NOMINATION OF ABBOT L. MILLS, JR.

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF ABBOT L. MILLS, JR., TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR A TERM OF 14 YEARS FROM FEBRUARY 1, 1958. (REAPPOINTMENT.)

FEBRUARY 7, 1958

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NOMINATION OF ABBOT L. MILLS, JR.

FRIDAY, FEBRUARY 7, 1958

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

The subcommittee met at 2:35 p. m., pursuant to call, in room 301, Senate Office Building, J. Allen Frear, Jr., chairman of the subcommittee, presiding.

Present: Senators Frear, Robertson, Douglas, and Proxmire.

Also present: Senator Neuberger.

Senator FREAR. The Subcommittee on the Federal Reserve will come to order.

As you know, this meeting is called for advice on the reappointment by the President of Mr. Abbot Low Mills, Jr., to be a member of the Board of Governors of the Federal Reserve System for a term of 14 years from February 1, 1958.

We will insert Mr. Mills' biographical sketch in the record at this point.

(The biographical sketch of Mr. Mills follows:)

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

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

Mother: Evelyn Scott Lewis.

Married: Katherine Ainsworth, August 4, 1924.

Children: Katherine Mills, Abbot L. Mills, Sarah Mills Harball, John Ainsworth Mills.

Education: Grammar school, Portland, Oreg.; Middlesex School, Concord, Mass.; Harvard University, bachelor of arts degree, class of 1921.

Military service: Commissioned second lieutenant, Infantry, 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.

Employed by the United States National Bank of Portland, Oreg., January 1, 1933, to February 1952, serving as assistant vice president, vice president, and first vice president. Also served as director of the United States National Bank of Portland and of the United States National Corp.

Present outside activities: Director, National Committee on Boys and Girls Club Work, Inc.

Member, committee to visit the department of economics, Harvard University.

Overseer, Whitman College.

Previous public service: Served two mayors of the city of Portland on committees having to do with municipal finance.

Member, Governor's Committee on Small Business.

President, Portland 4-H Club Advisory Council.

Director, Oregon Tuberculosis & Health Association.
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.
Member, board of hospital trustees, Good Samaritan Hospital.
Fiscal assistant in the office of the Secretary of the Treasury (1942).
President and treasurer, Harvard Club of Oregon.
Vice President, Harvard Alumni Association (1952–53).
Trustee, Portland Art Association.
Trustee, Multnomah Amateur Athletic Club.
President, treasurer, and director, Portland-Multnomah County Community Chest.
Director, Portland-Multnomah County, American Red Cross.
Director, Portland Chamber of Commerce.
Director and treasurer, the Visiting Nurse Association.
Director and treasurer, Portland Open Air Sanitarium.
Society memberships: American Academy of Political Science, American Economic Association, American Finance Association.
Took office as a member of the Board of Governors of the Federal Reserve System on February 18, 1952.
Member, Advisory Board on Economic Growth and Stability.

Senator FREAR. Mr. Mills, we are very happy to have you again before this subcommittee.

Mr. MILLS. Thank you, sir.

Senator FREAR. We also notice that we have present in the room the Chairman of the Board of Governors of the Federal Reserve System, Mr. Martin.

We are very happy to have you here, sir.

Mr. MARTIN. Thank you, sir.

Senator FREAR. We would like you to proceed in your own way, Mr. Mills, on behalf of yourself, as to the reasons why you think you should be reappointed, with any supplementing statement that the Chairman of the Board might wish to make.

STATEMENT OF ABBOT LOW MILLS, JR.

Mr. MILLS. Senator, if I may, the approach possibly would be to give the committee a very brief sketch of my business life.

I am an Oregonian by birth and have, except for rather brief absences, lived my entire life in the State of Oregon, Senator Neuberger's State and my State, until I had the honor to be nominated and was appointed a member of the Federal Reserve Board in February 1952 to complete the term of Mr. Marriner S. Eccles. I have now served the remaining 6 years of that term.

Prior to service on the Federal Reserve Board my entire business life for 30 or 31 years was in commercial banking. It was an experience and a period of life of which I am proud, as I have always considered banking a field of trust and a means of rendering a species of public service.

If you, as was true in my case, had had a long commercial banking experience, and were deeply interested in the principles and responsibilities of banking, you can readily imagine my pleasure at the opportunity of exchanging a private for a public life in the field of banking by membership on the Federal Reserve Board.

The experience has been a very rewarding one and one that has broadened my outlook on and understanding of both private and public banking. And, I am sure, has added to my capacity and I hope my competency to render public service in an effective way to the Government.

Senator FREAR. Thank you.

Mr. Martin?

STATEMENT OF WILLIAM McCHESNEY MARTIN, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. MARTIN. Mr. Chairman, I hope you do not think I am intruding in being here, but I wanted to come up and tell you that I have served with Governor Mills now for over 6 years and I have not the slightest hesitation in recommending him as a constructive, competent, and conscientious member of the Board of Governors, who calls his shots as he sees them. I am glad to say he does not always agree with me. That is the way it should be. And I have not had the slightest hesitation in hoping that you will see fit to reconfirm him to this position.

Senator ROBERTSON. Has he been satisfactory to you?

Mr. MARTIN. His services have been completely satisfactory to me, sir.

Senator ROBERTSON. And the reappointment is satisfactory to you?

Mr. MARTIN. Completely.

Senator ROBERTSON. Does he work in harmony with the other members of the Board?

Mr. MARTIN. He works in harmony with the other members of the Board. We have had differences from time to time, all of us, but none of them of a nature that would cause us to be disharmonious.

Senator ROBERTSON. Do you find that he is industrious?

Mr. MARTIN. He is industrious, competent, and constructive.

Senator FREAR. Thank you very much, Mr. Martin.

Senator Robertson?

Senator ROBERTSON. I have no further questions. I am satisfied. I have been watching him work. He has been doing a pretty good job.

Senator FREAR. That is an excellent recommendation.

Senator Proxmire?

Senator PROXMIRE. I have heard some excellent comments on your character, your fine reputation, and experience. I am deeply impressed, Governor Mills.

Mr. MILLS. Thank you.

Senator PROXMIRE. If the commiteee will indulge me, I would like to ask some questions about the policies that you and the Federal Reserve Board have followed.

Mr. MILLS. Certainly.

Senator PROXMIRE. I will be very quick and very brief.

I am deeply concerned about our monetary policy. I would like to ask you if you feel that a monetary policy, that is, adjusting interest rates, is a very effective way, a moderately effective way, or an ineffective way of restraining inflation or adjusting price increases.

STATEMENT OF ABBOT LOW MILLS, JR.—Resumed

Mr. MILLS. Senator, I believe that monetary credit policy is an effective way of helping to restrain inflation but must be used in conjunction with other public and private policies to bear the full fruit that is intended of it.

Senator PROXMIRE. In your knowledge of economic history, do you know of any time when it has been clearly effective in limiting price increases?

Let me put it this way, because I recognize that this is something that is fairly new and that we have not had and other countries have not had a policy of attempting to restrain prices by interest-rate policy.

I am wondering if you know of any era in which we have had a coincidence of raising interest rates which have restrained and retarded price increases.

Mr. MILLS. Senator, you put the question in the light of history and it is difficult to answer in line with history of, say, 25 to 30 years ago. In the extremely active period of the 1920's the most advantageous use of monetary policy in the United States was really only coming to be fully accepted.

That being the case, there is doubt in my mind that monetary policy in the 1920's and its effects would stand as a criterion for the use and the results of monetary policy as it has been conducted since 1951.

Senator PROXMIRE. All right. Fine. Let us take the period since 1951.

It is my understanding that between 1951 and 1956, by and large, interest rates increased somewhat and it is also my understanding that during this period prices increased also. In fact, I have seen a statement recently in the New York Times—and this was not attributed to the New York Times itself, but was contributed by a responsible writer writing in the New York Times—that this was the most rapid peacetime inflation that we have experienced.

Do you feel there were so many other factors that were at work pushing prices up that although monetary policy was a restraining factor it could not overcome these other forces?

Mr. MILLS. Monetary policy, Senator——

Senator PROXMIRE. Let me correct my position and say I recognize of course that we were not at peace in 1951 or 1952. Let me begin in 1953 through 1955, when we did have rising interest rates and rising price levels in an era of peace.

Mr. MILLS. Monetary policy in the period 1955 to the fall of 1957 was conducted in ways that sought to restrain the expansion of bank credit and the tributaries of bank credit, by controlling the entire flow of expenditures so as to prevent the impact of expenditures from pressing upward on the price structure and causing prices to rise.

Senator PROXMIRE. I am told—if I may interrupt at that point—for example, between 1955 and 1956, and I think those were the years, we had a rising interest rate, and the most likely way in which this could be to restrain inflation would be to act to inhibit businesses from borrowing money and expanding. During this period we had a perfectly enormous increase in business borrowing, which Secretary of the Treasury Humphrey has testified and agreed was principally responsible for inflation that was going on during this period. Is that correct?

Mr. MILLS. Yes, it is, Senator.

The economic history and the counsel that we get from the Federal Reserve Board's economists tell us that the problem that monetary policy undertook to cope with had its roots going back to the era of World War II and then on into the period of the Korean experience. And during both of those periods, as you will remember, the first and foremost public responsibility of the country, was to win the battles that we were compelled to fight. In doing so it was, of course, necessary for the Federal Government to borrow very heavily from the people of the United States.

At the same time that these borrowings were undertaken to finance the material and the means with which to engage in combat, it was equally necessary to restrict through price and wage regulations and controls access to the goods that in peacetime our people ordinarily would wish to enjoy.

The effect was that with employment and incomes running at very high levels, and the opportunities for spending limited, the American people very patriotically and very properly invested their surplus income in United States Government securities.

The result was that when the wars ended and the controls were lifted, the people who had previously acquired United States Government securities——

Senator PROXMIRE. What period is this now?

Mr. MILLS. That would be true of both periods, Senator, as you recall.

Senator PROXMIRE. 1946 and 1953.

Mr. MILLS. Yes; 1946 and 1953. And through the intervening period all of those securities were in, say, your hands and my hands and available to be immediately converted back into cash with which to acquire the things that we had been previously deprived of.

The result was that as all of these liquid assets became cash available for spending before the manufacturing capacity of the Nation could be expanded to produce a sufficient volume of goods to meet the demand that was asserted for them——

Senator PROXMIRE. Let me ask you: Do you discriminate between the degree of control in the Second World War and the degree of controls of the Korean war?

Mr. MILLS. I would not fundamentally.

Senator PROXMIRE. Were the controls of the Korean war far more limited and far less stringent?

Mr. MILLS. That is true.

As the period between 1946 and 1950 when the Korean episode started was not long enough to allow an increase in the supply of goods sufficient to meet a demand that was fed from the conversion of liquid assets, the tremendous flow of expenditures that resulted asserted itself in very rapidly rising prices.

Senator PROXMIRE. This analysis would indicate that we should have accountable for the price increase a heavy consumer demand rather than a heavy demand on the part of business for plant construction, which was, according to the Secretary of the Treasury, the principal force in our inflation in 1955 and 1957, am I right?

Mr. MILLS. I would agree with Secretary Humphrey regarding the inflationary influence of the demand for plant expansion. As economists analyzed the situation, the excess liquidity that was converted into expenditures and created a demand for a very wide range of goods and services very naturally encouraged our industrialists to expand their investment in plant, so that they could turn out the additional output that would meet that demand.

Senator PROXMIRE. All right. I agree with that. I think that is certainly a very wise analysis of the situation.

But I would simply like to point out that it appears that the restraining impact of monetary policy was extremely limited in view of the fact there was this enormous expansion, in view of the fact we did have this very great inflation compared to other peacetime periods of the same duration.

Now, in the light of all that it seems to me that the impact of hard money or high interest rates on school construction, on all municipal construction, roads, streets, and so forth, where borrowing has to be accomplished, on small business, on housing, on construction generally is quite severe. In other words, it would seem to me that the history of recent years indicates that if there is a restraining impact from high interest rates in the economy it is exactly in these areas of schools, municipalities, small business, housing, construction generally and not in the area of big-business plant construction, excluding plant expansion.

Is this a fair statement or not a fair statement?

Mr. MILLS. Yes, sir. I would believe that it is a logical statement. It has to be considered, possibly, in the light of alternatives.

The philosophy of the Federal Reserve System is the philosophy of the free-enterprise system that, in accordance with the powers that Congress has vested in the Federal Reserve System, as its agent, those powers should be used to regulate and control the overall volume of credit but without in any sense attempting to direct or dictate or allocate how the supply of credit should be used.

Senator PROXMIRE. But would you say that the Board of Governors should give full attention and careful weight to the impact of high interest rates on these sectors, such as the construction of schools, construction of other municipal buildings and so forth, small business and that kind of thing? Or do you think that the Board of Governors must pay attention primarily to the fundamental principle we should have a free economic system and this is one way to [illegible]?

Do you say the latter principle is [illegible] overwhelmingly important?

Mr. MILLS. [illegible] is the determining principle, which does not mean that the Federal Reserve Board does not concern itself [illegible] concerned with the distribution [illegible] has been [illegible] in many matters in [illegible] did not reach [illegible] and economically [illegible].

Senator PROXMIRE. You have been very generous and patient in [illegible]. But I [illegible] do not want to delay [illegible] but I would like to ask [illegible] often, if I [illegible] such as you are, that the increase in interest rates since 1953 or 1954 has cost the American taxpayer $1½ billion becaused of increased servicing costs of the national debt.

Mr. MILLS. Senator, I cannot give you——

Senator PROXMIRE. I do not expect a precise answer, of course. I mean, is it roughly in this general area?

Mr. MILLS. There is no question but that the rising cost of carrying the Federal debt has laid an additional burden on the American taxpayer. But, in a sense, it can be regarded as a price that the American taxpayer has shouldered as an alternative to being afflicted with the ravages of inflation and a constantly rising level of prices and a depreciating value of the dollar.

Senator PROXMIRE. All right. Fine. Do you feel that fiscal policy, that is, increasing taxes and decreasing spending, is likely to be quite a bit more effective than monetary policy for restraining inflation, or is it pretty difficult to compare the two?

Mr. MILLS. They are in my judgment quite different, but the answer is that when hearings such as this are being conducted, the questioning and the discussion very largely turns on the expression "Fiscal and monetary policy"; in other words, there is a community of interest between fiscal policy, meaning taxation and debt management, as directed by the Treasury, and monetary and credit policy as followed by the Federal Reserve System.

The two different types of policies must be conducted in a manner that makes them companions in serving the public interest.

Senator PROXMIRE. Of course, we have not been doing that, have we, for various reasons?

Let me ask: Do you feel that the Rural Electrification Administration is entitled to pay a 2-percent interest rate under all the present circumstances, or do you feel that all agencies of this kind should be required to pay the going interest rate that the Treasury has to pay?

Mr. MILLS. Senator, that——

Senator PROXMIRE. Do you feel that is outside your field?

Mr. MILLS. No. But it is a subject that I would not be competent to pass judgment on for the reason that I regard it as a decision which has to be reached within the Halls of Congress in deciding a balance between what might be decided to be social necessities and what, on the contrary, might be regarded as financial proprieties.

Senator PROXMIRE. I have one more question and that is that I have received letters from country bank people, that is, banks in very small towns in Wisconsin, who have pleaded that I ask about the policy of the Federal Reserve Board with regard to reserve requirements for country banks. Their feeling is that the present requirements are too high, in view of the needs of the small businesses and small towns and in view of the needs of farmers.

I have wondered if you had any views on this or any notion as to whether there is any prospect as to reducing requirements?

Senator FREAR. May I intercede on this question?

I certainly hope that Mr. Mills can answer the question, but I do think that the witness should reserve the right in any answer he might make, to preclude discussions which might tend to have economic reverberations in the stock market and other places.

Mr. MILLS. Thank you, Senator.

I will try to answer the question by indicating that changes made from time to time in the required portion of a bank's deposits that must be set aside in a cash reserve, achieve the identical purposes that are accomplished when the Federal Reserve System operates in the open market and supplies or withdraws reserves in that manner.

In other words, there is a choice of means for supplying or withdrawing reserves. As far as individual banks are concerned, there is little difference whether those reserves reach them in one way or the other, except that where reserves are supplied through the open market they do not touch the positions of individual banks immediately and heavily, but percolate and penetrate through the banking system in a more deliberate manner.

Senator PROXMIRE. Do I understand you correctly, then, that you indicate that it might disrupt the whole equilibrium between country banks and the larger banks if you too sharply and drastically reduce the reserve requirements below what they are now? Do you feel there is an equilibrium established now that if you cut them it would be upsetting and the best thing to do would be to attempt to adjust all reserve requirements in Washington? Is that a fair interpretation or not?

Mr. MILLS. That is an awfully difficult question to answer concisely.

Senator PROXMIRE. I am asking this as a layman. I have had some banking experience, but it was a long time ago and it was quite limited. I am sure, precisely, however, that I have been informed by people in Wisconsin that it is something like 6 percent for country banks. Is this about right? They would like to see this reduced to a lesser amount.

Mr. MILLS. It is 5 percent on their time deposits and 14 percent on their demand deposits.

Senator PROXMIRE. Five percent is the figure; yes.

Mr. MILLS. As we would look at it, and Senator Douglas as an economist, I believe, would view it, that what the Federal Reserve System has done in the last several months is to broaden the credit base through supplying additional reserves to the commercial banking system on which they could expand the total of their loans and investment.

The system's fundamental responsibility is to wield its influence in whatever ways will always assure an appropriate credit base and a supply of credit available to the banking system for the uses of the general public.

As a personal opinion, the statistical picture that I draw is that there is at the present time a credit base adequate to permit the commercial banking system to expand and increase its loans and investments; leeway, that is to say, to move in that direction.

Senator PROXMIRE. Thank you very much. I do appreciate once again your very competent testimony.

Mr. MILLS. Thank you, sir.

Senator FREAR. I want to say to the Senator from Wisconsin that I think he has asked very good questions.

Senator PROXMIRE. I think the Chairman.

Senator FREAR. Senator Douglas?

Senator DOUGLAS. I would like to yield to my colleague, Senator Neuberger, who comes from Mr. Mills' State, and I would like to allow Senator Neuberger to proceed.

Senator FREAR. Yes.

Does the Senator from Oregon wish to sit there or move to a more advantageous location?

Senator NEUBERGER. This is quite all right, Mr. Chairman.

Senator FREAR. As you know, Mr. Mills, Senator Neuberger is not a member of the subcommittee, but the courtesy of questioning is always extended to Members of the Senate when requested. A request was made by Senator Neuberger and as chairman of the subcommittee I was very happy to comply with it.

We are very glad to have Senator Neuberger here and hope that the questions and answers will supply us with the information we desire.

Mr. MILLS. Senator, I regard it as a courtesy and a compliment that Senator Neuberger would attend a hearing for a fellow Oregonian.

Senator DOUGLAS. There is one remark I want to make. We both must feel at home in the deluge of rain which we are now having here in Washington.

Senator NEUBERGER. Senator Douglas enjoyed the rain in Oregon when he was teaching at Reed College, where Mr. Mills was once president and member of the board of trustees.

Mr. MILLS. Yes, sir.

Senator NEUBERGER. I thank the chairman for the courtesy of permitting me to attend this hearing.

I assure you I will be very brief, because Senator Proxmire asked very capably a few of the questions in which I was interested.

I want to make clear that my specific interest in this matter, and the few questions I want to ask do not apply at all to Governor Mills' personal qualifications. Governor Mills is an esteemed citizen of my home city of Portland, Oreg. He is a man of integrity, honesty, with a very fine personal reputation. I want the record to make that very clear.

Mr. MILLS. Thank you, sir.

Senator NEUBERGER. I would also like to put in the record, if I may, a telegram that I addressed to Governor Mills last night asking his views on certain matters pertaining to credit and anti-inflationary trends, and the reply which he sent to me over his own signature on February 7.

If the chairman and members of the committee have no objection, I would like to ask that these be included in the hearing record. I will not impose on the time of the committee to read them at this time.

Senator FREAR. Without objection, they will be admitted as part of the record.

(The information referred to follows:)

WASHINGTON, D. C., *February 6, 1958.*

Mr. ABBOTT L. MILLS, Jr.,
Board of Governors, Federal Reserve System,
Washington, D. C.:

Have been asked my views, as Senator from Oregon, on your reappointment to Board of Federal Reserve System, which is now before Committee on Banking and Currency. Before making any comment, would appreciate knowing your personal views concerning effects and desirability of recent use by Federal Reserve of high interest and rediscount rate and reserve requirements.

As a person familiar with economy of Oregon, you will know effects which these devices, intended as anti-inflationary, have had in restricting housing construction and thus in violently contracting markets and employment of Oregon's basic lumber industry. Other consequences have included drastic increases in financing costs for essential public construction such as new schools, hospitals, and public works, as well as in the annual burden of Federal, State, and local debt service.

Would appreciate receiving as soon as possible your comments on recent experience as guide to future Federal fiscal policy, in view of importance of your position not only on Federal Reserve Board but also on Advisory Board on Economic Growth and Stability of President's Council of Economic Advisers.

Sincerely,

RICHARD L. NEUBERGER,
United States Senator.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, February 7, 1958.

Hon. RICHARD L. NEUBERGER,
United States Senate, Washington, D. C.

DEAR SENATOR NEUBERGER: This will acknowledge your telegram of February 6 requesting my personal views concerning the monetary and credit policies of the Federal Reserve System. It is the constant aim of the System to follow policies which, within their field of influence, will make the greatest contribution possible to national economic stability and growth.

The System's policies are formulated against its reading of the prevailing economic climate, which during 1955, 1956, and the greater part of 1957 was one of unusual economic activity that, in the judgment of the System's policymakers, threatened the economy with possible damage from inflation. As you will recall, the problem of inflation was the subject last summer of an exhaustive congressional inquiry. Inasmuch as the use of credit adds to the flow of total expenditures which, when on a rapidly rising trend, assert an upward and inflationary pressure on prices, it was therefore incumbent on the Federal Reserve System to use its influence to moderate the expansion of credit on a national scale. It should also be said that in carrying out its policies, the System is keenly aware of the essential need of adequate sources of credit to a growing economy, and its policies have always been directed to the end of providing a credit base in keeping with that objective.

As you know, the total of bank credit continued to grow during 1957, but at a less rapid rate than in 1955 and 1956. However, as during the greater part of 1957 an unusually heavy demand developed and converged on all types of credit, it followed that the pressure of that demand against the available supply of credit was reflected in its sharply higher cost, namely, a rise in interest rates. On the side of the supply of credit, its distribution, of course, rests with the various agencies by whom it is held and who allocate it in accordance with their best judgments and policies. In that process of distribution at a time of an unusually high demand, it was quite natural that lenders experienced some difficulty in expeditiously meeting all of the demands for credit that were pressed upon them.

In that latter connection, your telegram refers to the situation of the Oregon lumber industry, particularly as it is affected by conditions in the field of residential and commercial construction. From my observation and analysis, the funds on which the construction industry draws for its financing come very largely from savings and not from commercial bank-created credit. As you know, savings and loan associations, insurance companies, and mutual savings banks are the principal purveyors of real-estate-mortgage credit and rely for their loanable funds on the supply of savings which comes into their hands for investment. The year 1957 was noteworthy for a heavy demand for the use of savings funds with which not only to finance construction but also the expansion and modernization of the Nation's manufacturing plant. In the light of the competing demands for the use of savings, real-estate-mortgage funds were not as freely available in 1957 as in earlier years due to their application to the financing of the Nation's plant-investment needs and to such other economically desirable public projects as schools, highways, sewage-disposal systems, and hospitals.

Available statistics indicate that the demand for savings with which to finance plant expansion has passed its peak, and in the process savings funds are now becoming more readily available for real-estate-mortgage lending and for financing public programs. There are some indications that the volume of residential construction has stabilized and housing starts give some promise of rising. I should mention that the automatic shifting that occurs in the use of credit made available both through savings and from commercial banks is in line with the operation of a dynamic and flexible economy and in accordance with the spirit of our American free-enterprise system.

In relating the Federal Reserve System's position to the processes of credit adjustments, you will recall that in its reading of the economic climate the conclusion was reached last fall that restraint over the expansion of bank credit could be moderated. Accordingly, the System acted progressively to broaden the base for the expansion of bank credit and in addition, the discount rate at Federal Reserve banks was reduced from 3½ percent to 2¾ percent. Partially in response to the Federal Reserve System's policy, and partially in response to a subsiding demand for credit that has released funds for renewed uses, interest rates have fallen sharply and credit, in my opinion, has become readily available to all qualified claimants for its use. In that connection, the interest rate at which States and local authorities can borrow in the market has fallen substantially, thereby decreasing the financing cost of the vitally important projects that are financed from bond issues. At the same time, the number of such worthy projects to be financed has continued to increase and their financial needs are being cared for.

I hope that I have been able to portray to your satisfaction recent credit history.

In summary, I would like to repeat that it is the Federal Reserve System's constant objective to exert its efforts to see that credit shall always be available in quantities adequate to meet the Nation's needs, and in those ways that are most conducive to economic stability and growth.

I am sorry that I have not been able to reach you prsonally at your office but hope that I may have better luck at some early date.

Sincerely yours,

(Signed) A. L. MILLS, Jr.

Senator NEUBERGER. I thank the chairman very much.

There are 2 or 3 questions I would like to ask Governor Mills.

Senator FREAR. I do not know the contents of these documents that have been inserted in the record, but I assume there is nothing in the telegrams that would violate the secrecy or prerogatives of the Federal Reserve System.

Mr. MILLS. No, indeed, sir.

Senator FREAR. I assumed that would be the case.

Senator NEUBERGER. I thank the chairman and thank the Governor.

The reason I imposed on the time of the chairman and the subcommittee and Governor Mills to come here today is this: The State of Oregon is stricken today by some of the most alarming economic conditions any State has felt since the depression.

Today we have the highest unemployment rate in the Nation in Oregon, second in the Nation is Montana, third is the State of Washington. All three of these are Pacific Northwest States.

Senator FREAR. Delaware also has considerable unemployment.

Senator PROXMIRE. I wish to say that Wisconsin is competing.

Senator NEUBERGER. We only wish to state, despite the problems that the chairman and the Senator from Wisconsin have in their States, which are very real problems, as they are in Senator Douglas' State, that our employment rate was down more than it was in the States of these Senators, drastic though it may be in the State of the chairman.

The unemployment rate, Senator Frear, in the State of Oregon, according to the latest announcements by the Labor Department, is 12.8 percent, which is approximately what it was during the great depression.

The concept is very wide in the State where you and I have our homes that credit policies of the Federal Reserve Board are in substantial measure responsible for this.

I want to read just one sentence from an editorial in the Oregonian of November 16, the leading paper in that State, which highly commended your original appointment to the Federal Reserve Board, and this is that sentence:

> The wood products industry of the Northwest is a prime example of an industry depressed by a building slowdown caused by high interest and diminished credit.

A short time later, on January 5, in the city of Salem, a prominent fellow banker of yours from Portland delivered a speech and I want to read the two sentences in the Salem Statesman of January 8, 1958, which described that speech:

> Slowdown in home construction in the United States caused mainly by tight money was blamed yesterday for bringing on Oregon's slump. F. M. Phillips, vice president and investment director of the First National Bank of Portland, spoke to members of the Salem Kiwanis Club in Salem, Oreg., today and tomorrow. The rest of the speech was in that vein.

You, Governor Mills, are a member of the Advisory Board of the Federal Reserve Board on Economic Growth and Stability in which capacity I believe you advised the President's Council of Economic Advisers, is that correct?

Mr. MILLS. It is correct to this extent, Senator, that the Advisory Board on Economic Growth and Stability is composed of representatives of the different bureaus and departments of the Government who consult with the Council of Economic Advisers who draw on their pool of experience in their particular fields of responsibility to reach in turn their own conclusions on the economic picture.

Senator NEUBERGER. But you are a member of that Advisory Board?

Mr. MILLS. That is correct, sir.

Senator NEUBERGER. Governor Mills, in your opinion do you think that the credit policies followed in the last 5 years have contributed to the economic growth and stability of the Pacific Northwest?

Mr. MILLS. Senator, if we would feel free to divorce ourselves from sectionalism and look at all areas of the United States and then regard the Federal Reserve System monetary and credit policy as applying to the overall situation in my judgment, the Pacific coast has benefited in that the System's policies have been conducive to a general atmosphere of economic stability and have exerted a restraint over inflationary influences that could have been inimical to the best interests of the people at large, if left unattended.

Senator NEUBERGER. Do you think there has been economic stability and growth in our State in the past 5 years?

Mr. MILLS. No, sir. I surely join with you that the Pacific Northwest States—Oregon, Washington, and Idaho—States that are peculiarly influenced by conditions in the lumber industry, have not enjoyed the same fruits of prosperity that have been true of other States.

Senator NEUBERGER. As a member of the Federal Reserve Board from the Western States, are you concerned and alarmed about that?

Mr. MILLS. Senator, I am distressed that there has been one section of the United States, and a section that is particularly dear to me, that has not enjoyed the fullest measure of prosperity. But as shown by economic history, the fortunes of different sectors and areas of economic activity in a country as large as the United States ebb and flow over a period of time. At one time a sector of activity will advance in prosperity beyond some other sector and vice versa.

Looked at in that way I have every confidence that the Pacific Northwest will in due course enjoy the level of prosperity to which we would wish it to aspire and feel that some encouragement in that direction can be taken at the present time.

I touched upon it in the letter that I addressed to you today, namely, that now that the very strong demand for credit with which to finance the expansion of plant capacity in the country has subsided, the effect of that condition is that credit factors have been released which can now find employment in other areas of economic activity. There is now some slight indication that unused credit factors are engaging themselves more actively in the field of construction than was true of some months ago. Also there are multiplying indications that funds for mortgage lending—and mortgage lending lives at the heart of residential construction—are not only becoming more available, but at a lower cost than was true only a short time ago.

Senator NEUBERGER. I have one or two more brief questions.

You used the phrase, Governor Mills, "in due course" you believed the region we come from would share in this general prosperity. When you used the phrase "in due course," just what do you mean by that?

Mr. MILLS. Senator, throughout the whole mechanism of economic activities there occurs a constant shifting of economic forces from employment and assertion in one field of activity to reinforce activity in some other area. This is the sort of a shifting process that has come to be called a rolling readjustment, and which occurred between 1955 and 1956—Senator Douglas is smiling.

Senator DOUGLAS. That is a very historic phrase, "rolling readjustment." But I am glad you applied it to 1955 and 1956 and not 1953 and 1954.

Mr. MILLS. Senator, we will all remember that in 1955 the credit forces and the economic forces of the Nation focused very importantly on a growth of consumer credit and in a very rapid expansion of consumer purchases of automobiles and other durable goods. It might be said that, as the peak of activities was passed in that field, the credit resources and other economic factors that had been engaged were freed and became employed in 1956 and on through 1957 in the financing of this very remarkable expansion of our national manufacturing capacity that has been alluded to and which has given us a more modern, efficient, and complete national plant than ever before known.

Thus you see that where the resources that have been engaged in some particular activities are no longer needed, they are freed to find employment in other areas. You and I certainly hope that their new employment will be reflected in improvement in our Pacific Northwest lumbering industry.

Senator NEUBERGER. We certainly do.

I have just one other question, Mr. Chairman, and I will not impose on the Chair any further.

You have indicated that you were aware, as I am, of what has happened in the Northwest, of the truly alarming unemployment of the 4 States of the Columbia Basin.

For example, I learned recently from the Bell System that in our State in the first 7 or 8 months of 1957 Oregon had the greatest drop in what is known as main net demand for new telephone service of any of the 48 States.

Other indicators are equally alarming.

This is my question, Governor Mills: In your capacity as a member of the Federal Reserve Board, the only member of the Federal Reserve Board from the Western States, from the Pacific Northwest States, which have been so stricken economically in recent years, do you regard yourself as having any special responsibility for trying to bring about fiscal or economic or monetary policies which will mitigate or alleviate this distress in the Northwest, or do you regard yourself as just one more member of the Federal Reserve Board without reference to the region from which you come?

Mr. MILLS. Senator, as I read the duties imposed on a member of the Federal Reserve Board by statute, they must be performed and fulfilled without fear or favor or favoritism to any particular geographic area or to any particular sector of the economic activity no matter how sentimentally dear or close it might be to you.

Senator NEUBERGER. But there is some reference in the statute, is there not, to the fact that there has to be some geographic distribution among the members? I am not quite clear. Is there not something there?

Mr. MILLS. You are quite right, sir.

No Federal Reserve district, and there are 12 Federal Reserve districts, can be represented by more than 1 member on the Board. "Represented" is a poor word. It is not representation because it is a national responsibility. But it was the spirit and philosophy of the drafters of the Federal Reserve Act that it would be wise in a country so farflung as the United States to draw on the experience and the type of business or other backgrounds that would give a general nationwide sense.

Senator NEUBERGER. I thank the chairman of this subcommittee so much for his kindness. I am very grateful to the chairman for permitting me to question, although I am not a member of the committee or the subcommittee.

And I want to thank Governor Mills for his patience and kindness in replying to my questions.

Mr. MILLS. It has been a pleasure, sir.

Senator FREAR. We thank Senator Neuberger for coming and asking some enlightening questions, and I can say that the unemployment situation in Oregon sounds a signal of distress to all of us.

Senator NEUBERGER. I thank the chairman very much.

Senator FREAR. Senator Douglas?

Senator DOUGLAS. Mr. Mills, we have had the pleasure from time to time of having the Chairman of the Board, Mr. Martin, here before us. However, we are only able to meet with the other individual members of the Federal Reserve Board every 14 years because you have a 14-year term of office and that is how often you come before us for confirmation. Like the 17-year locust, so to speak, which goes underground and comes out at the end of 17 years, you have a 14-year cycle.

You will excuse me, therefore, if I ask some questions not directed to you personally, because I have only the highest opinion of you, but at some of the problems which you face as a member of the Board.

Is that reference satisfactory?

Mr. MILLS. Indeed.

Senator DOUGLAS. From the early summer of 1956 until, let say, November or December of 1957, the Board quite honestly followed the policy of trying to check inflation by raising the rediscount rate and not purchasing bonds on the open market and not increasing the lending capacities of the banks. During this time you were successful in holding down the volume of loans which the bank had made, and there has been a slight increase, perhaps 1 or 2 percent, of total volume of short-term loans and demand deposits.

During this time, physical production increased and the physical volume of services increased by approximately 6 percent.

You would expect, in accordance with the original quantity theory of money, that prices would fall by 6 or 7 percent. Instead, prices rose by 6 or 7 percent.

So in the midst of your efforts to restrain inflation we had a very real inflation. Did you have a feeling of frustration while this was occurring?

Mr. MILLS. Yes, Senator. That word expresses it very well.

You referred to the different times Chairman Martin has appeared before various committees of the Congress; and as we, his colleagues view it, he has forcefully and unequivocally explained at all times the problems of monetary policy and the perplexities with which it is faced, and the difficulties of seeking the utopia of general prosperity without inflation.

Senator DOUGLAS. Here you had inflation despite a rather strict control over the amount of credit at the same time. You also had an advance in productivity which should have caused prices to fall by 6 or 7 percent, but instead prices rose by 6 or 7 percent. Do you have any explanation as to why this paradox occurred?

Mr. MILLS. Partial explanations, Senator, one very important one being that although the objectives of the Federal Reserve policy were effective in slowing down the growth in the money supply, the turnover, or the velocity of the use of that supply to a very real degree negated some part of the effectiveness of the policy.

Senator DOUGLAS. That is true.

Did it occur to you that the high-interest-rate policy actually might have caused an increase in the velocity?

Mr. MILLS. I cannot honestly say that it occurred to me, but now as you pose the question, an off-the-cuff answer would be that I would believe that higher interest rates would have some influence on velocity.

Senator DOUGLAS. In other words, business presumably borrows on a short-time basis primarily for the financing of the processes of distribution. If the cost of that borowing increases they will want to turn over their inventories more rapidly to diminish the cost, will they not?

So, while policies causing high interest rates may restrain the total volume of borrowings, they may also increase the rapidity with which the bank deposits thus created are turned over. Is that not true?

Mr. MILLS. That is correct.

Senator DOUGLAS. So in barring the front door to inflation by policies which increase interest rates you admitted inflation through the back door.

Let me hasten to say that I do not regard the Federal Reserve Board as the villians some of my colleagues do in this matter. I also want to credit you with the best intentions. This is a field in which our knowledge is incomplete.

But is it not true, really, that while your high-interest rate policies held down the total volume of credit, they also stimulated the velocity of the turnover of credit and this has led to creation of the inflation you were trying to stop?

Mr. MILLS. Senator, would you add that a further propelling factor to that situation was the fact that during this period of enormously high economic activity American concerns tended to increase the volume of their business and, in doing so, their balance sheet liquidity contracted in that their free cash and the securities that were converted into cash were then invested in added inventories and added investments in accounts receivable? The net effect in leaving business with smaller holdings of cash was to put it under compulsion to obtain the most efficient results from the use of that cash by its more rapid turnover and, by the same token, to turn over their inventories and their receivables as fast as it was possible.

Senator DOUGLAS. That is quite possible. It is a complicated thing, but it is quite possible. There is another question that I would like to ask.

We are now in a business downturn and I am glad to see you apply the phraseology, "A rolling readjustment," to describe the 1955–56 period and not to describe what is happening now—even though that was the term which Mr. George Humphrey applied to the 1953–54 recession. Do you think that the monetary policy which you largely direct over the Federal Reserve banks can be very effective in arresting a downturn in business?

Is it as effective, for instance, in offsetting a recession or depression as you believed it would be in checking inflation on the upswing?

Mr. MILLS. Senator, I am afraid the answer to that question will have to wait upon our present experience that——

Senator DOUGLAS. But look, we are shooting the rapids now. We cannot wait until after this is over. We have to make a decision now. There are some saying to Congress, "Don't do anything, don't change tax rates, don't change expenditures, don't alter fiscal policy. The Federal Reserve will carry us through. Just let Pennsylvania Avenue handle this thing."

And you say: "Wait until it is all over. Wait until the patient dies or recovers and I will tell you whether the prescription works."

Mr. MILLS. Senator, there might be just an element of institutional modesty in that statement because we in the Federal Reserve do constantly believe that monetary policy can be a contributing factor to revival.

Senator DOUGLAS. Do you think it is a very adequate factor in a downturn?

Mr. MILLS. I cannot answer at this time because what it relates to is expenditure, and total expenditures are very vastly influenced by the amount of credit that is in use. The Federal Reserve System has made available a credit base that, as it is employed most advantageously, could have a stimulating economic benefit.

Senator DOUGLAS. You are a practicing banker, and I am sure you have been a student of banking, too. You undoubtedly have gone over the history of the 1929 depression; have you not?

Mr. MILLS. I lived through it, sir.

Senator DOUGLAS. Yes. You know what was happening in 1930, 1931, and 1932. The banks had great lending ability. Their reserves in relationship to their deposits were high. There were large idle reserves, as I recall. There was no effective restriction upon the lending capacity of banks.

The New York Federal Reserve Bank followed the open-market policy under Benjamin Strong with the advice of Irving Fisher, buying governments and creating reserves which the banking system could, in turn, multiply fivefold or sixfold.

Yet the lending did not hold up. Investments did not hold up. Interest rates were lowered, and still investments did not occur enough to help, because while the capacity was there, business did not want to borrow and banks were afraid to lend.

So the mere ability to lend does not necessarily create a loan.

Have thoughts such as those crossed your mind as you have gone into the handsome offices that you have down on the Avenue each morning, reading the doleful news of the day in the Wall Street Journal?

Mr. MILLS. Well, sir, indeed they have, but the problem that you have turned to, as I would see it, is public attitudes and public psychology. As long as there is a spirit of confidence and a reasonable willingness for venture-taking, you will find that confidence and that venturesomeness reflected in a demand for credit and from that demand a use of credit that is economically helpful.

Senator DOUGLAS. Is it not true that the volume of the idle bank reserves has been increasing, on the whole, week by week inside the Federal Reserve System?

Mr. MILLS. That is correct, sir.

Senator DOUGLAS. Does not that indicate that the demand for credit does not keep pace with the lending power of the banks? The demand for credit, in fact, has fallen off?

Mr. MILLS. Senator, we have found that there is a lag between the time that reserves become available to the banking system and the time at which they effect their——

Senator DOUGLAS. How long do you intend to wait to see whether this is just a normal lag or to what degree it is a disease of the patient?

Mr. MILLS. Sir, I am afraid that I have misled you. I mean the day that reserves become available to the System is not the day that they are employed creditwise by the commercial banks into whose hands they come.

Senator DOUGLAS. I understood you.

Mr. MILLS. That is the delaying lag.

Senator DOUGLAS. I understood you.

On the upswing this is true, the increased lending capacity of banks is very quickly translated into additional loans. It happens very quickly. You know that. Is that not true on the upswing? When there are borrowers around, the banks do not like to have these idle reserves on their hands. They like to multiply them and get some interest on this lending capacity of theirs; is that not true?

Mr. MILLS. Indeed it is. But to bank lending capacity might be added their investment capacity. As the demand for commercial, industrial, and agricultural loans, as they are termed, has fallen off and reserves have become more available, there is a very definite trend for banks to employ those reserves in investments.

Senator DOUGLAS. Are you saying that the investments in capital goods have been increasing in these last few months; more money being put into plant and equipment than before?

Mr. MILLS. No; that has fallen off.

Senator DOUGLAS. Yes; exactly.

Mr. MILLS. But, you would be pleased to analyze the statistics over the last several months to find that the commercial banking system has increased its investments in State and local securities; whereas Senator Proxmire mentioned some time ago there was some concern that our public needs in areas of hospitals, schools, highways, could not be satisfied as expeditiously as desirable, the commercial banks with resources released from other uses are filing that gap by investments in State and local securities.

Senator DOUGLAS. This is a long story and I do not want to go into great detail. To the degree that local bond issues have to be approved by municipal and county referendum, I notice a tendency for various referendums for increased bond capacity to be defeated by the voters in those districts, on the ground that they did not want a higher bonded indebtedness to be an ultimate obligation against their pocketbooks. As to State loans, I do not know. They are not subject to the original restrictions as are the localities.

But this is a very important general issue and each person tends to pick his own idea as to what is the most important factor to take into account.

The advocates of monetary controls, and I tend to be one myself, often do not sufficiently realize the importance of fiscal policy, particularly during a downswing. I refer not merely to increased expenditures, but to tax cuts as well. Sometimes the authorities on monetary matters adopt a very pontificial attitude and lay down the law to legislators as to what they should or should not do in the field of taxation.

By the way, did your Board take any attitude on the tax bill of 1954?

Mr. MILLS. Senator, I do not recall. We might have. Chairman Martin would know—

Senator DOUGLAS. You were new. That is one less subject of controversy.

I believe it is to be announced next Tuesday that unemployment has reached 4.2 or 4.3 million. In addition, the involuntarily unemployed should be the equivalent of another 1 million or 1.2 million, which would get the combined percentage of unemployment up around 7.5 percent of the total labor force. Would you think that this situation calls for a reversal of our current fiscal policies and that some added stimulation from the fiscal side is called for, or do you think that booms in the stock market——

Senator FREAR. I should like to caution the witness on answers which might affect the stock market.

Mr. MILLS. Senator, I am not going to try to attempt to answer the question, but I make the same reservation that was quoted before.

Senator DOUGLAS. I know how intimately connected these matters are with stock speculation. While we are on that subject, Mr. Chairman, I think probably we ought to have Mr. Martin up here on this point.

I was in England when an investigation was held into an alleged leak from the Bank of England. I read the testimony each day with care as it appeared in the London Times and in the London financial papers. I was not satisfied with the ultimate decision made by the board of three that whitewashed the Bank of England, because of the open statements there that the Chancellor of the Exchequer had told a number of persons about the increase in the bank rates. After some of these persons found out about the increase in the bank rate, it was pretty apparent that in some cases, the clerks and interests closely affiliated with them went into the stock market and sold governments as if from the top of their heads, but actually on the evidence of the increase in the bank rate.

The Chancellor of the Exchequer has been exonerated by the courts. But it brought to my mind the dangers that are inherent in this situation.

The chairman cautioned us very properly about not pushing the witness to make an answer that would affect the market for government bonds. I am glad the chairman did and I do not wish to push the witness in that direction.

I wonder, Mr. Mills, and I will talk over your shoulder also to the Chairman of the Board, how careful have you been regarding your decision (*a*) on the open marketing purchases and (*b*) on the rediscount rate, so that others do not know about it?

Mr. MILLS. Senator, to answer the first question, the open-market policies are formulated and actions are taken by the Open Market Committee which is composed of the 7 members of the Federal Reserve Board and 5 Federal Reserve bank presidents. So you might say that there is no outside interest represented in those discussions, and the proceedings and committee decisions are safeguarded from leaks as far as we believe it is humanly possible to do so.

The Federal Reserve banks are the initiators, by and large, of changes in the discount rate.

Senator DOUGLAS. You have had an effect on what the banks do.

Mr. MILLS. That is correct.

Senator DOUGLAS. You give directions to the banks, do you not, on the rediscount rate?

Mr. MILLS. According to historic practice and by statutory direction, the discount rates are fixed by the Federal Reserve banks subject to review and determination by the Federal Reserve Board.

Senator DOUGLAS. Decentralized.

Mr. MILLS. Yes, indeed.

Senator DOUGLAS. It is decentralized and as to the question of rediscount rates you have nothing to do with it as a central body.

Mr. MILLS. The Federal Reserve Board has the responsibility of reviewing and determining those rates. In other words, if the circumstances were felt to be exigent, the Federal Reserve Board has the authority to negate a decision of the Federal Reserve banks.

Senator DOUGLAS. You have the power of veto and the power of initiation, do you not?

Mr. MILLS. There is an implied power of initiation, which as far as I know has never been used.

Senator DOUGLAS. How broadly is this knowledge of a veto exercise by you, or action initiated or directed by you, known? How broadly is this known? To what degree can you keep this more or less within the family, and what security system do you have? I am not implying for a minute that you have not. What security do you have that requires that your own people observe strict punctilio in the matter?

Mr. MILLS. Senator, I would say from experience that we can depend on the character of the individuals, who have access to that information and formulate those policies, to observe secrecy qualified by whatever minor frailties of human nature might conceivably inadvertently produce a leak. But the history of the Board's operations in discount and open-market matters has been remarkably free of any embarrassments of that sort.

Senator DOUGLAS. And that is true of savings. You are now speaking of rediscount rates, as well the open-market operations?

Mr. MILLS. Yes.

Senator DOUGLAS. You read the testimony in the Bank of England case, did you not?

Mr. MILLS. Yes.

Senator DOUGLAS. Did it somewhat alarm you?

Mr. MILLS. It opened my eyes, Senator, to the greater freedom of discussion that is customary in English financial circles and as between their Exchequer and the Bank of England as compared to our own experience.

Senator DOUGLAS. Of course, in England, the Chancellor of the Exchequer is the ultimate power over the Bank of England and can direct the Bank of England to his policy. As a matter of fact, it started when Mr. Thornycroft, the Chancellor of the Exchequer, made the decisions, and told the Bank of England to carry them into effect; is that not true?

Mr. MILLS. It is my understanding that when the Bank of England was nationalized some years ago, such authority was vested in the Chancellor.

Senator DOUGLAS. I want the record to show this questioning of mine does not indicate the slightest suspicion on my part of the integrity of the present members of the Federal Reserve Board or the officials of the Federal Reserve Board. I want to say that. But my eyes were opened to the dangers involved in the testimony.

Off the record.

(Discussion off the record.)

Senator DOUGLAS. I again want to assure you that there is nothing in the back part of my mind which carries with it any suspicion.

Mr. MILLS. Yes, sir.

Senator DOUGLAS. But eternal vigilance is the price of virtue.

Mr. MILLS. Indeed.

Senator DOUGLAS. I have no further questions.

Senator FREAR. Thank you.

Senator PROXMIRE. Could I ask a question which occurred to me when Senator Douglas was talking?

Senator FREAR. The Senator from Wisconsin may inquire.

Senator PROXMIRE. It seems to me that there might be a danger that rising interest rates could feed inflation because of the psychological impact involved. In other words, the people expect interest rates to go increasingly higher and then there would be a tendency to expand their plants, before the interest rates go higher, and the fall in interest rates might do precisely the opposite. As interest rates begin to fall they might postpone their borrowings until they go lower.

From your study and experience do you think there might be this psychological effect on business?

Mr. MILLS. Senator, we believe that there have been actual indications in both directions, but never to the extent that there have been any serious aggravation of either the desire to borrow or the wish to postpone borrowing.

Senator PROXMIRE. You recognize that tendency?

Mr. MILLS. Yes, sir.

Senator PROXMIRE. It is another limiting factor on monetary policy?

Mr. MILLS. I would believe so personally; yes.

Senator PROXMIRE. That is all I have. I thank the chairman.

Senator FREAR. You are welcome.

Mr. Mills, thank you very much. We enjoyed your participation in this. I hated to call you down on a rainy day. At least it is typical Washington weather. We are very happy that the Chairman of the Board accompanied you here and we are glad to see him and have his remarks.

There may be a time in the future when we will ask the Chairman to come down and visit us again and keep us informed of the policies of the Federal Reserve Board. But in the meantime we are very happy that you were here today, Mr. Chairman, and your staff as well. Thank you for appearing.

Mr. MILLS. Thank you, sir, and thank you for your consideration, and the time you allowed me, Senator.

Senator FREAR. The subcommittee will go into executive session.

(Whereupon, at 3:55 p. m. the public hearing was concluded and the subcommittee proceeded to other business.)

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