NOMINATIONS OF ABBOT L. MILLS, JR., AND JAMES L. ROBERTSON

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-SECOND CONGRESS

SECOND SESSION

ON

THE NOMINATIONS OF ABBOT L. MILLS, JR., AND JAMES L. ROBERTSON TO BE MEMBERS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 1, 1952

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NOMINATIONS OF ABBOT L. MILLS, JR., AND JAMES L. ROBERTSON

FRIDAY, FEBRUARY 1, 1952

UNITED STATES SENATE,
SUBCOMMITTEE ON FEDERAL RESERVE MATTERS OF
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to notice, at 10:30 a. m., in room 301, Senate Office Building, Senator A. Willis Robertson (chairman) presiding.

Present: Senators Robertson, Maybank, Douglas, and Capehart.

Also present: Senators Frear and Morse.

Senator ROBERTSON. The subcommittee will please come to order.

The purpose of this meeting is to give the members of this subcommittee an opportunity to meet two Presidential nominee members of the Federal Reserve Board, Mr. James Louis Robertson, of Nebraska, and Mr. Abbot L. Mills, Jr., of Oregon.

The subcommittee is happy to have as a witness this morning a distinguished member of the Senate from Oregon, Mr. Wayne Morse. It is the policy of this committee, knowing how busy our colleagues in the Senate are, to recognize them first.

Senator MAYBANK. Let me only make this statement. Senator Bricker is detained in a very important meeting of the Joint Committee on Atomic Energy, and I will ask that the record show that Senator Capehart has been detained and does not know whether he will be here in time or not.

STATEMENT OF WAYNE MORSE, A UNITED STATES SENATOR FROM THE STATE OF OREGON

Senator MORSE. Mr. Chairman, my statement will be exceedingly brief. All it will be is a reiteration of the statements I have already made in written form, on file with the committee, and that I have prior to that letter stated orally to members of the committee.

I want to assure the committee that I endorse Mr. Mills unqualifiedly. He is recognized not only as one of the business leaders of our State, but as a very sound banker, and one of our great civic leaders as well.

I want to say without fear of successful contradiction, Mr. Chairman, that I do not know of anyone in our State who would bring to this committee a wider cross section of support from the various groups in our State than Mr. Mills, and I am perfectly willing to let my letter on file with the committee speak for itself.

I add this one word in regard to Mr. Robertson. He does not come from my State, but I am familiar with his record, and I am

very happy, as a Member of the Senate, to have two such well-qualified men before the Senate for confirmation at this time.

Senator MAYBANK. Mr. Chairman, I would like to have Senator Morse's statement filed as a part of the record.

Senator MORSE. I would be happy to have my letter printed as a part of the record.

(The letter referred to is as follows):

UNITED STATES SENATE,
January 25, 1952.

Hon. BURNET R. MAYBANK,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR MAYBANK: I am pleased to advise you that the nomination of Abbot L. Mills, Jr., of Portland, Oreg., as a member of the Federal Reserve Board meets with my enthusiastic approval and endorsement. I have previously endorsed him for nomination and now I am pleased to recommend and support the confirmation of this nomination.

Mr. Mills is so exceptionally well qualified for this particular position that I am very proud as a Senator from Oregon to support his qualifications. I am enclosing some background material on Mr. Mills which Mr. E. C. Sammons, president of the United States National Bank of Oregon, sent to me.

I have known Mr. Mills for a good many years, and I know him to be one of the recognized financial leaders of our State. He not only is a very sound banker, but he is also a very keen student of economic problems. He will bring to his work as a member of the Federal Reserve Board a background of training and practical experience in the field of banking and economics which will enable him to do a superb job for his country in that position.

I shall be very glad to appear before your committee and answer any questions within my knowledge concerning Mr. Mills, if any member of the committee feels that he needs more information than is already on file in support of Mr. Mills.

While I am writing this letter, I wish also to endorse the nomination of Mr. James L. Robertson, of Nebraska, for appointment to the other vacancy of the Federal Reserve Board. As you know, Mr. Robertson has been Chief Deputy Comptroller of the Currency. In my opinion, his record of public service leaves no doubt whatsoever concerning his excellent qualifications for appointment to the Federal Reserve Board.

With best wishes,
Sincerely yours,

WAYNE MORSE.

Senator ROBERTSON. We have also as a witness the distinguished Chairman of the Federal Reserve Board, Mr. William Martin. The committee would be glad to hear from Mr. Martin as to whether these two nominees are acceptable to him.

STATEMENT OF WILLIAM McC. MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. MARTIN. Mr. Chairman, I am very glad to have an opportunity to put in the record that both of these men are thoroughly acceptable to me, that I have no mental reservation whatever in recommending both of them to your committee. They have been selected by the President for quality, for experience, for competence, and with the conviction that their primary interest will be in the public welfare. That was the basis on which he offers these appointments, and from my personal investigation and knowledge of the background and capacity and training and experience of these gentlemen, I have no hesitation in recommending them completely for any consideration you may care to give them.

Senator ROBERTSON. Are there any questions of Governor Martin?

If not, we thank you, Governor.

Senator Douglas, did you want to ask Governor Martin anything?

Senator DOUGLAS. Well, I would want to ask Mr. Robertson some questions. I have no immediate questions of Governor Martin.

Senator ROBERTSON. The Chair would like to hear now from the nominee from Oregon, Mr. Mills. He will give us for the record a brief statement indicating where he was born, and when, and what he has been doing in a general way since he was born.

STATEMENT OF ABBOT L. MILLS, JR.

Mr. MILLS. Senator, and gentlemen, I was born in Portland, Oreg., September 26, 1898, and had my grammar schooling in Portland, high school in the East, and graduated at Harvard College in 1921.

My father had been a banker ahead of me, and immediately on graduating from college, I became an employee of the First National Bank of Portland, continuing with that bank until December 31, 1932.

I left their employ as a vice president, and during that employ I should add, I was delegated for a period of a year to serve as the assistant secretary of an associated organization, the Pacific Coast Joint Stock Land Bank.

On January 1, 1933, I became associated with the United States National Bank, of which I am presently their first vice president and a director.

The activities outside of banking that have claimed my attention have largely been civic in character, in various capacities in that regard, also serving as a consultant to two mayors of the city of Portland, and have had very pleasant and agreeable posts both with our Oregon Bankers Association, and with the Association of Reserve City Bankers.

Senator ROBERTSON. You have never held public office before?

Mr. MILLS. No, I have never held public office or run for public office. My relationship to public office has been in capacities appointed by mayors, or a governor, or that sort of appointment.

Senator MAYBANK. What kind of appointments were those, Mr. Mills?

Mr. MILLS. For the mayors of Portland, they were studies of the city's fiscal problems, and with respect to the State, I served under appointment by Governor McKay on his small-business committee.

Senator ROBERTSON. Do you regard public office as being a public trust, with no twilight zone between right and wrong?

Mr. MILLS. Absolutely, for the reason that commercial banking is likewise a public trust, and if you can advance from private banking to public banking, and a larger area of public trust, it is a very worthwhile ambition to any man in the private field of finance.

Senator ROBERTSON. As a banker, making numerous contacts in the past with the Federal Reserve System, have you looked upon the Federal Reserve Board as a governmental agency that should work in cooperation with the Treasury Department in the management of the national debt, but not to be subordinated to it?

Mr. MILLS. That, essentially, is so. I am a strong believer in the principles of the Federal Reserve Act, as it was originally passed by Congress, and have always believed that the amendments that have

followed in the act have been organically evolutionary, but have never undermined the principles of that legislation which calls for an independent organization, responsible to Congress.

Senator ROBERTSON. Are there any questions?

Senator MAYBANK. Mr. Chairman, I would like to ask that Mr. Mills' biography be placed in the record.

Senator ROBERTSON. Without objection, the biography will be inserted in the record to be included with the testimony of the witness.

(The biographical sketch referred to follows:)

ABBOT LOW MILLS, JR.

Born: Portland, Oreg., September 26, 1898.

Father: Abbot Low Mills, Sr., was for many years president of the First National Bank of Portland, and prominiently identified with Oregon's civic and commercial life.

Mother: Evelyn Scott Lewis.

Married: Katherine Ainsworth, August 4, 1924.

Children: Katherine Mills. Graduate of Scripps College, now teaching in Pasadena, Calif.

Abbot L. Mills. After serving enlistment in United States Marine Corps, graduated from Pomona College, and now doing newspaper work in Santa Barbara Calif. Married Joan Rich, father of two sons.

Sarah Mills Harball. After 2 years at Mills College, married Charles H. Harball, and now ranching in Polson, Mont. Mother of a daughter.

John Ainsworth Mills. Completed sophomore year at Cornell University, and now apprentice seaman in the United States Navy.

Education: Grammar school, Portland, Oreg. High school, Middlesex School, Concord, Mass. College, Harvard College, graduated with A. B. degree, class of 1921.

Military service: Commissioned second lieutenant, United States Army, September 18, 1918. Attached to SATC Unit, Georgia School of Technology. Honorably discharged December 1918.

Business connections: Entered employ of the First National Bank of Portland, October 1, 1920, as messenger. Served successively as assistant cashier and vice president to December 31, 1932, except for the year 1923, or thereabouts, during which served with the affiliated Pacific Coast Joint Stock Land Bank as assistant secretary.

Entered employ of the United States National Bank of Portland, Oreg., January 1, 1933, and since have been continuously so employed as assistant vice president, vice president, and at this time as first vice president. Also serves as director of the United States National Bank of Portland and of the United States National Corp.

Outside banking activities: Member, Association of Reserve City Bankers since 1938, and serves on the Association's committee on Federal relationships, and as a trustee of the Banking Research Fund. Member, Oregon Bankers Association committee on legislation and taxation, and previously served on various other of the association's standing committees.

Present outside activities: Member of National Committee on Boys and Girls Club Work, Inc. President, Portland 4-H Club Advisory Council. Director, Oregon Tuberculosis and Health Association. Member, Governor's Committee on Small Business. Overseer, Whitman College.

Public appearances: Occasional lecturer on financial subjects, such as participating in the annual Pacific Northwest Bankers Conferences at Washington State College; recent speaker at Western Regional Trust Conference in San Francisco, etc.

Previous public services: Served two mayors of the city of Portland on committees having to do with municipal finance. President and member of board of trustees of Reed College. Member of Multnomah County Selective Service Board No. 5. Member of Merit System Council, Oregon State Welfare Commission. Fiscal assistant in the Office of the Secretary of the Treasury (1942). President and treasurer, Harvard Club of Oregon. Trustee, Portland Art Association. Trustee, Multnomah Amateur Atheltic Club. President, treasurer, and director, Portland-Multnomah County Community Chest. Director, Port-

land-Multnomah County Chapter, American Red Cross. Director, Portland Chamber of Commerce. Member, board of hospital trustees, Good Samaritan Hospital. Director and treasurer, the Visiting Nurse Association. Director and treasurer, Portland Open Air Sanitarium.

Society memberships: American Economic Association, Oregon Finance Officers Association, and American Academy of Political Science.

Senator ROBERTSON. Are there any further questions?

Senator MAYBANK. I would like to ask Mr. Mills a question. There are one or two States in the United States that have no branch of the Federal Reserve Bank. When the bank was first set up, and it has always worked in the interest of the public, as you have said, if a State should show why a branch bank should be set up there, although they have not been setting up any branch banks I think in the last 20 years, would you view it on its merits, and not because something has not been done to give them an opportunity, or how would you feel about that?

Mr. MILLS. Oh, most certainly. My observations, and they have been at a distance, of the reasoning that the Board of Governors has followed in establishing or retiring branches has been in the interest of the financial needs of the public, where they are required, and where their need is proven to their satisfaction the facilities I am sure would be provided.

Senator MAYBANK. I would not want to make any statement about it that would be binding, but it has been called to my attention as chairman of this committee that there are places, communities, and States that have increased greatly in population and business, and it has been a drawback to them not to have a branch within the State, because all the money has to leave the State, as you know how the law works That is why I asked.

Senator ROBERTSON. Are there any further questions?

We thank you.

The subcommittee would now be pleased to hear from Mr. Robertson along the same lines as the questions asked of Mr. Mills.

STATEMENT OF JAMES L. ROBERTSON

Mr. ROBERTSON. Mr. Chairman, and members of the committee, I was born and reared in Broken Bow, Nebr., and educated in the public schools there. I attended Grinnell College, George Washington University, and Harvard.

I began working for the Federal Government in 1927. With the exception of 6 months I have been in the employ of the Government ever since.

At the present time I am First Deputy Comptroller of the Currency.

Senator MAYBANK. Mr. Chairman, I make the same request, that the biographical sketch submitted by Mr. Robertson be included in the record.

Senator ROBERTSON. Without objection, that will be done.

(The biographical sketch referred to follows:)

James Louis Robertson, a career employee with 24 years service with the Federal Government, was born and reared in Broken Bow, Nebr. His birth date was October 31, 1907. After attending Grinnell College, he studied at George Washington University, from which he received both A. B. and LL. B. degrees. He then did graduate work at the Harvard Law School, from which he received his LL. M. in 1932. He entered the Government service in 1927 as a clerk in the United States Senate post office. Later he was a special agent of the

Federal Bureau of Investigation. In 1933 he became assistant counsel to the Comptroller of the Currency, and in 1942 was made assistant chief counsel. He served as a lieutenant (j. g.) in the United States Naval Reserve in 1943–44. Thereafter he was appointed Third Deputy Comptroller of the Currency, and in 1949 he was designated First Deputy Comptroller. He was admitted to the Bar of the Court of Appeals for the District of Columbia in 1931, and to the Supreme Court of the United States in 1935. Mr. Robertson is married and has three sons.

Senator ROBERTSON. How long have you been in the Office of the Comptroller of Currency?

Mr. ROBERTSON. Since 1933, continuously, except for Navy service in 1943–44.

Senator ROBERTSON. Are there any questions?

Senator DOUGLAS. Yes, I would like to ask Mr. Robertson some questions.

First, may I begin by saying that from everything that I know you have had an extremely honorable and distinguished record as Deputy Comptroller of the Currency.

Mr. ROBERTSON. Thank you very much.

Senator DOUGLAS. I think you are extremely efficient and from everything I can learn that you are a man of high integrity, and have been a splendid public servant. Any questions that I may now ask should not be regarded in the slightest degree as any reflection upon your character. I want to make that clear for the record.

You have now been in the Office of the Secretary of the Treasury for almost 19 years.

Mr. ROBERTSON. I think I should correct that, Senator, just slightly to say that I have been in the employ of the Comptroller of the Currency——

Senator DOUGLAS. That is in the Department of the Treasury, is it not?

Mr. ROBERTSON. That is right, sir, and technically it is certainly a bureau of the Treasury, but for all intents and purposes, it is operated completely separately.

Senator DOUGLAS. But it is in the Department of the Treasury.

Mr. ROBERTSON. Yes, sir.

Senator DOUGLAS. You have conducted a large number of bank examinations?

Mr. ROBERTSON. I have been in charge of national bank examinations for years.

Senator DOUGLAS. Therefore you know the procedure both of investment banking, and of commercial banking very thoroughly.

Mr. ROBERTSON. Of investment banking, within the commercial banking field.

Senator DOUGLAS. Yes.

Mr. ROBERTSON. I do not want to pose as an expert.

Senator DOUGLAS. When the Federal Reserve Board buys bonds in the open market, what happens?

Mr. ROBERTSON. It creates additional reserves.

Senator DOUGLAS. Creates reserves which are credited to member banks, does it not?

Mr. ROBERTSON. That is right, sir.

Senator DOUGLAS. And this in turn makes it possible for member banks to expand private loans.

Mr. ROBERTSON. Very definitely.

Senator DOUGLAS. In the ratio of approximately 6 to 1.

Mr. ROBERTSON. That is right, sir.

Senator DOUGLAS. So that the purchase of bonds by the Federal Reserve System makes it possible for the private banking system to expand credit in the ratio of approximately six times these bond purchases.

Mr. ROBERTSON. There is no doubt about that.

Senator DOUGLAS. The banks are naturally anxious to earn on their assets, are they not?

Mr. RONERTSON. Certainly.

Senator DOUGLAS. An increase in the reserves of the banks is therefore, in the Federal Reserve System, likely to be accompanied by an increase in the loans which they make to private business; is that not true?

Mr. ROBERTSON. It forms the basis for an increase.

Senator DOUGLAS. And the practice of commercial banking is one in which the banks make the loan in the form of credit, against which the borrower draws?

Mr. ROBERTSON. That is right.

Senator DOUGLAS. That is, the loan comes first, and it creates the deposit.

Mr. ROBERTSON. That is right.

Senator DOUGLAS. So that purchase of these bonds by the Federal Reserve System tends to increase the amount of credit issued or granted by private banks.

Now, then, what effect does that have upon the price level—the increase in credit by private banks—what effect does that have on the general price level?

Mr. ROBERTSON. Well, it is bound to have an inflationary tendency, as long as they are increased.

Senator DOUGLAS. That is right.

Now, therefore, the purchase of bonds by the Federal Reserve System increasing the reserves of the member banks has an inflationary effect upon the general price level.

Mr. ROBERTSON. Oh, yes; I think that is true. That is not the only way in which the excess reserves——

Senator DOUGLAS. And also because by an unbalanced governmental budget; but I have been referring to the private credit sector of the field. Now what effect will inflation have upon the recipients of fixed incomes?

Mr. ROBERTSON. In my opinion, inflation is probably as hazardous to this country as war. It is one of the major hazards we face.

Senator DOUGLAS. How about the holders of bonds and mortgages whose incomes are in terms of fixed money sums?

Mr. ROBERTSON. Any person who is on a fixed income is definitely injured by inflation.

Senator DOUGLAS. What about salaried workers?

Mr. ROBERTSON. I include those in fixed income. As to wage earners, of course their wages go up. Prices go up on one hand, and wages on the other. It is the middle group that is injured.

Senator DOUGLAS. Salaried workers will lose because their salaries will not rise as rapidly as the cost of living; is that not true?

Mr. ROBERTSON. Usually they go up after the cost of living goes up.

Senator DOUGLAS. And not to the full degree of the cost of living.

Mr. ROBERTSON. That is right.

Senator DOUGLAS. How about old people on annuities?

Mr. ROBERTSON. They are in the fixed-income class.

Senator DOUGLAS. And how about the unorganized workers?

Mr. ROBERTSON. Unless their wages go up, they are in much the same position.

Senator DOUGLAS. In the recent inflation, the earnings of unorganized workers have not increased as rapidly as the cost of living.

Mr. ROBERTSON. That is my understanding.

Senator DOUGLAS. And even the organized workers, though their wage rates may go up, they go up after a lag, so that they suffer an intervening loss.

Mr. ROBERTSON. Very definitely.

Senator DOUGLAS. And the only people who can profit are the speculators, is that not true, those who purchase stocks instead of bonds, and thus intercept earnings which, if prices were stable, would otherwise go to the bondholders; is that not true?

Mr. ROBERTSON. That is right, speculators are in the group that benefits.

Senator DOUGLAS. And the speculators also purchase commodities, and therefore make gains at the expense of the fixed income groups.

Mr. ROBERTSON. That is true.

Senator DOUGLAS. So that you have a redistribution of income within the community favoring speculators at the expense of investors and those receiving income which is more or less fixed.

Mr. ROBERTSON. That is one of the results of inflation.

Senator DOUGLAS. Therefore if the Federal Reserve Board purchases large quantities of Government bonds, it has an inflationary effect.

Mr. ROBERTSON. A potentially inflationary effect.

Senator DOUGLAS. Is it not true if you increase the reserves of the banks, the banks will increase their loans, and the expansion of loans will cause prices to rise?

Mr. ROBERTSON. Yes, Senator; they can then increase loans, but you must add that is not the only way in which they can get their excess reserves.

Senator DOUGLAS. I understand that.

Now, are you acquainted with the policy of the Treasury during these last few years?

Mr. ROBERTSON. Only superficially.

Senator DOUGLAS. What do you understand the policy of the Treasury to have been as regards the purchases by the Federal Reserve System of Government bonds?

Mr. ROBERTSON. To the extent that I glean it from the newspapers, and the newspapers only, Senator, I take it the policy has been to peg the market for Government bonds.

Senator DOUGLAS. And the policy has been to insist that the Federal Reserve System buy appreciable quantities of Government bonds in order to do so, was it not?

Mr. ROBERTSON. I cannot say that the Treasury has insisted that the Federal Reserve buy appreciable quantities of Government bonds.

Senator DOUGLAS. You work for the Treasury and do not know what the Treasury policy has been.

Senator ROBERTSON. Senator, if you do not give the witness a chance to answer the questions, I cannot follow him.

Mr. ROBERTSON. Let me state, Mr. Chairman, and Senator Douglas, that although I have been in the Treasury I have no more part to play in Treasury policy with respect to public debt management than any man in the street. I have never participated in their conferences, I do not work with Treasury people as such, I work with people in the Office of the Comptroller of the Currency. Consequently I cannot sit here and pose as anyone who would know about Treasury policy in this field, as a result of being a Treasury employee.

Senator DOUGLAS. You are an intelligent and extremely honorable man. Do you mean to say you do not know what the Treasury policy has been in this matter?

Mr. ROBERTSON. I mean to state that I know Treasury policy only as a man in the street, and not from any inside knowledge.

Senator DOUGLAS. Not as an expert.

Mr. ROBERTSON. My expertness, if I have any at all, is in the field of bank supervision, and not in the field of public debt management.

Senator DOUGLAS. Well, you have dealt with banks and you have talked with bankers.

Mr. ROBERTSON. Oh, yes, I have.

Senator DOUGLAS. Well, what do you think the Treasury policy has been as respect the purchase of bonds by the Federal Reserve System?

Mr. ROBERTSON. I think the Treasury policy has been, Senator, that the bonds should be pegged by the Federal Reserve. Now, your question before, Senator, was whether or not the Treasury had insisted—and I cannot state that the Treasury has insisted, because I do not know.

Senator DOUGLAS. Did you read the testimony of Secretary Snyder before the subcommittee, of which I was chairman, on that point?

Mr. ROBERTSON. If so, it has been years ago, and I have no recollection of it. I have no recollection of it whatsoever.

Senator DOUGLAS. Do you know what Secretary Snyder's policy has been in this matter?

Mr. ROBERTSON. I know from the papers, Senator, yes, sir.

Senator DOUGLAS. Well, what do you understand from the papers to have been his policy?

Mr. ROBERTSON. My understanding of the policy is that the Secretary of the Treasury believes that the market for Government bonds should be pegged. Now, whether or not——

Senator DOUGLAS. Now——

Mr. ROBERTSON. Let me answer the question. I do not know whether that is his policy or not. That is my understanding.

Senator DOUGLAS. What would be the effect of the Federal Reserve System pegging the price of Government bonds? Would not that require appreciable purchases of Government bonds in order to do so?

Mr. ROBERTSON. Very definitely so, and that in itself would result in inflationary pressures.

Senator DOUGLAS. That is right; and is it not true that the Federal Reserve System, according to Mr. Eccles' testimony which is clear on this point, that Treasury pressure forced the Federal Reserve System

to buy large quantities of Government bonds from 1945 on until 1950, and that thereafter, from the fall of 1950 until approximately March of 1951 the Federal Reserve System bought approximately $3 billion more of additional bonds?

Mr. ROBERTSON. That is probably true.

Senator DOUGLAS. And the effect of this was inflationary.

Mr. ROBERTSON. Oh, I think there is little doubt about that.

Senator DOUGLAS. Now, is it not also true that the Treasury has declared that this is its continuing policy, and that the administration has declared that it is its continuing policy? Did not the President of the United States, in a press conference recently held, say that he still believed that the price of Government bonds should be pegged?

Mr. ROBERTSON. I think the newspapers quoted him to this effect.

Senator DOUGLAS. Were those reports denied?

Mr. ROBERTSON. I have not the slightest notion. I have seen nothing to that effect.

Senator DOUGLAS. That they have not denied.

Mr. ROBERTSON. That is right.

Senator DOUGLAS. Therefore you presume that they are true.

Mr. ROBERTSON. No, I do not form decisions on this basis, Senator. I am stating what I read in the newspapers about it, and that is all I know.

Senator DOUGLAS. What is your own feeling as to the policy that should be followed?

Mr. ROBERTSON. My own feeling of the policy that should be followed is this: I think the responsibility for managing the public debt rests in the Treasury, and the Treasury alone. I think the functions of the Federal Reserve system are to contribute toward economic stability through the control of money and credit—the amount of it, the availability of it, the cost of it.

I think that the control of the volume of money and credit has a great deal to do with inflationary pressures. I do not think it has everything to do with it. I think the velocity of the turn-over of that money is very important.

Senator DOUGLAS. May I say this: Of course, you realize as prices start to rise, velocity increases also, because each dollar is worth less with the passage of time, so that this is a cumulative and not a compensatory effect.

Mr. ROBERTSON. I certainly do. I think the functions of the Treasury and the functions of the Federal Reserve should be carried out by those agencies in accordance with their best judgment, and I do not think that either should be dominated by the other.

I think, however, that each agency must formulate its own decisions, and carry out its actions in accordance with its own best judgment, but in the light of a very deep and sympathetic understanding of the problems faced by the other agency. I do not think either agency should dominate the other.

Senator DOUGLAS. Mr. Robertson, did you follow the discussion between the Federal Reserve System and the Secretary of the Treasury last February?

Mr. ROBERTSON. No, I did not.

Senator DOUGLAS. In January and February. You did not follow that at all?

Mr. ROBERTSON. Not except as you can read in the newspapers. I make that a definite point.

Senator DOUGLAS. Did you read Mr. Eccles' book on this matter?

Mr. ROBERTSON. I have skimmed Mr. Eccles' book. I have not read it thoroughly.

Senator DOUGLAS. Is it not a fact that the Treasury and the Federal Reserve System pegged the price of Government bonds by continuing large purchases, and the Federal Reserve System finally balked at this?

Mr. ROBERTSON. That I do not know.

Senator DOUGLAS. Do you believe that to be true?

Mr. ROBERTSON. I do not know.

Senator DOUGLAS. What do you believe?

Mr. ROBERTSON. I believe that the market was pegged, and whether that came from a dominating influence on the part of the Treasury, or willingness on the part of the Federal Reserve, I am not in a position to state.

Senator DOUGLAS. Well, do you know about the White House conference where the parties were summoned over, both Federal Reserve officials and Treasury officials, and that at the end of that conference, to the surprise of the Federal Reserve System, a statement was issued that the Federal Reserve System had agreed to peg bonds, and that the Federal Reserve System later released a statement that this had not been agreed to by the Federal Reserve System?

Mr. ROBERTSON. I remember very well when that meeting was held.

Senator DOUGLAS. Do you remember what the Chairman of the Federal Reserve Board did, when he protested the statement that was issued?

Mr. ROBERTSON. I have a general recollection of that series of statements.

Senator DOUGLAS. Now, suppose the Secretary of the Treasury says that in order to maintain the price of Government bonds, and to keep the interest rate down, the Federal Reserve Board should buy Government bonds. What should the Federal Reserve Board do under those conditions, when to do so will produce great inflation?

Mr. ROBERTSON. I would say the Federal Reserve Board should very carefully consider the views of the Secretary of the Treasury, who has a very great responsibility in financing the debt of this Government, and the needed money for the purpose of carrying on the Government.

I do not think that the Federal Reserve Board should consider anything said by the Secretary of the Treasury as being an order.

Senator DOUGLAS. No; but you would make it persuasive, would you, though not controlling?

Mr. ROBERTSON. Something which should be very carefully considered.

Senator DOUGLAS. And given great weight in the decisions which you make.

Mr. ROBERTSON. Oh, I would certainly give it great weight.

Senator DOUGLAS. Which do you regard as more important, to obtain a stable interest rate on Government bonds even though it entails raising prices, or to maintain stable prices even though it may entail a rising interest rate?

Mr. ROBERTSON. Senator, I do not think of myself as one qualified to make an expert opinion——

Senator DOUGLAS. But you are going to be called upon——

Mr. ROBERTSON. And I will attempt to prepare myself to make that decision. But it requires more study than I have been able to give it, Senator.

I would say just this: that it is extremely important that we curb inflation in this country, and that is one of the most important things I think we have to do. That is one of the reasons I am willing to accept this appointment to the Federal Reserve Board, in order to make a contribution to that end.

Senator DOUGLAS. In order to do that, you have to restrict the amount of private credit, and you cannot restrict the amount of private credit if the Federal Reserve Board is buying appreciable quantities of Government bonds.

Mr. ROBERTSON. It may be true——

Senator DOUGLAS. Well, is it not true?

Mr. ROBERTSON. I say it may be true.

Senator DOUGLAS. Well, is it not true?

Mr. ROBERTSON. Let me make a statement first, Senator. There are other ways of controlling credit which may be employed. I do not know the best way of controlling credit at this time. I realize that it must be done, and if that would necessitate a decision——

Senator DOUGLAS. What other way could be used besides limiting the amount of bonds purchased?

Mr. ROBERTSON. There are possible ways, Senator——

Senator DOUGLAS. Such as——

Mr. ROBERTSON. A voluntary credit control program, or selective credit controls.

Senator DOUGLAS. Do you prefer selective credit controls to general credit controls?

Mr. ROBERTSON. I do not. I say there are ways of controlling it, one of which is selective credit controls. There could be, in my opinion, controls over the amount of credit which banks may extend, without regard to reserve requirements. That might require legislation. How it is best done, I do not know, but there are two things that have to be done: One, you have to maintain confidence——

Senator DOUGLAS. In what?

Mr. ROBERTSON. In the United States Government, and its money. Secondly——

Senator DOUGLAS. Do you think the price of bonds could fall to 80 or 82 if the Federal Reserve System did not support the price?

Mr. ROBERTSON. I do not consider myself well enough informed to answer that.

Senator DOUGLAS. Do you know about the nature of series D, E, and F bonds?

Mr. ROBERTSON. Only in a very general way.

Senator DOUGLAS. You do not know what series D and E bonds are?

Mr. ROBERTSON. In a very general way, I say, Senator.

Senator DOUGLAS. What are they?

Mr. ROBERTSON. Well, E bonds are the savings bonds which are held by a great many people throughout the country. The redeemable value is fixed, so they cannot fluctuate.

Senator DOUGLAS. Therefore, could they fall?

Mr. ROBERTSON. They could not.

Senator DOUGLAS. Has not there been a great misapprehension both by the Treasury and by other people in saying that the price of Government bonds could fall to 80 or 82, when, as a matter of fact, they are redeemable, and hence are very different from the bonds issued in the First World War?

Mr. ROBERTSON. Oh, there is a great difference in the situation now and in the First World War because of the existence of E bonds.

Senator DOUGLAS. And these are redeemable at par by the buyer, whereas the earlier bonds were not.

Mr. ROBERTSON. Oh, very definitely. The situation is very different.

Senator DOUGLAS. Has there not been confusion on the part of the Secretary of the Treasury and others on this point?

Mr. ROBERTSON. I do not say that, because I do not know what the Secretary thinks on the subject.

Senator DOUGLAS. There have been public statements that the purchase of these bonds was necessary in order to prevent bonds from falling to 80 or 82. Now, you say they are redeemable at par, and hence will not fall. I congratulate you, that is correct.

Mr. ROBERTSON. It is correct as to the savings bonds, Senator, but we must not apply that to all bonds. With respect to other bonds, the prices of which do fluctuate, I do not know where they would fall to, or how important it would be if they did fall.

Senator DOUGLAS. Well, here is what we are afraid of, to put it briefly. Let us get everything on the table.

Mr. ROBERTSON. Very well.

Senator DOUGLAS. The Treasury has been trying to force the Federal Reserve Board to buy, through its open-market committee, unlimited quantities of bonds in order to maintain the price at a low interest rate. The effect of that has been to expand bank reserves, in turn to expand bank credit, which in turn leads to inflation.

The Federal Reserve Board finally got up its courage and asserted its independence some time in March. An agreement was entered into, under which it was not bound to buy unlimited quantities of bonds. It has not done so, and I want to congratulate the Chairman, Mr. Martin, for the intestinal fortitude which he has displayed—this far.

But we have a very clear intimation that the policy of the Treasury and the Executive has not in fact changed. It is still believed by them that the Federal Reserve Board should purchase quantities of bonds to maintain the price, and so on. That has been stated publicly. The dispute is obviously not over. Now, this is very frankly what we are afraid of. We are afraid that the Treasury may, by appointments to the Board, undermine the independence of the Board and reverse its policy.

I therefore find myself in a very embarrassing position in dealing with you, just as I found myself in an embarrassing position dealing with Mr. Martin. I did not vote for Mr. Martin's appointment and I did not vote against it. I was not certain whether he was unwittingly and unwillingly going to be compelled to play the part of a Trojan horse or not. I was afraid that the Treasury was getting a man on the Federal Reserve Board who would follow out Treasury

policy, and that after some months we would find the Federal Reserve policy would be reversed.

I want to say that thus far his conduct has been exemplary. He has displayed a degree of persuasiveness and resoluteness which is very admirable. I hope he contiunes in the path of virtue, and I will be praying for it.

Now, a second appointment comes up from the Treasury, a highly skilled, highly honorable man in the Treasury, just as Mr. Martin was a highly skilled and highly honorable man, but it is very hard for anyone to disabuse himself of the philosophy and friendships which he has made over a long period of time. I do not question your integrity, your ability, or your sense of public devotion in the slightest. I want to make that clear, but I view with some suspicion, in view of the historic record, the coming of another man out of the Treasury on to the Federal Reserve Board, because I am afraid, desperately afraid, that it means the ultimate adoption of the Treasury policy on these bond purchases, and the sweeping of inflation over this country. We are already in bad enough condition with the governmental budget that will be unbalanced $9 billion this year, which will force the Government to go to the banks to borrow, with a consequent inflation of credit, and we will have a prospective deficit of $14 billion next year. If you have public credit expanding, or require the banks to expand credit to finance the deficit, and at the same time have the Federal Reserve make large bond purchases, then even though the Federal Reserve Board were filled with angels, the effects would be no less catastrophic.

Mr. ROBERTSON. Senator, may I make a remark? I appreciate the point of view from which you speak, and I feel I should state that the Secretary of the Treasury has never asked me what my views were on the so-called Treasury-Federal Reserve dispute.

Senator DOUGLAS. Mr. Robertson, do you know what your views are?

Mr. ROBERTSON. No official of the Treasury Department has ever discussed with me the question of the pegging of Government bonds, for example, or what the policy of the Federal Reserve System should be, or what the policy of the Treasury should be, if I may exclude from "Treasury" the Office of the Comptroller of the Currency, itself.

Thirdly, Mr. Martin has never discussed with me the position which I might take if I were called upon to make a decision on those matters. I, myself, do not know what decision that would be, because I have not been studying this question as one who is in the Federal Reserve System, or in the Treasury, on the other side.

Fourth, let me say——

Senator DOUGLAS. Now, please do not disavow your connection with the Treasury.

Mr. ROBERTSON. Let me make my statement, please.

Senator DOUGLAS. All right.

Mr. ROBERTSON. Fourth, and I think it is to his everlasting credit, when I discussed with the President of the United States this appointment, he did not so much as inquire concerning my politics, he did not inquire concerning any views I hold, he stated the appointment was being made solely on merit, that he would never tell me how I should act on any given problem, and that he would merely expect me

to perform my duties in accordance with my best judgment, and to the best of my ability, which I think is to his real credit.

I would not enter on this job, if I am confirmed by the Senate, with any preconceived notion of what decision I would make in any given situation, because before I made that decision, I would expect to study the whole problem much more carefully than I have been able to study it in the past.

I would not consider myself subject, in any way, to the domination of Mr. Martin, any member of the Board of Governors, the Secretary of the Treasury, or the President of the United States. I consider that I am taking this job as a free agent, and if that is not the basis upon which it is to be, I do not want the job. I will do my duty as I see it, and to the best of my judgment.

Senator DOUGLAS. When I first entered politics, Mr. Robertson, I thought in my naïveté, that political leaders would ask for commitments in advance, and that definite agreements would be entered into binding upon both parties. One learns as one goes along that life is much more subtle than that. Almost nobody asks for commitments in advance, but they try to get men who have a favorable opinions to them. The process is much more subtle than you seem to imply.

I know you are an honorable man, but I cannot make out what you feel about this question, and I have the suspicion that possibly you may have been appointed not merely because of your integrity and your ability, both of which are real, but also because of the belief that having been 19 years over in the Treasury that you had imbibed through that process a point of view favorable to the Treasury, and that without any commitments being required of you, or even suggested to you. That you were coming over with the possible feeling that at last the policy of the Treasury was to be vindicated, and that the Federal Reserve should buy the Government bonds.

Mr. ROBERTSON. Senator, I think your question on that should go to the Chairman of the Federal Reserve Board, and not to me.

Senator ROBERTSON. If the distinguished Senator from Illinois will yield to the chairman for an observation, he may be able to either remove the pain of that suspicion, or at least to modify it.

The chairman of this subcommittee is prepared to say that the Secretary of the Treasury had nothing whatever to do with suggesting the appointment of these two men. He told me that he was reluctant to give up Mr. Robertson because of his substantial services in the Comptroller's office, and that Mr. Delano had leaned heavily on him, and regretted to lose him, but that neither he nor Mr. Delano would stand in the way of what appeared to be a promotion for Mr. Robertson.

The same thing applies to Mr. Mills. Neither Mr. Robertson nor Mr. Mills was proposed by the Treasury Department, and any rumor or suspicion that they have been nominated for this position to carry out what has previously undoubtedly been the policy of the Treasury Department to keep down the cost of servicing the national debt through open market operations of the Federal Reserve Board is absolutely without any foundation.

I am glad to hear our distinguished colleague from Illinois say that while, so to speak, he opposed Governor Martin because he came from the Treasury——

Senator DOUGLAS. Let the record be clear, I did not oppose it, I did not vote for him. I suspended judgment.

Senator ROBERTSON. I am glad to hear you say he has shown intestinal fortitude.

Senator DOUGLAS. That is correct—thus far.

Senator ROBERTSON. So far?

Senator DOUGLAS. So far, that is correct.

Senator ROBERTSON. I think, he will understand that you have your eye on him at all times.

Senator DOUGLAS. He is doing all right, but the reinforcements, I am afraid, are coming in.

Senator ROBERTSON. Well, the chairman of the subcommittee does not share that feeling. He has known Mr. Robertson, and he thinks he has a pretty good name even if he did not come from Virginia, and is not related to my branch of the family by the same name. I have known him and observed his operations for a number of years, and when the Chairman of the Federal Reserve Board told the chairman of this subcommittee that he would like very much to get as one of his assistants a man so well-versed in banking matters, so young, so vigorous, so intellectually honest, I told him that I fully concurred in that viewpoint.

I have not had the privilege of personally knowing Mr. Mills, but everything I have heard about him has been entirely in his favor, and I have seen somewhere in the press, an intimation—they did not give the source of it—that this was a plan on the part of the Federal Reserve Board to support the market when, as we now fear, the Treasury has got to engage in deficit financing between now and June 30 of some $5 billion, and in the Treasury's opinion, 14 or 14½ billion dollars the next fiscal year, but I am glad the distinguished Senator from Illinois has promised to give the Federal Reserve Board substantial help in handling that problem by cutting that budget $7 billion.

Senator DOUGLAS. I hope we can cut it. I welcome the help of the distinguished Senator from Virginia.

Senator ROBERTSON. The Senator from Virginia is just as anxious to cut it. He would like to see it balanced, but I do not think we can balance it. I do not think we are going to have substantial tax increases, and therefore we have got to cut it.

The Senator from Virginia put a little piece in the record the other day. It came out in the record yesterday, suggesting specific cuts of $6 billion, and in the opinion of the author of that statement, that is a feasible program, 1 billion off domestic, 2 billion off foreign rehabilitation, and 3 billion off the military program. That is $6 billion, and the Senator from Virginia will watch with great interest the program suggested by his distinguished colleague.

Now, as to the question of inflation, the chairman of this subcommittee does not agree with the theory of the University of Chicago that the increase in reserves is a barometer of inflation. The chairman of this subcommittee notes in the chart furnished by the Federal Reserve Board how enormously bank deposits have increased. That is not reserves from Government bonds, that is bank deposits, and the bank deposits can furnish a basis for credit, as well as a Government bond.

He also has noticed charts of the Federal Reserve Board showing that while theoretically a dollar of reserve is a foundation for a $6 increase in credit, the velocity of circulation has not kept pace with over-all increase of money in circulation, and the $6 increase is geared to the maximum volume of circulation, and it does not become effective to that extent, when the volume of circulation is very much below its potential height.

Senator MAYBANK. I note a large volume of circulation goes into productive capacity of this country, and that increased production tends to keep down inflation in some circumstances.

Senator ROBERTSON. Well, it is not as inflationary as the credit that goes into the production of other types of goods, but the chairman of this subcommittee feels that all transfer of production from butter to guns is in itself inflationary, all military spending is to some extent inflationary, because what would otherwise go to meeting civilian demands goes into something that is to be consumed on the battlefield. The million men we took out of civilian production in the past year have to be supported in all of their needs by those still producing consumer goods, and consequently the military spending, in itself, is bound to be inflationary, but we have certain check dams that we erect, and I think the Federal Reserve Board has done a fine job in restricting credit to nonessential activities, and I wish to commend the commercial banks of this country for their voluntary credit restraint program.

I think they have done a fine job, but all of those subsidiary activities, and check dams, so to speak, will be ineffectual if we just go blindly ahead knowing that we face a deficit of $5 billion this year, and appropriate $85,400,000,000 next year against a maximum anticipated revenue of $70,900,000,000. We may not even get $70 billion, because the business expansion that is contemplated may not materialize, and we have over 1,000 unemployed in the metropolitan area. We have 160,000 skilled workers primarily unemployed in Michigan. There was a little piece in the paper the day before yesterday saying how in New England there was great unemployment, there was great unemployment in sections of Connecticut, but on the other hand in one city of Connecticut, loaded down with war contracts, they could not get enough workers. There have been dislocations. There will be 400,000 fewer new starts for homes this year than last year. We will not have enough steel for highways, for schools, for public buildings.

Mr. McDonald said he was not authorized right now to get more than about 30 percent of the structural steel he thought essential for our highway program.

I will yield to the chairman.

Senator MAYBANK. There is nothing I can add, except as the Secretary said we will run 5 billion in deficit this year, 14 billion next year.

Senator ROBERTSON. The chairman of this subcommittee personally feels that the President has done better than usual in these two appointments.

Senator DOUGLAS. We can have inflation in two ways: (*a*) by governmental deficits, which I think it is the duty of Congress to avoid so far as possible, but also we can have inflation through; (*b*) expansion of private credit. This expansion of private credit can come about,

as it has come about in the past, through the purchases of Government bonds by the Federal Reserve System, thus increasing bank reserves, thus making it possible for banks to make greater loans and create deposits against which private business draws checks, so that you increase the total ratio of credit to goods.

I do not think that can be laughed off, and I do not say anyone is trying to laugh it off, but it cannot be laughed off and dismissed. That is the fundamental factor of banking, and anybody who does not understand it certainly does not qualify either as a private banker or as a member of the Federal Reserve System.

I think the policy of the Treasury in this respect since 1946 has contributed largely to the inflation that has occurred. There is no evidence that the Treasury has since changed its policy. The Federal Reserve System was compliant up until February. It got its courage together in February and asserted its independence over great opposition from the Treasury. I think Mr. Eccles, and others, played a large part in this display of independence. Mr. Martin has done well, thus far, but I want to say this: that if Treasury policy comes to control the Federal Reserve Board, I think we are in for disaster, and that is why, Mr. Robertson, I have subjected you to this cross-examination, not to make things uncomfortable for you, because I do not want to do that, not to reflect upon your character, because I certainly do not want to do that, but because I view with suspicion the Greeks when they bear gifts. I remember my Homer, how the Greeks, unable to capture the city of Troy from outside, brought in a huge wooden horse which was taken inside the city, dragged inside the city by the Trojans, who admired it, and then from inside the horse came the Greek soldiers who took the city from within. I do not want to see that horse dragged inside the Federal Reserve Board, and then to have the representatives of the Treasury come out of the horse and take over the policy of the Board.

I invite you to read that passage in Homer's Iliad, and I invite the financial writers to read that passage too. It has very eloquent bearing upon modern life.

Senator ROBERTSON. The distinguished Senator from Illinois has a very distinguished precedent for his attitude. The great revolutionary patriot, Thomas Paine, said that credit is suspicion gone to sleep.

Senator DOUGLAS. The Senator from Virginia uses an incorrect historical allusion. Credit is necessary. Business operates on it. I am not trying to prevent the extension of private credit; I simply say that it is a function of the Government to prevent the total amount of credit, in relationship to the total quantities of goods, from increasing more rapidly than that quantity of goods, and that one of the basic principles of the Federal Reserve System is to seek to maintain a stable price level. Congress has dedicated the Reserve Board to that task.

Now, that is not the task, though I think it should be, of the Secretary of the Treasury, and I think the Secretary of the Treasury, with all due justice to him as a person, has been in this matter, short-sighted. He has concentrated his attention upon the amount of interest that the Government has to pay on Government bonds. He has been so interested in keeping that interest rate down, the purpose of which I join, but has been willing to have the price level go up as a consequence. The Government has lost much more through the in-

creased cost of materials, and pay increases, which we have had to grant, than it has saved in interest charges, and the people in the country have lost enormous amounts, in addition, and the policy has had an unsettling effect.

Now, the future of the country in part lies at stake within your breast, Mr. Robertson, and within the breast of Mr. Martin, and I am a little bit disconcerted that so intelligent a man as you, one of the most intelligent men in Government service, who has had practical experience in examining banks, who has sat at a vantage point where he has watched the whole banking process should deny any knowledge of what has been going on and should not have formed an opinion. I was similarly disconcerted when Mr. Martin said he had not formed any opinion, when I subjected him to a similar friendly, though searching, examination.

I am a little bit suspicious of intelligent men and deep students of banking, who when they come in before us plead ignorance, on such fundamental matters.

Senator ROBERTSON. Chairman Martin, do you wish to make a statement?

Mr. MARTIN. I would like to for this record, because I think the committee knows my feelings about Secretary Snyder, to make it clear that the initiative for Mr. Robertson's appointment did not come from Secretary Snyder, that I had to urge upon him the release of one of his best men in the Treasury to the Board, and I would like also for the record, Senator Douglas, to say that the first thing the Secretary said to me, in a series of conversations in which I urged him to release Mr. Robertson, for this service, was, "I will be accused of packing the Federal Reserve Board."

Senator DOUGLAS. I have not accused him of that. I want to make the record clear. I have simply said that men who have been exposed for a long period of time to the climate of opinion of the Treasury are now on the Federal Reserve Board. I am not accusing anybody of doing anything. I simply say that the ties of friendship are moving in here. I do not want to take chances with any Trojan horse.

Mr. MARTIN. I just want to make clear that the initiative in this matter came from me. The President was good enough to appoint Mr. Robertson, but Secretary Snyder recognized the danger of the Trojan horse, and I am glad that you think that so far we have handled things well. I am completely confident that with Mr. Robertson and Mr. Mills alongside of me, we can continue to face the problem objectively and impartially, and I would like to point out for the record that we have, since last April, decreased our holdings of Government bonds by roughly $375,000,000.

Senator DOUGLAS. The Senator from Illinois is aware of that. He reads the Federal Reserve statements.

Senator ROBERTSON. Are there any other questions?

If not, gentlemen, we thank you very much for appearing.

We will now have an executive session on the nominations.

(Whereupon, at 11:35 a. m., the hearing adjourned into executive session.)