concern is with the provisions of the bill which would place responsibility for its administration in the Federal Reserve System. We feel that the administration of such legislation would not constitute an appropriate activity for the Federal Reserve System.

It would require the Federal Reserve to police the trade practices of hundreds of thousands of credit granters over which it now has no supervisory authority. The major activities of most of these are far removed from basic Federal Reserve responsibilities, and their operations entail practices and problems with which the Federal Reserve is totally unfamiliar. As the Chairman of this Subcommittee has pointed out, it is not the purpose of this bill to control credit. It is not intended that the regulatory requirements would be varied from time to time to encourage or discourage the volume of credit extended. Accordingly, the reasoning that in the past has prompted the Congress to assign responsibility for stock market, consumer instalment, and real estate credit regulations to the System would not seem to apply in this case. The fact that adaptation to changing economic conditions is not involved also suggests that a possible alternative solution might be to recast the bill as a criminal statute, not designed for administration by a regulatory authority, and to be enforced by regular law enforcement agencies.

As you know, the major responsibilities of the Federal Reserve relate to the supply, availability, and cost of credit and money. The System is interested in movements of consumer credit primarily as they affect changes in the total volume of credit. It has also the responsibility of supervising member banks to ensure sound banking practices; this
is closely related to its responsibilities in the monetary area. Our principal objection to giving the Federal Reserve responsibility for administering this legislation is that it does not pertain to the control of credit. Full disclosure between parties to credit transactions is, in the final analysis, a question of trade practice and the prevention of fraud. A whole body of legal precedent and regulatory procedure, with which we are unfamiliar, is involved. It is alien to our existing activities.

I am not aware of the extent to which your Committee has had an opportunity to study the experience of the States which have had disclosure laws in force. It would seem that their experience might be of some assistance in determining the most effective approach to regulation in this area, particularly with respect to problems of administration and enforcement. Certainly, their experience is more directly relevant than any incidental experience gained by the Federal Reserve in conjunction with either its past or present responsibilities.

In its present form the bill seems to us to raise a number of difficult problems of administration and enforcement. It may be worthwhile to investigate how States operating under similar laws have overcome these problems. For example there is the question of identifying which lenders and vendors should be subject to the terms of the bill. Many vendors that do not normally charge for credit granted may, on occasion, levy penalties for late payments and thus be subject to the terms of the proposed legislation. Also, some light might be shed on how best to deal with the large number of cash loan transactions between individuals.
Another problem is to define finance charges, which are of many kinds, and which may or may not be graduated with the amount or maturity of the credit involved. Many of the instalment transactions that would be covered include not only financing, but also the provision of insurance and other services for which a fee is customarily charged. The way in which States have coped with separating the total cost of the transaction into cash price, finance charges, and charges for other services would be illuminating. States have undoubtedly faced the difficulties that would be encountered if the requirements led some credit granters to attempt to conceal finance charges in the cash price of the goods or in the costs of additional services provided.

The conversion of charges into simple interest rates presents problems going beyond the experience of the various States, but which seem to us to require further consideration. Very detailed and complex instructions would be needed to assure uniformity among credit granters. Examples of the kind of problems that would have to be treated explicitly are the handling of such charges as commitment fees and required insurance and provisions for prepayment and late payment penalties. Leasing arrangements, which are becoming increasingly common in many durable goods areas, would be exceedingly difficult if not impossible to handle.

As I remarked at the outset, men of good will wish the consumers not to be deceived by lenders and thus fail to receive the value they thought they had bargained for. Caveat emptor can scarcely operate in the absence of knowledge by the potential buyer and debtor as to how much he is really paying.
The Honorable Oren Harris, Chairman,
Committee on Interstate and Foreign Commerce,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of April 25, 1960, for a report on H.R. 11867, a bill "To supplement the national policy against unfair methods of competition and unfair or deceptive acts or practices in commerce by requiring full disclosure of finance charges in connection with extensions of credit."

The bill would require a person engaged in the business of extending credit to furnish to the person to whom such credit is extended a statement in writing, in accordance with rules and regulations which the Federal Trade Commission would prescribe, (1) setting forth the total amount of the credit to be extended, (2) setting forth the total amount of the finance charges to be borne by such person in connection with such extension of credit, and (3) stating the percentage that such amount of finance charges bears to the outstanding principal obligation, or unpaid balance, expressed in terms of simple annual interest.

The Board is in full sympathy with the purpose of preventing unfair or deceptive practices in connection with the extension of credit, considering this to be a worthwhile social and economic objective. The present bill appears to be consistent in purpose with the "Trade Practice Rules" of the Federal Trade Commission which require disclosure of finance charges in connection with automobile instalment sales.

By assigning administrative responsibility to the Federal Trade Commission, H.R. 11867 seems preferable to S. 2755,
The Honorable Oren Harris

which assigns administration of similar provisions for disclosure of finance charges to the Board of Governors of the Federal Reserve System. As indicated in its report and testimony on the Senate bill, the Board feels that regulation of trade practices is not an appropriate activity for the Federal Reserve, which is primarily responsible for general credit and monetary policy.

The Board would be glad, of course, to comply with the provision of the bill that would authorize it to furnish the Federal Trade Commission, upon request, views on matters falling within the Federal Reserve's field of responsibility and knowledge.

Sincerely yours,

Wm. McC. Martin, Jr.

signature
MESSAGE:

You may be interested in the attached address of Senator Douglas, concerning his "truth in lending" bill. Attention is invited particularly to that part beginning at the bottom of page 4 relating to "The Stabilization Objective" and the portion beginning on page 8 relating to "Federal Minimum Standards".

Attachment

Message delivered by

F.R. 468
Rev. 1/47
TRUTH IN LENDING

Address by Senator Paul H. Douglas (D., Ill.)
Before the
National League of Insured Savings Associations

I welcome this opportunity to discuss with you today the subject of truth in lending.

Truth in lending is the objective of a consumer credit labelling bill (S. 2755) which I introduced in the Senate early this year on behalf of myself and 19 cosponsors.

The bill is basically a simple and moderate measure. It would require that anyone engaged in the business of extending credit at the retail level disclose the price of the credit to the customer, in writing, before the transaction is consummated.

The disclosure would contain two vital pieces of information for the American consumer:

(1) The finance charge in dollars and cents; and
(2) The finance charge as a simple annual rate on the unpaid, declining balance.

These are the two indispensable measures of the price of credit. The first tells you how much more you will have to pay for something if you buy it on credit rather than for cash. The second reduces the price of credit to a common denominator -- a common standard or yardstick -- in terms of an annual rate, which enables you to shop around and compare alternative offers of credit.

Extensive hearings were held by the Senate Subcommittee on Production and Stabilization, and an amended version of the original bill has been recommended to the Committee on Banking and Currency.

Although time is running out on this session of the Congress, I am hopeful that the bill will be given a high enough priority for favorable action this year.

The work of our Subcommittee was somewhat delayed and embarrassed by the fact that a number of organizations which are critical of the bill did not wish to come forward and testify publicly, but contented themselves with submitting a statement for publication. The U. S. Chamber of Commerce, for example, which frequently purports to speak for the business community, flatly refused to discuss its statement in public hearings.
As Subcommittee chairman, I personally requested and urged many associations to come in and discuss the issues -- to give us their criticisms and suggestions. We received valuable help from opponents as well as proponents, and I think the bill has been improved as a result of their testimony.

I am a little baffled by the tactics of the opposition. I am certain they would agree that we conducted the hearings in a neutral and impartial manner. We leaned over backwards not to mention the name of any firm which may have been guilty of sharp practices. We did not pillory any individual. I refused to open our voluminous legislative files to the Department of Justice, on the grounds that a committee cannot legislate effectively if it serves as an arm of the prosecutor.

What we are trying to do is to clean up a situation which apparently has many abuses. We ask only for improvements in the future and are not concerned with apportioning blame about the present or the past.

Let me make it perfectly clear that I am not trying to indict the American business community. Undoubtedly, the overwhelming majority of lenders and sellers are honest and law-abiding. But in pursuing the consumer at the retail level, businessmen have wandered into a competitive jungle, where they apparently believe -- erroneously, in my judgment -- that survival depends upon camouflaging the real price of credit.

Credit Camouflage

Here are some typical examples of credit camouflage. As experienced lenders yourselves, you will recognize them as the prevailing rule in significant sectors of the finance industry -- and not as exceptions to the rule.

(1) The "easy terms" quotation. So much down, so much a month. The price of credit is not stated, either in dollars or as a rate. The true rate may vary up to 100 percent and more, but is never disclosed.

(2) The price of credit is quoted as a percentage of the principal amount, rather than of the unpaid, declining balance. An extension of credit which is repaid on an instalment basis gives the customer an average use of approximately one-half the principal amount
over the life of the credit extension. Under these circumstances, the simple or true rate is roughly double the quoted "add-on" or "discount" rate. Thus, when a bank advertised: "We offer to finance your new car at a cost to you of 4 percent interest," the true rate was closer to 8 percent.

(3) The price of credit is quoted as a monthly rate. This is typical of the small loan field and the relatively new field of revolving credit, in which the simple annual rate is 12 times the quoted monthly rate.

Most consumers first learn about rates early in grade school -- in simple annual terms. As a saver in a bank or a savings and loan association, he is paid in simple annual terms. As a homeowner, he pays on his mortgage in simple annual terms. If he reads the financial pages, he sees that the price of credit extended to businesses such as sales finance companies, small loan companies, and merchants is invariably quoted in simple annual terms.

Only the instalment borrower or buyer in the short-term credit market is denied a disclosure of the annual rate.

As mortgage lenders, you are accustomed to quoting the price of credit in simple annual terms. I have not heard of a 6 percent mortgage quoted in terms of a 3 percent add-on or one-half percent a month on the unpaid balance.

On the other hand, it may not be the universal practice for a mortgage lender to spell out the total interest charged over the life of the mortgage. I would think that a prospective homebuyer would become a more rational manager of his family budget if he knew in advance, for example, that the interest charges on a $15,000 mortgage at 6 percent would add up to a total of $17,400 over a 30-year period, compared with $10,812 for 20 years -- a saving of $6,588, or more than a year's income for the average family. I was encouraged by testimony, during the hearings, that many mortgage lenders make such a dollar disclosure as a matter of routine business practice.

As I see it, there are at least 3 reasons why S. 2755 should be enacted. First, ethics; second, economic stabilization; and third, competition. I would like to comment briefly on each of these.
The Ethical Objective

Because of the widespread use of misleading and deceptive methods of stating the price of credit, an ordinary citizen finds it difficult to understand and make sense out of business practices. In the current era of payola, there is a tendency to believe that the economic end of profit justifies unethical means of achieving it. Nothing could be further from the truth.

Is the American consumer entitled to the truth about credit rates and charges? The ethical question is basically as simple as that.

For example, the American Bankers Association has taken a significant step toward a higher ethical standard of rate advertising. In connection with the case, I cited a few minutes ago, of a bank's "offer to finance your new car at a cost to you of 4 percent interest," which was presented to the Association witnesses for comment during the hearing last week, the Vice President of the Association expressed the opinion that it was "untruthful." Moreover, he indicated that he would instruct the Chairman of their Instalment Credit Commission that a bulletin go out to all the advisory board members and that the banks in each State be canvassed and have called to their attention that "this is inadequate and improper disclosure of the rate being charged."

Another example of an ethical problem is the promotion of teen-age credit. It is one of the unfortunate new developments in consumer credit. It is aimed at a youngster too old to spank, too young to garnishee, who should be learning the savings habit. In the forthright words of President Earl Schwulst of the Bowery Savings Bank, teen-age credit "is something like teaching the young to use narcotics . . . . merchants and merchants' associations ought to repudiate this sort of thing . . . . It is this kind of thing which gives the Russians ammunition against our private enterprise system, saying that all we are interested in is building up volume, and anything for the buck."

The Stabilization Objective

The Declaration of Purpose in the bill reads as follows: "The Congress finds and declares that economic stabilization is threatened when credit is used excessively for the acquisition of
property and services. The excessive use of credit results frequently from a lack of awareness of the cost thereof to the user. It is the purpose of this Act to assure a full disclosure of such cost with a view to preventing the uninformed use of credit to the detriment of the national economy.

At the end of 1959, personal debt reached the all-time high of $183 billion, divided between mortgage debt on non-farm 1- to 4-family properties and consumer credit, as follows:

- Mortgages $131 billion
- Consumer Credit $52 billion
- Total $183 billion

Since the end of World War II, mortgage debt has increased nearly 6 times -- from $18.6 billion in 1945 to $131.2 billion in 1959; consumer credit has increased more than 8 times -- from $5.7 billion in 1945 to $52 billion by the end of 1959.

During the 1950's alone, personal debt increased 160 percent.

By the end of this year, the American consumer will be entangled in a $200 billion web of debt.

At this rate, personal debt could exceed the federal public debt in just a few years from now.

The increase in consumer debt held by commercial banks may be of particular interest in a tight money period. Banks increased their total loans and investments about $2.7 billion from February 1959 to February 1960. They increased their residential mortgage holdings $1.8 billion, but their consumer credit outstanding increased by $2.5 billion in the same period.

The banks have followed the path of retail merchants in the devices by which they have increased consumer credit -- a heavy use of advertising, and a notable development of revolving credit. Revolving credit has been described by one commercial banker as a "perpetual loan scheme." Another banker characterizes it as putting the borrower rather than the banker in control of the volume of credit; this same banker stated that revolving credit makes the customer much more able to yield to his impulses in buying, and that it allows him to continue to pile up debt even if his income should decline or stop.
Implicit in these developments are the possibilities that consumer credit will initiate and carry booms too far, and that re-trenchment of purchasing will intensify future recessions.

The danger is greater because the cost of consumer debt is not advertised, and is quoted in various fashions, all of which are designed to understate the cost. The consumer-debtor is not flagged down by being told that the credit he uses will cost him 12%, 18% or more.

The Senate bill to require disclosure of the amount and rate of charge on consumer credit would give consumers information about the price of credit which would lead any rational family manager to control and stabilize buying and borrowing. When rates are increased in tight money periods, the increase would become apparent, and encourage consumer restraint. I firmly believe that the American consumer is his own best credit manager, if he has all the information about the costs involved.

It is important to remember that the sole product of the bill is information. It does not set a ceiling on finance charges. Nor does it control credit terms. Its immediate impact would stem from a change in the state of buyer knowledge, not in the price of instalment credit.

There is a possibility that this effect might be very small, for most experts in the field agree that the volume of consumer demand for credit is quite unresponsive to changes in credit prices -- especially in contrast to contract terms (downpayment and maturity) which have a relatively larger effect on the size of the monthly payment. On the other hand, this lack of response might be traced directly to the lack of information about the price of credit. Once the price of credit use becomes identifiable, it may become a much more important determinant of changes in the total volume of credit.

There is another reason why the immediate impact of a change in the statement of finance charges would not be very large. The use of consumer credit has had ever-widening acceptance and practice. Indeed, for many families, the increase in savings in institutionalized forms such as social security, insurance, and payroll savings bonds precludes additional private savings in advance of major purchases. Furthermore, a large part of credit buying is replacement...
purchasing or in the category of necessity, or whatever the family may decide to put in the category of necessity. Given the habits of our economy, then, there is probably a fairly high minimum level of instalment purchases to be made as long as incomes are maintained. Finally, since monthly payments would not be changed at all, and since the bill would affect all instalment lenders and sellers at the same time, the period of consumer adjustment should be very short.

**Constitutional Basis of S. 2755**

The question has been raised from time to time of the Constitutional basis of S.2755.

The Legal Tender Cases, 79 U. S. 457 (1870) support the following propositions:

1. The power conferred on Congress by Art. I, section 8 of the Constitution "to coin money, regulate the value thereof, and of foreign coin * * *") does not limit by its terms the power of Congress with respect to the currency.

2. This power, coupled with (i) the "necessary and proper clause", and (ii) the denial to the States (Art. I, section 10) of any power to coin money, emit bills of credit, and to make anything but gold and silver coin a tender in payment of debts, vests whatever power there is over the currency in Congress.

3. For an Act to be constitutional it is not necessary to show that it is indispensable in order to give effect to a specified power. Congress has the choice of means to a permissible end.

From these general propositions one may reasonably contend that the control or regulation by Congress of the use of credit is supported as an exercise of its power over the currency; such control or regulation having been determined by the Congress to be necessary in order to stabilize the economy and thereby protect the value of the currency.

The competitive reason for the Senate bill was stated very aptly by a witness at our hearings who described the annual rate disclosure as

"... part and parcel of the purest of classical economics and the basic principle of the free enterprise system -- the
rational informed man buying in the free market place, with full knowledge of the prices, and making a decision which is best for him and, therefore, best for the entire economy."

The benefits of effective competition cannot be realized if the buyers (borrowers) do not have adequate knowledge of the alternatives available to them.

S. 2755 would invigorate competition in the consumer credit market by stimulating a return to price competition.

Extra-normal profits earned through the ability to mislead borrowers would be minimized.

Federal Minimum Standards

In the amended version of the Senate bill, we have spelled out a Federal-State relationship that I sincerely hope will place the burden of enforcement on the States, and avoid Federal preemption of State responsibilities.

This is accomplished by setting forth minimum standards for an acceptable system of State enforcement. Where these minimum standards are met, the States would run the program. Where they are not met, either because a State has no law or an inadequate law, the Federal government would undertake to fill the gaps and require the appropriate disclosures.

Administration of the bill is placed in the Federal Reserve Board. The Board has unusual knowledge of financial institutions throughout the Nation, and the System which it governs provides a very large part of the total of consumer credit. The Board, however, desires to avoid substantial enforcement duties. The possible alternative administrative agency, the Federal Trade Commission, is experienced in enforcement problems arising from other Federal disclosure legislation. However, by its own admission, the FTC is not acquainted with the practices of credit and financial institutions.

The problem of evidence of failure to comply with the requirements of S. 2755 is not serious; whether disclosure was or was not made in any transaction could be established readily.

I fully expect that the burden of enforcement will be assumed by the States in accordance with minimum Federal standards. I also expect the statute to be virtually self-enforcing, because
local publicity, local legal aid societies, better business bureaus and chambers of commerce would uphold it in the interests of equity and fair competition. If I am correct in these assumptions, then the remaining tasks of definition and exemption are peculiarly appropriate subjects for the financial expertness of the Federal Reserve Board.

A pointed observation was made by the Federal Reserve Bank of Philadelphia in the April, 1960 issue of its Business Review. In a lead article entitled, "$52 Billion on the Cuff," the Philadelphia bank states that a real burden for the economy "occurs because consumers often buy on time in an uninformed way without knowing the cost of the money they are borrowing. When they do this, they not only hurt themselves, but they reduce the efficiency with which the economy provides goods and services in accordance with consumer tastes."

# # #
This morning, the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency ordered favorably reported to the full Committee the interest rate disclosure bill (S. 2755), with certain amendments.

Administration of the bill, as in the original version, would remain in the Federal Reserve Board. It is understood that the principal amendment by the Subcommittee is a provision which in effect would exempt States from the bill's provisions if the State either has or will adopt laws comparable to the bill's provisions.

The action of the Subcommittee was by a 4 to 3 vote. The three votes against the Subcommittee's action were those of the three minority members.
For the Board's information, Congressman Oliver has introduced a bill (H.R. 11867) similar to Senator Douglas' bill (S. 2755), to require full disclosure of finance charges, on which the Board has reported and testified.

The main difference between the Oliver and Douglas bills is that the former would be administered by the Federal Trade Commission and not by the Federal Reserve Board, as in the case of the present version of S. 2755.

The Oliver bill has been referred to the House Interstate and Foreign Commerce Committee.

cc: Mr. Molony
    Mr. Young
    Mr. Hackley
    Mr. Noyes
The Honorable Paul A. Douglas,
Chairman, Subcommittee on Production
and Stabilization,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your letter of April 11 raising questions about our consumer credit statistics arising in connection with Professor Beckman's testimony on S.2755 and with the material which I submitted in connection with my testimony.

In presenting historical summary data for outstanding consumer credit, we have typically published end-of-year figures, as we have for banking and other credit statistics. As Professor Beckman notes, however, this practice differs from that with respect to certain indexes of business activity, such as the index of industrial production and consumer and wholesale price indexes, which are published on an annual average basis. From the standpoint of showing the broad sweep of developments, we have found the year-end credit data satisfactory. Moreover, certain problems are encountered in constructing annual averages from month-end data on outstanding which are not met in averaging the flow data to which Professor Beckman refers.

We agree with Professor Beckman, however, that for some analytical purposes the year-end data have defects. The ratio of the December data to the annual average varies from year to year, as Professor Beckman points out. The variation reflects in large part economic developments over the course of the year, which can best be taken into account by analyzing monthly data. The use of monthly data is particularly desirable for any analysis of cyclical developments. Monthly data are published currently in the Federal Reserve Bulletin and in various mimeographed releases, and back data are available from our Division of Research and Statistics.
We agree with Professor Beckman that it is preferable to use annual averages of outstanding credit when the data are related to annual data on disposable personal income, but the differences between the movement of this ratio and one computed from year-end outstandings will not be great. In preparing material pertinent to my testimony before your Committee, for example, the Board's staff included data showing the ratio of outstanding consumer debt on December 31 to disposable income for the year as one broad measure of debt trends. The data were readily available in this form, and it was believed that the broad trends would be similar regardless of the method of computation. We have since computed the annual data on outstanding credit and its ratio to disposable income on the basis of monthly averages and have arranged with your staff to revise Table 6 and the textual reference accordingly. The effect of the revision is to reduce the level of the ratios somewhat without materially affecting the trend; both sets of data show an increase of about 40 per cent in the ratio of outstanding consumer credit to disposable personal income from 1952 to 1959.

The ratio of outstanding credit to disposable personal income gives a convenient measure of the trend of consumer indebtedness. We have made wider use of ratios of extensions and repayments to disposable income, however, for detailed analysis of cyclical developments in installment credit. The ratio of repayments to disposable income measures the current burden of debt payments. The ratio of extensions to disposable income measures the current financing activity more promptly and foreshadows future changes in debt payments. We do not have data on extensions and repayments of noninstallment credit.

The ratio of installment credit repayments to extensions, to which Professor Beckman refers, is one way of looking at the growth in outstanding credit. During periods of rapid expansion, such as 1955 and 1959, extensions increase more rapidly than repayments, which are influenced to a large extent by the terms of past installment contracts. Furthermore, when maturities are lengthening, as in 1955, the typical lag in the rate of repayments is accentuated by the reduced rate of repayments on new contracts. Although the ratio of installment credit repayments to extensions is a useful analytical tool, it does not appear to us to be a direct measure of credit quality.
We believe that two of Professor Beckman's remarks about our consumer credit data are the result of misunderstandings. We do not understand the basis for his statement that our year-end estimates are not comparable from year to year. As he points out, it is necessary from time to time to revise the estimates on the basis of more accurate data. Each time this has been done, however, the revision has been carried out for as many years as required. Certainly revised estimates for one period should not be compared with unrevised estimates for another period.

It should also be noted that Professor Beckman, in his note to Table 3, attributes too much effect to the introduction of Alaska and Hawaii in 1959. The monthly average of outstanding consumer credit excluding data for Alaska and Hawaii is $47,665 million, and the ratio of this to disposable personal income is 14.24 per cent. The comparable figures including Alaska and Hawaii are $47,761 million and 14.27 per cent. The difference in the averages is about $100 million, rather than the $1 billion assumed by Professor Beckman.

I hope that these comments will be helpful to you and the members of your Subcommittee. If we can assist in any other way, please let us know.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Tuesday, April 5, 1960

Hon. William McC. Martin, Jr. Chairman, Board of Governors
Federal Reserve System

Peter Henle Research Department
AFL-CIO

Jerry Voorhis Executive Director
Cooperative League of USA

Sally Butler General Federation of Women's Clubs

Duncan Holthausen National Retail Merchants Association
Prof. Theodore Beckman
A. L. Trotter

Wednesday, April 6, 1960

Angus McDonald National Farmers Union

Robert Morgan National Association of Mutual Savings Banks

Paul Selby National Consumer Finance Association

Dr. Albert Haring National Retail Furniture Association

William Cheyney National Foundation for Consumer Credit

Thursday, April 7, 1960

Hon. Orville Freeman Governor of Minnesota

Julius Stone Credit Union National Association

Herbert E. Cheevers Vice President, First National Bank
Brookings, South Dakota

John A. Gosnell National Small Business Men's Association
This article is protected by copyright and has been removed.

Article Title: FRB Not Equipped to Handle Disclosure Code, Martin Says: Tells Senate Group Fed Lacks Credit Background, Data

Journal Title: American Banker

Date: April 6, 1960
To Chairman Martin

Subject: Hearings on S. 2755 - interest disclosure bill.

From Jerome W. Shay

Following your appearance yesterday morning before the Douglas Subcommittee on the above bill, the following three witnesses testified in favor of the bill: Peter Henle, Assistant Director of Research, AFL-CIO; former Congressman Jerry Voorhis, Executive Director, Cooperative League of USA; and Sally Butler, General Federation of Women's Clubs.

Mr. Henle stressed "deceptive practices" as the "critical situation" today in the consumer credit field. He said the "real cause for alarm" is that the consumer credit business, in contrast to other credit business, has become "so complicated and confused that the average user of such credit has no idea how much he pays for it," a problem which he characterized as being "more human than economic." He documented his case with copies of credit instruments in actual use and with advertisements from various newspapers. Mr. Henle related that, while the Federal Reserve's 1957 study of consumer credit contained less on the subject of the cost of such credit than he had urged, the study did indicate that consumers were not properly informed on the matter. He said that the AFL-CIO Executive Council fully endorsed the bill.

While the testimony of Mr. Voorhis and Miss Butler added little to earlier favorable testimony on the bill, Mr. Voorhis tied the bill to the "high interest rate problem" and said that the bill would militate in the direction of reducing interest rates and would divert borrowers from "usurers" to such lenders as savings and loan associations, credit unions and some commercial banks, where loan rates are "reasonably decent".

At a four-hour session of the hearings yesterday afternoon, three witnesses testified against the bill. They were Dr. Theodore Beckman, Professor of Marketing at Ohio State University and a Consulting Economist, testifying in behalf of the National Retail Merchants Association; A. L. Trotta, Manager and Director of Research and Credit Management of NRMA; and Duncan Holthausen, Vice President of the A. Holthausen Department Store, Union City, N. J. (formerly on the Board's research staff).

Briefly, Dr. Beckman, with an extensive array of arguments, tables and charts, undertook to demonstrate that the express Congressional findings on which the bill is predicated are unsupportable, because, in his view, (1) consumer credit is not being used excessively; (2) consumer credit is not a destabilizing factor in the
economy; (3) any lack of awareness of credit costs to the consumer does not frequently result in excessive use of credit; and (4) the disclosures required by the bill would not really remedy the situation.

Especially significant is Dr. Beckman's conviction that "most sellers of goods on credit to consumers cannot possibly convert a finance charge that may vary from customer to customer and from transaction to transaction into a simple rate of interest per annum." And, in reply to a comment by Senator Proxmire that suggested support for the bill by Household Finance Corporation, Dr. Beckman said that the problems and business of lenders (especially the larger ones) are vastly different from those of sellers (particularly the small retailer) with respect to whom the bill probably could not be enforced. He added that a very likely outcome of the bill would be to drive finance charges "underground" to the detriment of consumers, and thus constitute a decided setback to progress made in this field in recent years under State disclosure laws and the Federal fair trade practice rules administered by the Federal Trade Commission. Finally, Dr. Beckman was somewhat critical of the Board for using what he called "distorted" year-end figures as annual figures for consumer credit, rather than averages for the whole year.

In brief, Messrs. Trotta and Holthausen, for the most part, elaborated upon the same points made by Dr. Beckman. They emphasized particularly the "unworkability" of the simple annual interest rate provision of the bill, the "meaninglessness" of such a rate in most of the many various kinds of retail credit-sale transactions, and their belief that the bill would stir up customer resentment against legitimate dealers.

During the afternoon, Senator Douglas was absent most of the time. Senator Bennett sided with the opposition to the bill, while Senator Proxmire defended the bill. No other members of the Subcommittee were present at the afternoon session.

cc: Each Board Member
Mr. Young
Mr. Thomas
Mr. Molony
Mr. Fauver
Mr. Knipe
Mr. Sherman
Mr. Hackley
Mr. Solomon
Mr. Noyes
Miss Dingle
April 4, 1960

Mr. J. H. Yingling, Chief of Staff,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Yingling:

This is in response to your letter of March 25, relating to a document entitled "State Requirements for Retail Instalment Sales Contracts", which was inserted in the record of the hearings on March 23 with respect to S. 2755, a bill to require the disclosure of finance charges in connection with extensions of credit. Senator Douglas has requested that the Board of Governors prepare a table, similar in form to Table 17 of the Committee Print entitled "Consumer Credit Statistics", which would indicate in greater detail the requirements of the various States with respect to the several matters listed under the heading "Disclosure" in the above-mentioned document.

As you will recall, when the material later published in the Committee Print entitled "Consumer Credit Statistics" was furnished to you, it was pointed out that much of it was not the result of primary research and study but was compiled from a number of other sources, and was being made available in this form for use in connection with the Committee's consideration of the bill.

The information in the document entitled "State Requirements for Retail Instalment Sales Contracts" was derived, in the main, from a summary of State instalment regulatory laws published in the periodical Time Sales Financing (issue of September 1959), supplemented to a limited extent from other sources. Pursuant to your request, this information has been set up along the lines of Table 17 in the Committee Print entitled "Consumer Credit Statistics", showing the presence or absence of statutory provisions regarding disclosure of various items of information in each of the States listed.
It is hoped that this tabulation will be of use to the Committee. Needless to say, however, the Board is not in a position to present it as accurate and up-to-date in all respects, and consequently it is requested that the tabulation not be presented to the Committee, or published, as a Federal Reserve product. It is probable that the tabulation is substantially correct, but it does not purport to cover legislation that may have been enacted, repealed, or amended in recent months. Furthermore, since a table of this type summarizes, with an "X", a provision that may be a long paragraph in the statute involved, differences in interpretation are almost inevitable.

If the Committee or its staff should desire to consult the chief source of this tabulation, it should be noted that the various categories follow generally those enumerated on page 4 of the September 1959 issue of Time Sales Financing, and the provisions of the various States on this matter are presented as item 4 of the summaries beginning on page 7 of that issue. As noted on that page, those summaries only outline the major aspects of these laws, and reference to the text of the particular law itself is recommended for complete details.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

Enclosure
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March 25, 1960

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

Dear Mr. Chairman:

I wrote a letter under date of February 5, 1960, addressed to Mr. Jerome W. Shay, Legislative Counsel, Board of Governors, Federal Reserve System, summarizing an understanding reached between us relating to technical assistance to be afforded by the Federal Reserve Board's staff in connection with S. 2755, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Among other matters upon which we reached agreement as to the assistance to be rendered by the Federal Reserve Board was that described under item No. 2 in my letter, as follows:

"(2) To help develop a compilation of State requirements in the areas of small loans, sales finance, credit life insurance, and the like."

The Board has furnished the Committee a paper dated December 29, 1959, entitled, "State Requirements for Retail Instalment Sales Contracts." This paper was inserted in the record of the hearings on March 23. In the course of a discussion of this paper between Senators Douglas and Bush, Senator Douglas asked that the Federal Reserve Board prepare a table which would indicate in greater detail the various State requirements under the heading entitled, "Disclosure," in the above mentioned paper. Senator Douglas asked that the table be prepared in similar form to table 17 in the enclosed Committee Print entitled, "Consumer Credit Statistics."

It would be appreciated if your staff could furnish the Committee this information for insertion in the record of the hearings on S. 2755. Hearings will be resumed on this bill on April 5, and if this information could be received by that time, it would be greatly appreciated.

Sincerely yours,

(Signed) J. H. Yingling

J. H. Yingling
Chief of Staff
Hon. William McChesney Martin, Jr.
Chairman, Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Chairman:

You are scheduled to appear before the Senate Subcommittee on Production and Stabilization at 10:00 A.M., next Tuesday, April 5, in Room 5302, New Senate Office Building, to testify on S. 2755.

I would appreciate your making available to the Subcommittee a sufficient number of advance copies of your prepared statement in order that members will have an opportunity to study your views and prepare questions.

Enclosed are a committee print of certain consumer credit statistics, which your staff was most cooperative in helping us to assemble, and a copy of a memorandum, which states my views on various aspects of the problem we are trying to solve by the enactment of S. 2755.

Faithfully yours,

Paul H. Douglas

PHD:msb
Enclosures
CONSUMER CREDIT STATISTICS

MATERIALS PREPARED FOR USE IN
HEARINGS ON S. 2755

SUBCOMMITTEE ON PRODUCTION
AND STABILIZATION
OF THE
COMMITTEE ON BANKING
AND CURRENCY
UNITED STATES SENATE

Printed for the use of the Committee on Banking and Currency

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1960
IN THE SENATE OF THE UNITED STATES

JANUARY 7, 1960

Mr. DOUGLAS (for himself, Mr. MONRONEY, Mr. LONG of Louisiana, Mr. PROXMIRE, Mr. ENGLE, Mr. NEUBERGER, Mr. MOBSE, Mr. BUSH, Mr. HUMPHREY, Mr. MUSKIE, Mr. YARBOURGH, Mr. CLARK, Mr. LONG of Hawaii, Mr. GRUENING, Mr. MOSS, Mr. CHURCH, Mr. JACKSON, and Mr. KEFAUVER) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That the Congress finds and declares that economic stabilization is threatened when credit is used excessively for the acquisition of property and services. The excessive use of credit results frequently from a lack of awareness of the cost thereof to the user. It is the purpose of this Act to assure a full disclosure of such cost with a view to preventing
the uninformed use of credit to the detriment of the national economy.

SEC. 2. As used in this Act, the term—

(1) "Credit" means any loan, residential mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any contract or arrangement for the hire, bailment, or leasing of property; any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, discount, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(2) "Finance charges" includes charges such as interest, fees, service charges, discounts, and such other charges as the Board of Governors of the Federal Reserve System may by regulation prescribe.

(3) "Person" means any individual, partnership, association, business trust, corporation, or unincorporated organization.

SEC. 3. Any person engaged in the business of extend-
credit shall furnish to each person to whom such credit is extended, prior to the consummation of the transaction, a clear statement in writing, in accordance with rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe, (1) setting forth the total amount of the finance charges to be borne by such person in connection with such extension of credit, and (2) stating the percentage that such amount bears to the outstanding principal obligation, or unpaid balance, expressed in terms of simple annual interest.

SEC. 4. Any regulation under this Act may be established in such form and manner, may contain such classifications and differentiations, and may provide for such adjustments and exceptions as in the judgment of the Board of Governors of the Federal Reserve System are necessary or proper to effectuate the purposes of this Act or to prevent circumvention or evasion, or to facilitate enforcement of this Act, or any rule or regulation issued under this Act. In prescribing any exceptions hereunder with respect to any particular type of credit transaction the Board shall consider whether in the case of such transaction substantial compliance with the disclosure requirements of this Act is being achieved under any other Act of Congress or the law of any State. The Board shall also exempt those credit transac-
tions between business firms as to which it determines ad-
herence with the disclosure requirements of this Act is not 
necessary to carry out the purpose of this Act.

SEC. 5. No person shall extend credit in contravention of 
this Act or of any regulation prescribed thereunder.

SEC. 6. Any person who willfully violates any provision 
of this Act or any rule or regulation issued thereunder shall 
be fined not more than $5,000 or imprisoned not more than 
one year, or both.
The first witnesses this morning at the second session of hearings before the Douglas Subcommittee on the above bill were representatives of the Navy Federal Credit Union. Mr. William A. Hussong, General Manager of the Credit Union, made a very good presentation. The burden of his testimony was that there is so wide a variation in the customs and practices of credit grantors with respect to interest, finance charges, insurance charges, et cetera, it is impossible for consumers to shop intelligently for credit and that S. 2755 would remedy this situation by providing a basis for comparison, i.e., the requirement that all grantors of credit show interest and finance charges in terms of a simple annual interest rate. The testimony was well documented and supported by case histories of Navy personnel.

The other witnesses—all from Chicago—were:

Mr. John Kearney, Chairman, Committee for Fair Credit Practices in Illinois.

Mr. James Ganly, Catholic Council on Working Life.

Mr. Arthur Young, Executive Director, Legal Aid United Charities.

Mr. Jerome Shure, Chairman, Legal Committee, Committee for Fair Credit Practices.

These witnesses also supported the bill. As their affiliations might suggest, each devoted virtually all of his testimony to the social and economic problems attributable to so-called "easy credit" purveyed by fringe operators who look for most of their business among low-income groups. This testimony was fairly well documented by actual cases, in which the problems ran all the way from suicides and divorces to bankruptcies and questionable practices by some lawyers—all of which was referred to by one witness as "a very sordid sector of this country's life."

As he did at the time he introduced the bill and again at the opening of the hearing on yesterday, Senator Douglas made it a point to emphasize that "the purpose of the bill is not to discourage installment sales."

Subcommittee members present this morning, in addition to Senator Douglas, were Senators Proxmire and Bush, neither of whom, however, participated much in the questioning of witnesses.

These hearings have been very well attended by the public and particularly by representatives of organizations and trade associations that would be affected in the event of passage of the bill.
Board of Governors

Hearings will resume for four days, beginning on April 5. It is quite likely that a representative from the Board will be asked to testify.

cc: Mr. Sherman
    Mr. Young
    Mr. Molony
    Mr. Noyes
    Mr. Hackley
Office Correspondence

To: Board of Governors

From: Jerome W. Shay

Subject: Hearings on interest disclosure bill — S. 2755.

Date: March 23, 1960

Hearings started this morning before the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency on the bill S. 2755, which would require disclosure of financing costs on credit transactions in terms of simple annual interest rates. The hearing this morning was attended by Senators Douglas (chairman), Frear, Clark, Proxmire, Bennett, and Bush.

In an opening statement, Senator Douglas emphasized the bill's purpose as one requiring that the customer know the truth about interest rates and finance charges and stated specifically (as he did when he introduced the bill): "It is not our purpose to control credit..., Our objective is, above all, to strip the disguises and camouflage that hide or distort the true price of credit." Also, he pointed out that, on the basis of its present rate of increase, "personal debt could exceed the Federal public debt in just a few years from now."

The first witness was Mr. Victor H. Nyborg, President, Association of Better Business Bureaus, Incorporated, who favored the bill but whose testimony was quite specific that, from his experience, installment purchasers are not interested in the interest rate but rather in the dollar amount of interest, finance charges, and premium for credit life insurance and other types of insurance, if any. In fact, the burden of his testimony dealt with complaints regarding the alleged failure of installment purchasers of automobiles in not being told that they were being charged for credit life insurance.

The other two witnesses this morning were Mr. William Kirk, representing the Union Settlement Association, New York City, and Mr. Harold Rosner, representing Robert Hall Clothes.

Mr. Kirk's Association is interested in the financial welfare of people living in slum clearance and low-priced housing projects. He supported the bill, but the bulk of his testimony related to the alleged practices of the less reputable stores and peddlers who oversell low income groups shoddy merchandise on installment basis.

Mr. Rosner also favored the bill as somewhat of an impediment to what he regarded as excessive growth of consumer credit. His organization sells only for cash.

On the basis of their questioning of the witnesses, it seems clear that Senator Proxmire favors the bill largely as a means of educating the public with respect to interest rates, while Senator Bennett opposes the bill as aimed at a few marginal dealers against whom any legislation probably would be ineffective. Senator Bush, the only Republican co-sponsor of the bill, was clearly sympathetic to the need for some such legislation. Senator Frear's questioning was rather noncommittal, and Senator Clark did not question any of the witnesses.

cc: Messrs. Sherman, Young, Molony, Noyes, and Hackley
Office Correspondence

To: Chairman Martin
From: Jerome W. Shay

Date: January 13, 1960
Subject: Bills to require disclosure of interest or finance charges in credit transactions.

There was circulated to the Board the Congressional Record for January 7, containing Senator Douglas' bill (S. 2755) which would require the disclosure of interest or finance charges in credit transactions. This was discussed at the Board meeting on January 8. Senator Douglas' bill has not yet been printed, as it was left on the table for co-sponsors.

Congressman Reuss has now introduced in the House H.R. 9515, which is virtually identical with Senator Douglas' bill. A copy of H. R. 9515 is attached.

Attachment

cc: Each Board Member
Messrs. Young
   Thomas
   Molony
   Fauver
   Noyes
   Hackley
IN THE HOUSE OF REPRESENTATIVES

JANUARY 11, 1960

Mr. Reuss introduced the following bill; which was referred to the Committee on Banking and Currency

A BILL

To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

2 That the Congress finds and declares that economic stabilization is threatened when credit is used excessively for the acquisition of property and services. The excessive use of credit results frequently from a lack of awareness of the cost thereof to the user. It is the purpose of this Act to assure a full disclosure of such cost with a view to preventing the uninformed use of credit to the detriment of the national economy.

I
SEC. 2. As used in this Act, the term—

(1) "Credit" means any loan, residential mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any contract or arrangement for the hire, bailment, or leasing of property; any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, discount, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(2) "Finance charges" includes charges such as interest, fees, service charges, discounts, and such other charges as the Board of Governors may by regulation prescribe.

(3) "Person" means any individual, partnership, association, business trust, corporation, or unincorporated organization.

SEC. 3. Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended, prior to the consummation of the transaction, a clear statement in writing, in accordance with rules and regulations which the Board of Governors of the Federal
Reserve System shall prescribe, (1) setting forth the total amount of the finance charges to be borne by such person in connection with such extension of credit, and (2) stating the percentage that such amount bears to the outstanding principal obligation or unpaid balance expressed in terms of simple annual interest.

SEC. 4. Any regulation under this Act may be established in such form and manner, may contain such classifications and differentiations, and may provide for such adjustments and exceptions as in the judgment of the Board of Governors are necessary or proper to effectuate the purposes of this Act or to prevent circumvention or evasion, or to facilitate enforcement of this Act, or any rule or regulation issued under this Act. In prescribing any exceptions hereunder with respect to any particular type of credit transaction the Board shall consider whether in the case of such transaction substantial compliance with the disclosure requirements of this Act is being achieved under any other Act of Congress or the law of any State.

SEC. 5. No person shall extend credit in contravention of this Act or of any regulation prescribed thereunder.

SEC. 6. Any person who willfully violates any provision of this Act or any rule or regulation issued thereunder shall be fined not more than $5,000 or imprisoned not more than one year, or both.
Letter of March 12 to Chairman Martin signed by,
and his acknowledgment of March 18 addressed to --
Also reply of April 14

Senators:

Paul H. Douglas
Clinton P. Anderson
Oren E. Long
William Proxmire
Eugene J. McCarthy
Pat McNamara
Wayne Morse
Jennings Randolph
E. L. Bartlett
Harrison A. Williams, Jr.
Joseph C. O'Mahoney
Frank E. Moss
Gale W. McGee
Edmund S. Muskie
Joseph S. Clark
Howard W. Cannon
Ernest Gruening
Hubert H. Humphrey
Frank Church
John A. Carroll
James E. Murray
The Honorable Pat McNamara,  
United States Senate,  
Washington 25, D. C.

Dear Senator McNamara:

Let me thank you again for the interest in monetary affairs shown by you in the letter of March 12 which you signed with other Senators. It is important to have public understanding of our monetary problems and of the reasoning that underlies decisions in this field. The very fact that there are no easy answers to the problem of maintaining a sound money makes even more important thoughtful study and discussion of the subject.

On the basis of your letter, it would appear that we can readily agree that monetary policy should exert a counter-cyclical force, combating inflation and deflation alike so as to contribute to a healthy, growing economy, aided by stability in the purchasing power of the dollar, that will provide a high level of dependable jobs. That agreement over the methods of attaining these objectives is more difficult to achieve than agreement over the objectives themselves is only natural, since highly technical matters are involved.

The portion of your letter concerning the desirability of preventing harmful speculation and undesirable practices in the Government securities market illustrates the point. The fact that neither the Treasury nor the Federal Reserve has as yet felt ready to recommend legislation directed to that end is not ascribable to a reluctance to make detailed legislative proposals if we are confident that such are needed. Our studies of the problem have shown, however, that some very real, practical difficulties would be faced in drafting such legislation. The studies have also indicated that future speculative excesses may be adequately limited without new legislation.

I am sure that we all agree that it is important to maintain a strong and efficiently functioning market for Government securities. To both the Treasury and Federal Reserve, this is a matter of primary importance. By and large, we have such a market today. In this country, indeed, we are accustomed to a broad, resilient market through which: (a) large amounts of funds can be transferred expeditiously and at low cost among financial and nonfinancial institutions; (b) the Treasury can float substantial cash offerings of securities without formal underwriting; and (c) the Federal Reserve can provide or withdraw bank reserves...
as needed. In striving to correct market imperfections or deficiencies, care is needed to avoid injuring the market's capacity to bring buyers and sellers together in transactions involving both very large and relatively small amounts of investable funds.

When legislation to regulate the securities industry was being formulated in the early 1930's the Congress determined that the interests of the Government and the economy in general called for the exemption of both U.S. Government securities and those of State and local governments, and the Congress excluded them from the legislation as enacted. One of the difficult questions raised by proposals to regulate trading in and margin on U.S. Government securities is whether such regulation could and should also include State and local issues.

If you have had an opportunity to examine the quite voluminous study of the Government securities market by the Treasury and the Federal Reserve System, copies of which were provided to the members of the Joint Economic Committee and to the Chairmen of the Committees on Banking and Currency, Ways and Means, and Finance, in July 1959, I am sure you will share the view that this is a very complex subject, with a highly technical background.

As the Congress recognized in the 1930's, the Government securities market differs from the stock market in many important respects. Stock brokers carry margin accounts for their customers, thus extending credit directly to them. The vast bulk of margin transactions in stocks is handled in this way. In contrast, most of the transactions in the Government securities market are handled by dealers who, unlike brokers, take positions in securities, and absorb the market risk growing out of any fluctuations in their value. Borrowing for purchasing or carrying of Government securities by these dealers is arranged through a wide variety of channels, bank and nonbank. The transaction between the dealer and his customer is a cash transaction. For this reason, the regulation of U.S. Government security dealers or their practices would not have any effect on the margins on which securities are carried by their customers, who must arrange the financing from other sources.

An important use of credit in this market is by dealers to finance the holdings of Government securities which constitute their "stock in trade." Dealer borrowing is both protected and limited by their capital as well as by any specific margin lenders may impose on dealers' borrowings. I am sure that we are all mindful that any significant additional limitation on the availability of financing to dealers would necessarily reduce dealer participation in Treasury financings, to the disadvantage of the Government. It should also be mentioned that a large share of dealer financing relates to the carrying by dealers of very short-term Treasury bills, where the period to maturity is so short that the risk of loss attributable to market fluctuations is negligible.
As we further assess the problems of preventing undue speculation in Government securities it has seemed to both the Treasury and the Federal Reserve System that substantial progress can be made toward desired objectives under existing authority. One approach that has been taken has been the issuance of a supervisory instruction to national bank examiners that prudent and sound bank lending practice calls for appropriate margins in the case of all loans to nondealer borrowers against Government securities as collateral. It is possible that an approach of this kind will not only influence the lending practices of banks but also, indirectly, those of nonbank corporations that advance funds on a temporary basis to the Government securities market through repurchase agreements and similar arrangements.

Leading banks and corporations have already been cautioned about the unfortunate consequences of under-margined credit such as occurred in the 1958 episode. It is our understanding that the Treasury will not hesitate to warn against any credit extensions which appear to contribute to excessive speculation if and when such excesses should threaten to recur. Our study of the market gives reason to believe that much of the unmargined credit extension in 1958 was an unwitting contribution to speculation and that the officers of banks and nonfinancial corporations so involved are eager to avoid any repetition.

In addition, the Treasury has already announced plans to modify its refinancing procedures to discourage the assumption of speculative positions in maturing issues. When appropriate, it will rely on issues for cash rather than on exchange offerings, thus making it feasible to require sizable downpayments as a bar to excessive speculation. Also, the absence of value on the "rights" of holders of maturing issues would avoid speculation in "rights," and curb speculation in the market at the time of refundings. This type of speculative activity was an important source of instability in the Government securities market in mid-1958.

Last year's study of the Government securities market revealed evidence of widespread satisfaction on the part of buyers and sellers with the mechanism of the market and the trading practices which prevail in it. We found little or no feeling that present mechanisms or practices are disadvantageous to the investing public to any significant degree, and we gathered a definite impression that existing transaction arrangements are efficient and economical. There was a commonly expressed need, however, for additional statistical information, available promptly to the public, about the flow of transactions through the market, and about the market's use of credit. The Treasury and the Federal Reserve System have now inaugurated such a program. From the standpoint of public interest, these comprehensive factual materials about the market should be helpful in future evaluations of its
performance, and in identifying what needs there may be for regulatory intervention.

It is our belief that this informational program will be an effective supplement to the steps mentioned above, all of which will help to reduce the future dangers of speculative excesses in the market. It is not possible to determine at this stage if such steps will be sufficient to avoid completely future speculative excesses. We will continue, therefore, to study the problem as to whether statutory regulation of the market is desirable, and, if so, what character it should take to be most effective.

The second item in your letter would have the System discontinue the practice of normally limiting its transactions in the United States Government securities market to the short-term sector. By this limitation, which has been, we believe inaccurately, referred to in some commentary as the "bills only" policy, the System limits the effect of its open market operations on the pattern of security yields and prices by maturities established by the free interplay of savings-investment processes in the market. From inception of this policy, the System has been aware of exposure to criticism by those who adhere to the viewpoint that the Government should exert more active, direct influence over the levels and structure of market interest rates. To take account of this viewpoint and make sure, in the light of developing experience and critical reappraisal, that its policy was effectively serving the public interest, the System has frequently reviewed this decision. The Open Market Committee is prepared to make, and in fact does make, adaptations in its operating procedure when it believes that economic or market conditions call for such action. For example, the Committee authorized such adaptations in November 1955 and July 1958, when the System acquired some longer term securities, in connection with Treasury financings; and in August 1959 and February 1960, when the System exchanged its maturing issues for other than short-term securities.

That the System has shown its readiness to make adaptations to unusual conditions does not alter the fact that the System needs normally to follow operating procedures which will have as little disturbing influence as possible on the functioning of the Government securities market. It follows that, if the System is to abandon its practice of normally conducting its open market operations in short-term securities, the alternative adopted should measure up to this criterion. On the basis of our experience, the Federal Open Market Committee does not believe that an alternative of continuing intervention in the long-term as well as short-term sectors of the market would result in a better functioning market from the standpoint of public interest and does believe that such a policy would make the market more unstable.
For these reasons the Federal Open Market Committee has continued the System's procedure of normally conducting its operations in short-term securities. However, if the suggestion that we abandon our present operating procedure is based on the assumption that our present policy is as rigid and inflexible as is sometimes attributed to us, I want to assure you that we have always been and continue to be prepared to alter these procedures whenever conditions may make it appropriate to do so.

On your third point, we are in substantial agreement. Our principal difference would seem to relate to the way in which changes in the turnover or velocity of money should be taken into account in arriving at a rate of growth in the quantity of bank credit and money that will be consistent with maximum economic growth and reasonable price stability. As I have testified to the Congress on various occasions, it is the Board's position that we should provide for such increases in the money supply as can be absorbed in a growing economy without generating inflationary pressures. Over the long run this may result in a rate of growth in the money supply which, as you suggest, might broadly match the long-term growth in real gross national product.

In your discussion, however, you suggest that the relationship between the money supply and gross national product over a period of a few years will tend to be quite close. Actually, short- and intermediate-term fluctuations in the ratio between these two aggregates, which is sometimes referred to as income velocity, appear to be fairly wide and to have a degree of independence from the pace of economic growth. These trends are related in part to variations in the public's attitudes toward the use of funds in general, and particularly to movements in the volume of other assets in the community which perform a short-term store of value function in competition with currency and demand deposits—often referred to as liquid assets, near monies, or money substitutes.

For this reason, we have found that it is important to consider not only the volume of money, narrowly defined; i.e., demand deposits adjusted and currency outside banks, but also the amount of time deposits at commercial banks and mutual savings banks, of shares in savings and loan associations, and of savings bonds and short-term Government securities in the hands of the public. If one includes the growth in these liquid assets in recent years, money and liquid assets expanded by an average rate of 4.2 per cent per year from 1953 to 1959. In my own judgment, the principal explanation of the slow rate of growth in the money supply over postwar years is that, during the war period, the public's holdings of money and of other liquid assets, especially U. S. Government securities, were built up to an abnormally high relative to gross national product, and, hence, in postwar years less expansion in money was needed while we returned to a more normal relationship between the money supply and gross national product.
The Honorable Pat McNamara

The final point in the letter is an important but technical one. Its acceptance would require the System to determine in the present its choice as to the use of the instruments of monetary policy in future circumstances.

It is my personal view that, in absorbing the large volume of redundant reserves generated during the great depression in the 1930's and then supplemented by war finance, reserve requirements were pushed up to levels higher than are necessary or desirable in the long run, and higher than Congress intended they should be maintained indefinitely. It would be a mistake, however, to assume that it is our established policy to provide for all future increases in the money supply by reducing reserve requirements from the present average of around 16 per cent to some lower level, say 10 per cent.

I should like to point out that, in reply to a question from the Joint Economic Committee last fall, the Board stated unequivocally that "The Federal Reserve has had no policy specifically directed toward achieving a long-run secular decrease in reserve requirements." It follows from this statement that the Board accepts the use of the open market instrument as one way, and an important one, of providing the bank reserves needed to support long-term growth in the money supply. The System, in fact, has added to its holdings of United States Government securities regularly for this purpose in the decade since the Treasury-Federal Reserve accord. What the Board is not prepared to do is to commit itself and its successors not to use an instrument for monetary regulation that Congress devised and reaffirmed in the last session, when, all things considered, the use of that instrument would be the best way of making reserve funds more readily available to the banking system.

I might mention in this connection that legislation passed by the Congress in 1959 authorized certain changes in the structure of reserve requirements, including authority to count vault cash as reserves and the eventual elimination of the central reserve city classification. The equitable implementation of this legislation would appear to require some provision of the reserves needed for monetary growth through adjustments of reserve requirements.

To summarize, the Board's position on this point is that it would be improper for it to enter into any commitment which would limit the discretionary authority specifically granted to it by the Congress. We believe, and have testified, that it is desirable for the System to have authority to vary reserve requirements from time to time in either direction. We have also stated, however, that such authority is not indispensable to the effective day-to-day functioning of the System. If reserve requirements are to be maintained at present levels, or their
use circumscribed, we believe that this should be accomplished by legislative action, not by a renunciation of authority by the Board.

In closing, I want to assure you of the Board's desire to cooperate with you at all times in furthering understanding of our policies, our reasons for them, and their relation to the economic condition of the United States.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
March 18, 1960.

The Honorable Paul H. Douglas,
United States Senate,
Washington 25, D. C.

Dear Senator Douglas:

As it will of course take some time to consider the various matters set forth in the letter of March 12 in which you joined with other Senators, I do want you to know now that your interest is appreciated and that you shall have a reply as promptly as possible.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

CM:mmm

Identical letters to Senators signing letter of March 12 (list attached)

cc: Mr. Shay
    Mr. Molony
    Miss Muehlhaus
March 12, 1960

The Honorable William McChesney Martin, Chairman
Federal Reserve Board
Washington 25, D. C.

My dear Chairman Martin:

We are addressing this letter to you in the hope that the Federal Reserve Board may adopt certain very definite reforms which, if accompanied by parallel action on the part of the Treasury, may remove or greatly lessen the very real dangers to the people of the United States which we believe would be created by the lifting or removal of the interest ceiling on long-time government bonds. Combined with needed Treasury reforms, these would have the effect of increasing the price and lowering the yield and hence the interest rate on government bonds without resorting either to "pegging" the market or inflationary devices. Some-what similar proposals for reforms were made to you during 1959 and in January of this year by certain majority members of the Joint Economic Committee. At those times you were firm in your refusal to accept these reforms.

We wish to help the country and reduce the tension which is developing between the Board and a large section of Congress, and we hope that further reflection upon these matters may have induced a greater willingness on your part and that of the Board to reconsider basic issues of policy.

We now appeal to you to signify your intent and that of the Board to make at least four basic reforms or improvements in the conduct of the Board's affairs:

1. To recommend the establishment of margins on the purchase of government securities by customers of security dealers, and to regulate the activities of the security dealers themselves.

As the debacle of the summer of 1958 clearly showed, it is intolerable that there should be such widespread speculation in government securities on infinitesimal or non-existent margins. This can be damaging to the credit of the United States of America. We have waited for you to give us a lead on this matter on the basis of your long study of the incident and have been disappointed by your silence and your failure to act.

This offers the possibility of fruitful cooperation between your Board and Congress, and if you will assign some of your experts to work with us, we shall be glad to draft legislation which will deal with the great abuses which have been revealed and yet be fair to all parties.
2. A second reform which we believe the Reserve Board should adopt is to abandon its "bills only" policy. We have scarcely been able to find a single competent economist who endorses this policy to which, with rare exceptions, you have held for so many years. The abandonment of this mistaken policy would be desirable in itself and would clear the way for further reforms.

3. In our judgment, it is imperative that you should, over a period of time, permit an increase in the money supply (currency plus demand deposits) at approximately the same rate as that at which the real gross national product is growing. This would not be inflationary. Rather it would be a stabilizing force.

We regret that, during the years from 1953 to 1959 when the economy was growing at the excessively slow rate of 2.3 percent a year, your Board would only permit the money supply to grow at the still slower rate of 1.8 percent a year. The increase in population cut the growth of the money supply on a per capita basis to 1 percent per annum. In our judgment, this slow rate of growth was one of the causes which artificially increased the interest rate and hence retarded home building, expansion by small business, and state and local investment. It was therefore one of the causes for the increasing unemployment during this period and for slowing down the rate of growth itself.

We must honestly state that your failure to expand the supply of money at an adequate rate has been in large part responsible for this.

Let us, however, emphasize two things: First, we want relative stability in the price level, with the long-time growth in the money supply only matching the long-time growth in the real gross national product.

Second, we are not opposed to some cyclical variations in the growth of the money supply. The availability of credit could, for example, be relatively increased in periods of recession or depression, or slightly dampened down in an undue upswing. But these variations should not be used to alter the long-run policy of expanding the money supply in line with the increase in the production of goods and services so as to avoid both inflation and deflation, but also with a view to maximum employment and adequate growth.

4. The Federal Reserve should use open market purchases to provide the increase in member bank reserves for the needed long-time or secular expansion of the money supply. Taking normal velocity into account, this would be at the rate of about 3 to 4 percent per year.

As you know, such expansion could be achieved by one of two ways: a) the reserve requirements of the member banks could be lowered; or b) the same end could be accomplished by open market purchases.

You have stated publicly that you felt that the reserve ratios should be lowered still further and the banking system appears to be aiming for an
ultimate average level of about ten per cent as preferable to the present level of approximately 16 per cent. A reduction in reserve requirements from 16 to 10 per cent would support, with present member bank reserve balances, an expansion in demand deposits from the present $110 billion to about $190 billion, or an increase of $80 billion.

If the creation of this $80 billion is accomplished by lowering reserve requirements, it would be done without any increase in the capital assets and earnings of the Federal Reserve System. The interest on these additional sums and the profits from this great expansion of credit would accrue entirely to the private commercial banks, without the Reserve System or the government sharing in the profits then made through having delegated the government's power to create monetary purchasing power or money to the banks. In other words, private banks will get all the interest and profits on this money, with little or no cost to themselves. In these circumstances, one can understand why the banks are so anxious to use this method and why those who support the banks find it possible to justify this method. Huge sums are at stake.

According to Federal Reserve System figures, the average rate of earnings of member banks on their combined capital, surplus and undistributed profits in 1958, the last full year for which figures are available, was 17.3 per cent before taxes and 9.7 per cent after taxes.

In view of the fact that the risks of bank stockholders have been decreased in the last decade by the guarantee of bank deposits and the abolition of double liability, this rate of earnings on capital and surplus (accumulated from prior earnings) would seem to be amply adequate.

Now, if you feel that the private banking system of the country, whose major source of profit is the loans and deposits created by the fractional reserve system at little cost to the banks themselves, deserves higher rates of earnings than these, then you should frankly say so for the record and justify your reasons. You should do this for that would be the effect of creating the long-run needed expansion of the money supply by the method of reducing reserve requirements which you advocate.

If instead, the creation of these amounts is done by open market purchases, the government will get 90 per cent of the interest and profits on one-sixth of the $80 billion, or on about $13-1/3 billion. The banks will still receive the interest and profits on $66-2/3 billion. Certainly the banks should not be unhappy to see the government and the people get this small profit for the delegation to them of the Constitutional power of the Congress to "coin money and regulate the value thereof."

As you understand, if the expansion were accomplished by open market purchases, then the Federal Reserve System would acquire added earning assets
Honorable William McChesney Martin

of approximately $13-1/3 billion in government bonds over the years at an initial rate of about $570 million a year and an average rate of about $740 million per year.

At 4 per cent interest, this would mean initial earnings of approximately $23 million a year and rising by slightly more than this amount each year to over $46 million in the second year, $69 million the third year, etc., until at the end of the period, the annual added earnings would be approximately $940 million a year and would continue from then on. The cumulative amounts of these earnings which would accrue to the Federal Reserve system in the period would be over $4.5 billion. Under prevailing practices, at least 90 per cent of these sums, or over $4 billion, would be turned over to the Treasury.

These may seem to be small and inconsequential amounts to you, Mr. Chairman, but to the hard-pressed taxpayers of this country and the members of Congress charged with the duty of fiscal responsibility, they are of great importance. They would help to balance the budget and provide needed services. Moreover, the large volume of annual purchases of government bonds would raise their prices and lower their yields and hence lower the basic interest rates on governments about which you and the Treasury have been complaining.

This action, along with a more appropriate fiscal policy, would result in long-term interest rates well below the 4 1/2 per cent ceiling and would make the question of whether the ceiling should be removed largely an academic one.

Instead of focusing on the question of the symptoms of our problem, namely the 4 1/2 per cent ceiling, we urge you and the Treasury to get at the basic causes of the problem, namely excessively high interest rates in a period characterized not by full employment, forced draft growth, and inflation but one characterized by excessive unemployment, a slow rate of growth, and stable prices.

We should emphasize that we are not proposing that present reserve requirements be raised but that they be kept at existing levels. Thus, we are not advocating that the government's share in the creation of additional purchasing power be increased, but merely that it not be reduced, as you would have it done.

When we have questioned you on this issue, you have objected on the grounds that in times of recession, lowering reserve requirements may be a faster and quicker way of expanding credit than through achieving these effects by open market purchases.

However, this answer has to do with the short-run and does not affect the question of the secular or long-run expansion about which we are concerned.
The Honorable William McChesney Martin

It may be proper to lower and raise reserve requirements for cyclical or short-run purposes. Yet during the years 1951 to 1960, a period dominated by the tight money policy of the Federal Reserve System, the Federal Reserve has lowered reserve requirements during recessions but has not subsequently raised them during periods of expansion. The effects, therefore, have been to lower reserve ratios permanently.

In other words, since 1951 you have not raised reserve requirements and hence have not used them as a counter cyclical weapon in periods of expansion. This fact seriously diminishes the force of the single argument you have used in opposition to our view that open market operations are to be preferred to the method of lowering reserve requirements for secular expansion. In the first place, you have been using a short-run argument in reply to our point that the long-run expansion should occur by open market purchases. In the second place, even in the short run you have not used reserve requirements fully as a counter cyclical weapon for they have been changed only downward and have not been raised.

With respect to the long run, the ultimate effects of the two methods would, as you have admitted, be the same. Even the immediate effects would be substantially similar. The public interest calls for using the open market purchase method for the long run or secular expansion of the money supply and we call upon you and the Federal Reserve Board to issue a clear statement of policy to that effect.

In short, we believe that a proper sense of fiscal responsibility should lead you (1) to work cooperatively with Congress for requiring margins on the purchases of government bonds and for proper regulation of that market, (2) to abandon the discredited "bills only" policy, (3) to effect the long-time increase in the money supply at approximately the same rate as the growth in the real national product, and (4) to do this by open market operations rather than by lowering reserve ratios.

We will welcome your cooperation for these worthy ends.

With best wishes,

Sincerely yours,

[Signatures]