

NOMINATION OF GEORGE HAROLD KING, JR.

HEARING
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE
EIGHTY-SIXTH CONGRESS
SECOND SESSION
ON
THE NOMINATION OF GEORGE HAROLD KING, JR.,
TO BE A MEMBER OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 4, 1960

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NOMINATION OF GEORGE HAROLD KING, JR.

THURSDAY, FEBRUARY 4, 1960

U.S., SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to call, in Room 5302, New Senate Office Building, at 10:35 a.m., Senator John Sparkman presiding.

Present: Senators Robertson, Fulbright, Sparkman, Frear, Proxmire, Williams, Bennett, and Beall.

Also present: Senator Stennis.

Senator SPARKMAN. Let the committee come to order.

The chairman is detained at another committee meeting, one at which he had to be present. He hopes to be here a little later. However, this meeting may not last that long.

We have another difficulty in that the Senate is meeting early this morning, so I think we will proceed.

Senator Stennis is here this morning. Senator Eastland would have been here except for the fact that he is sick.

The purpose of this meeting is to consider the nomination of George Harold King, Jr., of Mississippi, to be a member of the Board of Governors of the Federal Reserve System for a term of 14 years from February 1, 1960. It is a reappointment.

We are glad to have Senator Stennis with us. Senator Stennis, as I understand, you have another appointment you must get to. If you want to make your statement now, we shall be very glad to hear you.

STATEMENT OF JOHN STENNIS, A U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator STENNIS. Thank you, Mr. Chairman.

It is a privilege to be here before this Committee and an added one to present Mr. King to the committee. He is no stranger to you. He was here last year. He has already served almost a year in this highly important office.

I have been very much impressed with his attitude toward his duties; in talking to him before he served and afterward. But I will let him speak for himself.

He is one of our highly respected and valuable citizens, experienced in the banking and financial world as well as in agriculture and other activities. We were fortunate enough to inherit Mr. King from the State of Louisiana some 12 years ago. I am very much pleased, indeed, with his tenure and appreciate the confidence that you have shown him before. I believe he is worthy in every way of

this high and important office. The Federal Reserve System is an unusual product of the Congress; and this committee is the Senate's guardian and watchdog of their activities.

I thank you again, and I am delighted to present Mr. King to you gentlemen.

Senator SPARKMAN. Thank you, Senator Stennis.

Before you go, in order that the record may speak the full truth, may I call your attention to the fact that Mr. King's roots are really in Alabama.

Senator STENNIS. Yes.

Senator SPARKMAN. His grandfather came from Louisiana.

Senator STENNIS. It is one of the many things which our sister States of Alabama and Mississippi share.

Senator SPARKMAN. Thank you.

All right, Mr. King, do you want to make a statement or do you just want us to ask you questions?

STATEMENT OF GEORGE HAROLD KING, JR.

Mr. KING. Thank you, Senator. I do not have a prepared statement I would like to simply say it is a privilege to come over here before this committee. I felt very privileged last year to be here, and I will say that when I was a little boy I never dreamed I would have the privilege of appearing before a Senate committee, and particularly one such as the Banking and Currency Committee, two times. So I am proud of it, and I appreciate the opportunity to come over here.

I think that as to anyone in my position who might possibly be projected into the future as far as 14 years in a field as important today as the money and credit field of our country, Senators certainly have a right and a responsibility to look into the person being projected that far in advance. So, as I say, I am very happy to be here. I feel it is a privilege.

Senator SPARKMAN. Thank you, Mr. King.

We have been furnished a biographical sketch. Without objection, it will be printed in the record.

(The biographical sketch of Mr. King follows:)

BIOGRAPHICAL SKETCH OF GEORGE HAROLD KING, JR.

General: Born August 18, 1920, at Oakdale, La.; father, George Harold King (see *Who's Who In America*); Mother, French Freeman. Graduated Glenmora (La.) High School, 1937; best athlete award, 1936; activities award, 1937; attended Louisiana State University 1937-41; member Sigma Chi Fraternity; member "L" Club (varsity letter club); graduated in 1941 with Bachelor of Science in accounting; also attended University of Colorado Summer School 1939, 1940, 1941.

Military service: Entered active duty in U.S. Naval Reserve as ensign on May 1, 1942; released to inactive duty February 2, 1946, with rank of lieutenant.

Family: Married Daurille Elaine Holloway of Melville, La., on May 15, 1942; children, Linda Elaine King, born November 30, 1944; George Harold King III, born November 21, 1945; Lisa Holloway King, born February 3, 1955.

Commerce and industry: Treasurer of King Lumber Industries, Canton, Miss., from 1946 to 1949; executive vice president 1950-58, president 1958. King Lumber Industries operates lumber, oak flooring, woodworking, and wood-preserving plants in Mississippi and Louisiana; presently employs over 500 persons in manufacturing; engaged in commerce through extensive marketing of wood products; has extensive timber holdings and timber leases in Louisiana;

domestic and foreign shipments of lumber and oak flooring; also engaged in mineral leasing of lands.

Agriculture: Started herd of purebred Hereford cattle in 1948 known as King Herefords, Canton, Miss.; farm size, 405 acres; 125 brood cows. In January 1957 exhibited champion Hereford bull at National Western Livestock Show, Denver, Colo. This animal bred and raised by King Herefords, Canton, Miss. Produce of herd sold throughout the United States and Mexico. Received commendation from Mississippi Legislature on March 26, 1956, for accomplishments in cattle breeding; director, American Hereford Association 1956 to date; director, Mississippi Hereford Association 1949 to date.

Federal Reserve System: Appointed director of New Orleans branch of Federal Reserve Bank of Atlanta in January 1956; served as chairman of New Orleans Branch Board, 1958; appointed to Board of Governors March 25, 1959.

Miscellaneous: Deacon First Presbyterian Church; Director, Mississippi Economic Council (State chamber of commerce); member Rotary Club; member Jackson Country Club; member, Madison County Country Club.

Senator SPARKMAN. Senator Proxmire.

Senator PROXMIRE. Mr. King, you were appointed on March 25, so you have served a little less than a year.

Mr. KING. Yes, sir.

Senator PROXMIRE. What is the responsibility of the Board of Governors? By that, I mean, do you feel that the Board of Governors is responsible primarily to the Congress? Do you feel there is any degree of responsibility at all to the administration, the President, or do you feel the responsibility is inherent in the statutes that have been set up and you have a responsibility to serve the public interest, by your own lights, without a direct responsibility to either Congress or the President?

Mr. KING. I feel, sir, it is near your last suggestion, although I feel that the responsibility is really to all segments of the American interest, as I understand it. I think the Board must be completely mindful at all times of the interest of the public.

Certainly, the Federal Reserve System is a creature of the Congress and Congress has the right and responsibility to oversee it and to alter it if they see fit in any way. This imposes on a member of the Board an extreme trust and responsibility to conduct that office in such a fashion that it will truly serve the best interests of the American people.

Do I make myself clear?

Senator PROXMIRE. Yes; that is a nice general statement.

I would like to be a little more specific. What kind of consulting obligations do you feel a member of the Board of Governors might have? Do you feel it would be desirable or useful that he should consult with, for example, the Secretary of the Treasury or the Assistant Secretary of the Treasury? Do you feel that it would be useful for him to consult with, say, the chairmen of the Banking and Currency Committees of the House and Senate or not?

Mr. KING. Yes, sir; I think a member of the Board should feel free to consult with anyone and everyone whom he felt could give him some thinking that might benefit the public interest. That is, to permit him to become more enlightened, so that his decisions might be sounder ones for the country.

Senator PROXMIRE. Let me move into a little different area.

As a member of the Board, do you regularly try to acquaint yourself with the views of the Secretary of the Treasury and with the chairmen of the committees of the two Houses of Congress on monetary policy?

Mr. KING. No, sir. I have not tried to become familiar with the views, specific views, in regard to any specific question, of the Secretary of the Treasury or of the chairmen of any committees. I have not tried to find any specific answers to any specific questions from any of those people, and I will say that I have had no one even suggest to me what I should think.

Senator PROXMIRE. Then, I take it your advice comes primarily from the employees of the Federal Reserve Board, who have a responsibility as monetary experts to advise you and other Board members on actions taken with regard to our monetary policy. Is that correct?

Mr. KING. Sir, I have received the benefit of, not advice, but what I would consider enlightenment on any subject that I have cared to discuss at the Board with the staff. I have found that the staff of the Federal Reserve Board helps on both sides, pro and con. And, as far as I have been able to see, they are very, very much concerned that any subject in any decision is developed in an objective manner. I have found that they will pursue, not argue, but pursue either side of the question in order to satisfy themselves that that member of the Board may really make an objective approach to any question that comes up.

Senator PROXMIRE. Do you try to follow the thinking of the professors of monetary policies at leading universities or the leading economists of banks and of industry and so forth?

Mr. KING. No, sir; I do not try to follow the thinking—

Senator PROXMIRE. I am not saying you try to follow their thinking. What I am trying to say—I put it badly—is: Do you follow the discussions, the controversies, that are going on in this area so that you can enlighten yourself on what the thinking is, and what developments are going on, so you can arrive at decisions based on the best and most competent and expert authority?

Mr. KING. Yes, sir; I do. I follow their opinions and views and read them all I can, in the amount of time that I have, with a great deal of interest. It is one of the things, to me, in trying to find the right answer for the country, and I am very happy to take access to all of the information and informed points of view that I can find.

Senator PROXMIRE. I want to go back a little bit because I want to be completely fair. I wonder if you follow the expressions of the views of leading members of Congress who have opinions and express them in the Congressional Record or express them in committee reports and so forth?

Mr. KING. Yes, sir; I do.

Senator BENNETT. Mr. Chairman, will the Senator yield?

Senator PROXMIRE. I yield; yes.

Senator BENNETT. I wonder if the matter would be clearer if we all understood what you mean by "follow." "Follow" can mean two things—either keep in touch with or be guided by.

Senator PROXMIRE. I thank the Senator from Utah for a clarification. Of course, I meant, and I am sure the nominee meant, "keep in touch with," and not "be guided by."

He made his position emphatically clear a little earlier in saying he was not guided by the opinions of either Members of the Administration or the Congress.

Senator BENNETT. "Follow" has that dual meaning.

Senator PROXMIRE. I think that is an excellent clarification.

Mr. KING. I meant "keep in touch with." That was the essence of what I was trying to say.

Senator PROXMIRE. I would like to inquire as to your relationship with the Chairman of the Board. Do you usually consult with him before you arrive at your own decision?

Mr. KING. No, sir; I do not.

Senator PROXMIRE. You arrive at your decision independently?

Mr. KING. Yes, sir.

Senator PROXMIRE. You do not consult with other members of the Board, either before you arrive at specific decisions—

Mr. KING. No, sir; we do not. I will say that due to the procedure that is used at the Board, which I think is a very good one, the four junior members express their opinions on a certain subject, or other matter up for decision, first. Thereby, you have no way of knowing what the chairman or the other two senior members of the Board think.

Senator PROXMIRE. So it is kind of reverse seniority?

Mr. KING. Not completely in the sense that—

Senator PROXMIRE. As far as speaking out.

Mr. KING. Some of the more senior ones speak before I do as a general rule, although, on certain occasions, I will be called on to speak first and without any knowledge of what anyone else thinks. As I say, I think this is a very healthy procedure.

Senator PROXMIRE. During the last several months, the Joint Economic Committee has had a series of hearings on all aspects of our economy. One of the most significant, I thought, was their hearing on monetary policy. They had four outstanding experts on monetary policy appear, one of whom was Professor Friedman of the University of Chicago. Professor Friedman, as I understand it, is recognized as an outstanding conservative monetary economist. But he had rather drastic views on the Federal Reserve Board.

As I recall, his views included the opinion, for example, that the country might be better served if the Federal Reserve Board surrendered its power over both the rediscount rate and varying reserve requirements. How do you feel about this opinion of Professor Friedman?

Mr. KING. Well, sir, the Congress, in the original Federal Reserve Act of 1913, stated that one of the purposes was to provide rediscounting for commercial banks. This has been continued in the law as one of the System's tools of monetary policy and it has been used.

If the Congress felt that it should be removed, that would be in the Congress' discretion to remove it. As to any automatic surrender of a tool that has been bestowed on the Board by the Congress, I would not think that would be a wise approach.

Senator PROXMIRE. You feel that these two tools have been useful and are necessary and desirable for the Federal Reserve Board to do the job it should perform?

Mr. KING. Yes, sir; I think the Federal Reserve Board should have as many tools as it can to try to accomplish its true purpose.

Senator PROXMIRE. The principal conclusion of three of these four economists, as I understood them, was that the Federal Reserve Board ought to follow a policy of what might be called policy neutrality.

In other words, they felt that the Board might expand the money supply at a regular rate, the regularity being in accordance with the growth of our country. That is to say, make the expansion of the money supply conform with the increase in the gross national product, roughly. Professor Friedman suggested an annual increase of about 4 percent. He said it would be 3 percent if the money only included demand deposits and currency, 4 percent if it included time deposits, too.

He argued this very persuasively, in my judgment, and Professor Seldon seemed to agree. Professor Wiesner took a little different tack, but he felt that this general policy might be desirable.

How do you feel about this?

Mr. KING. I think that is a very good point, Senator. The money supply of the country has grown more or less through the years, and that is a very, very healthy thing. However, it is my understanding that in recent years people have learned how to use money and turn it over more rapidly, increasing what is commonly referred to as the "velocity of money."

With this increase in velocity, I do not believe that it has been necessary to increase the money supply, itself, as much as would have been necessary if the velocity had not been increasing so much. And I think it is conceivable that the country may be reaching more or less a plateau on its velocity, that people have really learned to use their funds and keep them busy just about as much as they possibly can.

In fact, they have more or less perfected this velocity of money and that might call for additional increases in the money supply.

As to trying to govern the money supply by any exact percentage per year, I think this would be attempting to substitute some formula for judgment. My own opinion is that the subject is a complex one and is of a kind that is better left to judgment, rather than to try to make some such formula that would apply year in and year out.

Senator PROXMIER. The position of Professor Friedman and Professor Seldon was that the record of the Federal Reserve Board has not been very good. He argued that there is a lag between the action of the Federal Reserve Board and its total reaction on the economy. He argued it might vary from 4 months to 20 months. The Federal Reserve Board for instance might fail to take action to increase the money supply as rapidly as the GNP will increase. Interest rates tend to rise, but the evil effect on the economy would not be felt for quite a period. And at the time it is felt, we might be in a period of recession rather than in a period of prosperity.

He did not question the sincerity and expertness of the Federal Reserve Board. He just felt nobody has been able to predict. If you could predict where the economy was going to be 6 months or 18 months from now, you could make fabulous amounts in the stock market and lots of other ways. But this is something that is unpredictable. And the safest and fairest way to operate under these circumstances would be to have a regular monetary increase and let the market forces, the free play of supply and demand and so forth, work its way on the economy without an attempt to look into a crystal ball and foresee what the economy is going to be like several months from now.

Mr. KING. Well, sir, I think if the Board took that approach, that it would be——

Senator PROXMIRE. What this goes to, and I think the only technical question I can ask on this is: Do you think that there is such a lag? Do you think that the effect of an action by the Federal Reserve Board, using any of its three weapons, is fairly immediate, or do you think there is a lag of 6 months to a year and a half before it really is effective?

Mr. KING. I think there is, certainly, some lag in effects of actions by the Federal Reserve. But, as I have understood it since I have been on the Board, we have not been contracting the money supply. It has been, to me, more a matter of some restraint on credit expansion.

What was your question?

Senator PROXMIRE. The question was on the lag. That was the thing I was focusing on here.

Mr. KING. So, naturally, there is some time that elapses from the time any additional restraint might be placed on the credit markets, for example, and the time that it manifests itself through carloadings from a manufacturing plant.

I am very conscious of this because I have been in the manufacturing business, and I am cognizant of the fact that the effect on an order file of a manufacturing plant that is built under today's circumstances, may not manifest itself or show itself in the statistics for as long as 4 to 6 months. So I am well aware of the time that elapses from the time an action is taken, say, to restrict credit in any way, and the time that it really makes its impact in a statistical form.

Does that answer your question?

Senator PROXMIRE. It does.

Then, you agree with Professor Friedman that there is a lag. There is and, therefore, Federal Reserve policy does require prognostication. It does require a prediction as to what the economy is going to be like 6 months or 18 months from now.

The only question is on the basis of your experience both as a member of the Board and before you were a member of the Board. Do you feel that the Board has a capacity to look clearly in the crystal ball?

Mr. KING. Well, sir, I can only say that the Board, to my knowledge, does try to the best of its ability to see ahead as far as possible. People naturally, become more familiar with this process as they work at it. And it would be my opinion that this ability to forecast would improve, perhaps not greatly, but would continue to improve as time goes along.

Senator PROXMIRE. Many of us, of course, are familiar with what happened in 1956 and 1957 and feel that the Board was much too slow. We feel we can go back and point out many, many cases where, in our judgment, the Board was increasing the rediscount rate, for example, at a time when the recession either had already started or was, obviously, in our judgment, going to follow and did, indeed, follow afterwards, as happened in 1957.

I would like to refer quickly to a speech that was made very recently by an adviser to the Board of Governors, Woodlief Thomas, a

splendid gentleman with great ability. His speech was distributed to all members of this committee by the chairman of the committee, the Senator from Virginia.

There are three points he made that particularly concern me, and I would like to ask your opinion on them.

Mr. Thomas, in the course of his speech, argues that interest rates are not really high now; that they are high as compared with what happened in the 1930's and 1940's but that was an artificial situation.

I think he is right about being artificial, but, as compared with the 1920's and the period before World War I, they are not particularly high, that they are comparable. I am disturbed by this comparison; I feel the economy has changed enormously since the 1920's and the comparison is not very apt with the period of 1890, to go back that far. Obviously, there have been serious, critical changes in our economy. The fluctuations have been ironed out very greatly. We do not have the kind of depressions we did. We do not anticipate having them.

I wonder whether or not the interest rates at the present time could be regarded as high or about right on a long-term basis; or low.

Mr. KING. Well, sir, trying to say whether they are high is just a matter of saying something in relation to something else.

Senator PROXMIRE. That is right.

Mr. KING. My own view is that I think interest rates that are somewhat lower than the present level are desirable for the country if we do not, thereby, risk inflation and endanger our reserves. And I particularly have in mind our gold reserves. Or we do not damage the purchasing power of the currency.

In other words, I think that the Board as a whole, and the System as a whole, does not have any desire to have interest rates at any certain level, but that their desire is to protect the integrity of the dollar and possibly, as the Joint Economic Committee report has suggested, that it has had to use monetary policy to too great a degree because of not using fiscal policy enough. I would certainly hope that fiscal policy would be used to a greater degree.

Therefore, by lessening the necessity for the amount of judgments that are and have had to be exerted in the monetary policy field—

The CHAIRMAN. Off the record a moment.

(Discussion off the record.)

The CHAIRMAN. I would like to make the statement that the chairman is glad to welcome Mr. King again before our committee and to tell him that he is following his work on the Federal Reserve Board. The chairman has received high commendation from other members of the Board of Mr. King's services as a Board member. And, personally, the chairman feels that the confidence imposed in Mr. King when he voted his confirmation last March was not misplaced.

Senator PROXMIRE. Mr. Chairman, I have a series of questions, and I realize other members may have, too. Perhaps it might serve the interests of the committee better if I yielded to other Senators and then came back at the end. I am extremely interested in this whole question.

I have great respect for the nominee. I think his answers have been responsive so far, but I want to proceed at greater length. Some of the members may have other appointments, so I will defer to them.

Senator SPARKMAN. Other members of the committee?

Senator BENNETT. Thank you, Mr. Chairman. I simply want to follow the chairman in expressing my faith in the nominee and my appreciation of the record he has made and my faith in the basic judgment of the Federal Reserve Board in these trying times.

I recognize that my friend from Wisconsin and I have a completely different approach to the economic principles involved in this situation. I cannot believe that there is any reason to have a Federal Reserve Board if we have an automatic money supply and attempt to maintain a fixed rate of interest. There is no use having men with judgment. We might just as well turn the thing loose and let the consequences come. And they will come, and that will be a retreat, that will be a loss in the fundamental faith in the American currency.

Senator PROXMIRE. Will the Senator yield at that point for one clarification?

Senator BENNETT. Yes, surely.

Senator PROXMIRE. I want to make it absolutely clear I do not believe in pegging the rate of interest at all. I oppose that very strongly. As I understand Professor Friedman's suggestion, it would not do that at all. But what it would do is increase the money supply at a regular rate. The rate of interest would fluctuate, depending on market forces.

Senator BENNETT. I think the effect of Mr. Friedman's program might be to permit the market to operate freely. But it would operate, in my opinion, to produce a constantly increasing rate of inflation and a continued diminution of the value of the dollar.

The Senator from Wisconsin and I, having worked together on these problems, recognize the differences that exist between us. But the Senator from Utah is disturbed a little bit, frankly, at the use of this hearing as a means of discussing, of bringing up again, this technical controversy. It seems to me the problem before us is whether or not this gentleman has the capacity to serve on the Board under the existing laws. If we in Congress feel that the present setup, the present program, in which the Federal Reserve Board is engaged by law should be changed, we should talk about changing the laws.

I want to express my confidence in the ability of Mr. King to carry out his responsibilities under the existing law.

That is all I have to say, Mr. Chairman.

Senator SPARKMAN. Senator Frear.

Senator FREAR. I will not delay the Senator from Wisconsin as I am interested in his questions, also, but I do appreciate this opportunity, Mr. Chairman. I voted for the President's nominee to be a Governor of the Federal Reserve Board when he appeared before this committee the first time. Like the chairman, my confidence, I think, at that time was well founded, and I expect to vote for his confirmation again.

Perhaps this is not the time to discuss and debate the merits of the Federal Reserve System. I might have views that would coincide or differ from those of the Senator from Wisconsin or the Senator from Utah. But I must agree that if we are going to keep the Federal Reserve System and, at the moment, I see no strong reason to discard it, that we should back the System and its Board of

Governors. Perhaps it may be a legislative matter in many respects, as I gathered from the questioning this morning. I commend Governor King for his answers, whether I am in total agreement or not.

The System has performed a very necessary function, and I doubt if we could have maintained our position in domestic and world economy without its services. I hope that as conditions change, which might necessitate legislative action regarding the System, the Members of Congress will not hesitate at any time to recognize this and make what, in their opinion or desire, changes are needed.

But may I say to you, Governor King, that I am very happy that I had this privilege of coming back and listening to you and again have the opportunity of voting for your confirmation. This may expose my vote in advance, but I think it is no secret. I shall do it, sir.

Mr. KING. Thank you, sir.

Senator SPARKMAN. Senator Williams?

Senator WILLIAMS. I have no questions, Mr. Chairman.

Senator SPARKMAN. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

I think when I was questioning you, Governor King, we were talking about interest rates, whether they were low or high, with reference to the period back in the 1920's and before. You said that the international situation would influence you to some extent in your judgment on the level of interest rates. I would like to follow that up with one question with regard to Mr. Thomas' statement. And that is that he points out that interest rates are lower in America than they are in other countries. This has been true. And they have been lower for a long time; and substantially lower.

I think the question you raised on international balance of payments and so forth goes to the heart of this.

I am just wondering if, in your judgment, it may be necessary for us to have a higher rate of interest, and whether we might consider it desirable if we gave emphasis to the much higher rate of interest that other countries have.

Mr. KING. I am not sure I understand exactly the question, Senator. I think I understand the subject, but I don't know exactly what specific point you want.

Senator PROXMIRE. Do you feel the higher rate of interest in other countries is one of the factors which should be taken into consideration in determining our own programs?

Mr. KING. Yes, sir; I think it is one that we must be aware of, just as we must be aware of many, many other things. I think that any changes in policy by the Federal Reserve Board, as long as it is maintained in its present form, will have to be made in the light of all of the circumstances prevailing at that particular time. I do not think it is really possible to project into the future and then say that a person absolutely will or will not do a particular thing. It depends on the circumstances at the time.

As I said, it is a tremendous trust and responsibility that the Congress has placed on the Board, and I hope that I am—I believe that I am—well aware of this trust.

I do not think that the international rates would be the controlling factor, necessarily, at any time. However, it is conceivable that some

action at some time would be necessary, purely because of the international structure. I have no desire to maintain interest rates at any particular level.

My personal feeling, being a borrower rather than a lender, is for rates to be as low as possible without damaging our currency or without inflicting any inflation on the country. But, from my personal standpoint, I would rather pay, if necessary, some higher rate than to accept the consequences of the inflation that would go along with a more or less unlimited release of credit.

Senator PROXMIRE. It is a fact, though, is it not, that we have had that lower rate of interest than other countries for many years and that during most of this period, far from an unfavorable balance of payments, we have had a favorable balance of payments. There are many, many factors affecting the balance of payments other than interest rates. Is that not a correct conclusion?

Mr. KING. I think so, sir.

Senator PROXMIRE. So it is perfectly possible there is nothing inconsistent with our having a lower rate of interest than other countries have and having a responsible and thoughtful and effective international monetary policy.

Mr. KING. Yes, sir; I think that is partly a result too, of the stability of this country relative to other countries of the world—

Senator PROXMIRE. That is an excellent point.

Mr. KING. Of their respect for our ability to face and meet our problems in a head-on and realistic manner. I think this confidence is a factor that is terrifically important in our maintaining as low a level of interest rates as possible and in maintaining the reserves that we need for this country to go ahead on.

Senator PROXMIRE. My good friend from Utah has indicated that my line of questioning may not be appropriate for the consideration of a nominee to the Federal Reserve Board. I feel it is important, not only to get the caliber of your thinking, but also to get your views and your opinions and your feelings and your convictions on our monetary policy. We do have the power of acting on your appointment, of course, and, as many, many speeches on the floor of the Senate have indicated, we have a very deep interest. I think if we are going to criticize the Federal Reserve Board, we should know what we are talking about.

We have before us this morning an expert on Federal Reserve policy. You are a Governor of the Federal Reserve Board. Therefore, it seems to me it is very useful to get your viewpoint.

I have an open mind on these things. I am learning as I go along, and I am sure I am going to learn this morning. That is one reason why I ask you these questions.

Mr. Thomas made this statement in his speech to a group of mortgage bankers recently. He said:

It seems to be believed that interest rates could be prevented from rising by legislation which places ceilings on rates that the Treasury can pay or on those that lenders can charge on mortgages.

I do not think that anybody seriously, at least no Member of the Senate, thinks we can prevent interest rates from rising generally by legislation. We think that we can, if not prevent, have an influence, though. Would it not seem logical to you that if the Federal Govern-

ment, for example, should hold down interest rates on long-term Government bonds, admitting this may not be a wise policy—I think it is a wise policy for us to do that, but many people disagree—that one consequence would be that the Government would not enter in the long-term competition for limited funds and, therefore, that policy might have the effect of keeping interest rates—might have the tendency, at least, of keeping long-term interest rates—down. Is this not a correct conclusion?

Mr KING. Senator, I am sorry, but I am not sure I get the specific point.

Senator PROXMIRE. Let me ask it again.

We have, as you know, a 4¼-percent limit on the interest rate the Government can pay on long-term bonds. My question is: If we should eliminate that limit, as the President has asked us and as the Chairman of your Board has said we should do, would not one consequence be to permit the Federal Government to get into the long-term Government bond market to bid up the price of money because they are borrowing money? The Treasury says they would borrow \$20 billion. Would this not have the effect of increasing interest rates generally for schools, for hospitals, for corporations, for various others, who are also in that market now, just having another big competitor get in. The demand for money would go up. Therefore, the price of the money would go up.

Is that not logical? Would that not follow?

Mr KING. Well, sir, at the present time, we have more of the demand concentrated in the short term.

Senator PROXMIRE. I recognize that. I am not asking you about that. That is true, and right now, I am not asking whether or not this would be a wise policy or unwise overall. I am just asking because I want to get a reply to the statement that Mr. Thomas has made or implied. I want to know if it is not true that by legislation we can tend, at least, in some areas, to prevent interest rates from increasing.

Mr KING. By legislation?

Senator PROXMIRE. In other words, by legislation, which restrains the Government from entering this field. Is there not a tendency to keep the demand for long-term funds lower and, therefore, diminish the pressure on interest rates for long-term Government bonds?

Mr KING. I do not believe that the mere lifting of that particular ceiling would produce higher interest rates.

Senator PROXMIRE. Long-term interest rates? You do not think that another \$20 billion of demand for money by the Federal Government in that area would have a tendency of creating of long—

Mr KING. It would relieve that amount of demand from the short term.

Senator PROXMIRE. I recognize that. We are talking just about long term now. I think you are right about short term.

Mr KING. And I do not know, sir, as it depends on so many things. I do not believe it would make it rise. If it did, I do not believe it would be appreciable. It would be of a very, very minimum nature, if it did. It could conceivably go either way, a little bit, but I think it is more a matter of the economic structure as a whole than of any certain sector.

Senator PROXMIRE. You have answered the question. We disagree, perhaps.

The final conclusion by Mr. Thomas—this is the last question with regard to his speech—was:

It may be concluded that attempts to control the level or the structure of interest rates by direct governmental action is likely to meet with failure and to have disastrous consequences.

Is it not direct governmental action when the Federal Reserve Board raises the rediscount rate, when it lowers reserve requirements, when it engages in open-market operations? This is a Government agency which is acting. Heaven knows, it is acting directly. Does it not have an obvious effect on interest rates?

Mr. KING. Yes, sir. I would think it would have an effect on interest rates. What Mr. Thomas may have had in mind would be if Government policy were to try to maintain interest rates at a certain level, at an exact level, and the only means through which this could be accomplished would be through the creation of more Federal Reserve credit, which would undoubtedly lead to more inflation.

Senator PROXMIRE. He does not say to peg interest rates. I agree that is a bad policy. He says, "attempts to control the level or the structure of interest rates."

It seems to me if the Federal Reserve Board is not doing that, I am a little puzzled by what they are doing. At least one of the consequences of their action is to vary the interest rate, to vary the level and the structure of interest rates and its direction, and it is a Government agency.

Let me move on to another area.

Senator BENNETT. Before you leave that area, may I ask the witness one question which I think fits into it?

Senator PROXMIRE. Very happy.

Senator BENNETT. Does the Federal Reserve Board lead or follow the general level of interest rates when it changes the rediscount rate?

Mr. KING. Well, sir, I can only speak from the time that I have been on the Board, which has been about 10 months. I do not think the Board or System tries to particularly or necessarily lead or follow. It tries to deal with the developments on a day-to-day and a month-to-month basis with the decisions made in the best interests of the country as a whole.

Since I have been on the Board, the System has increased some restraint on credit. It has not been a contraction of credit or money, but rather a fairly mild restraint. I think this is a good thing.

Senator BENNETT. Has the Board raised the rediscount rate since you have been on the Board?

Mr. KING. Yes, sir. The Board has raised the rediscount twice in that time. In both instances, this was done subsequent to the raising of the prime rate by the commercial banks.

Senator BENNETT. So in both instances, the Board followed rather than led the market?

Mr. KING. That is correct.

Senator BENNETT. Thank you.

Senator PROXMIRE. I think the Senator from Utah. He may have a very good point there. He usually does have an excellent point. Maybe with regard to rediscount rate, it is more less a passive instrument.

It would certainly seem, however, that the Federal Reserve Board has active instruments, to wit, open-market operations. And I would assume that usually, not always, but usually, fluctuations in the reserve requirements are not forced by any discrepancy in interest rates. They are simply an action taken because they feel more money is needed in the economy. Is that not your judgment?

That when the Federal Reserve Board reduces reserve requirements, and therefore increases the money supply, this is not taken to follow anything that has happened in the supply and demand for money. This is simply taken because, in their judgment, the economy needs additional money as it grows.

Mr. KING. That is right. That is one method of increasing the money supply. The other one, of course, as you know, would be through open-market operations.

Senator PROXMIRE. Yes.

I call attention of the nominee to the present situation. The Federal Reserve Board, according to your own words, has followed a moderate policy of not contraction but of restraint. They have expanded the money supply, but less rapidly than the economy has grown, perhaps. Do you think it is a good policy for the Federal Reserve Board and its advisers to pay attention to such elements as in the economy of the stock market?

In other words, as I understand it, the stock market has a fairly good record, certainly not a perfect record, but a fairly good record of preceding industrial falls or drops, preceding it by corresponding rise in stocks or fall in stocks.

Is it your judgement that this is a factor that should be noted, observed, and evaluated?

Mr. KING. Yes, sir; I think so, definitely. I think that every bit of information that we can get is of help in trying to arrive at an intelligent decision.

Senator PROXMIRE. Is it not true that the stock market is the best judgment of the Nation's investors on what is going to be the future level of profits and industry? At least, this is one element of what goes into making stock rises.

Mr. KING. It is a good element, but I think, at times, it is extremely difficult to understand.

Senator PROXMIRE. Sometimes it is completely wrong, too. But by and large the record, as I have seen it compared, is fairly good. They are right more than they are wrong.

The stock market dropped in January very very sharply. As I understand it, it wiped out the entire gain of 1959, and we are virtually back to the level of early 1959—the stock market indexes. Would you consider this to be, at least, one factor which would persuade you to consider the possibility of a change in monetary policy?

Mr. KING. It would certainly influence my thinking, yes, sir.

Senator PROXMIRE. You are familiar with the National Industrial Conference Board? You have heard of that organization?

Mr. KING. No, sir; I do not remember it. I might have heard of it, but I do not recall.

Senator PROXMIRE. The National Industrial Conference Board is a large business organization, economic organization, which attempts to appraise what is going on. One of the things they do is to make periodic surveys of the plans of executives.

The National Industrial Conference Board recently tried to assess the impact of so-called credit restraint on the plans and programs of American business. They interviewed some 228 manufacturers, and it was interesting to me to discover that they concluded that credit restraint has had virtually no effect, in the judgment of 228 manufacturing concerns, which I presume were typical because this is a very responsible and careful organization, on their plans for the future—the plans for expansion and their plans for growth and their plans for pricing. It had no consequence whatsoever.

Would this kind of finding influence you in your judgment as to the efficacy or effectiveness of monetary policy?

Mr. KING. Yes, sir. I would be affected and take all of that, any information I could get, into consideration. I think that it is inconceivable, though, that there would not have been some reduction in expansion of industrial output because of interest rates.

I have personal friends that I know that are in business that put off—

Senator PROXMIRE. I agree. There are some individuals that are affected.

I will call your attention to the fact that during the period of credit restriction between 1955 and 1957, we had a tremendous expansion in business plant, business equipment, business expansion. And the U.S. News & World Report, in the current issue, makes this finding: What is tight money doing to business operations? Not much, according to a survey of 228 manufacturers by the National Industrial Conference Board.

And then they go on to say that international financing is expected to take care of investment plans by 90 percent of the firms in the National Industrial Conference Board list. These are the big firms, the firms that really make the big investments and constitute the biggest factor in our economy.

Mr. KING. I would say this, sir, that to the best of my knowledge, the System's intention is not to stop anybody from doing anything per se, but rather one of not expanding credit so that it inflicts more inflation on the Nation. That is the basic approach that I take to the problem of—

Senator PROXMIRE. So that you do, you would, recognize that it appears to be a fact that many of the bigger business firms are not affected. They do not postpone their expansion plans. They do not limit their operations on the basis of monetary policy.

I think you and I perhaps could agree that smaller firms do. I had a small printing firm, for example. We expanded in 1955, but if we had waited a little while later, we probably would not have done it. And I think that is true of the smaller firms. The big firms, the big element in the economy, however, on the basis of this evidence of 1955-57 seem to go ahead regardless of—

Senator BENNETT. May I make a comment?

Senator PROXMIRE. I wish you would.

Senator BENNETT. I think it is healthy that American business can expand out of self-generated income rather than putting additional pressure on the credit market.

Senator PROXMIRE. I would agree 100 percent with the Senator from Utah.

Senator BENNETT. I am sure that is true of many small firms as well as many big firms.

Senator PROXMIRE. I think it is true, too. My point was, however, if one purpose of credit restraint is to bank the fires of inflation by discouraging borrowing, the effectiveness is very questionable in view of the fact that the manufacturers pay no attention to it and expand anyway.

Senator BENNETT. They do not expand by borrowing. Your article says they expect to expand from internal capitalization, which I think is good.

Senator PROXMIRE. I think it is good, too. I simply argue that credit restraint or tight money, whichever you want to call it, has not been effective and seems to be not effective on the basis of the very latest judgment of manufacturing executives in stemming the borrowing of manufacturers.

Mr. KING. Well, sir, I do not think monetary policy can affect everything and accomplish the ideal in everything at all.

Senator PROXMIRE. I think you are right. It has a devastating effect on the cost of financing schools and hospitals and municipal activity generally, although that is questionable, too.

Let me come to this point. The Federal Reserve made a study last summer which was just made available, a study of State and local bond financing during the first half of 1958. And one of the purposes of the study was to determine what effect high interest rates had in postponing construction.

This might be a very important effect in diminishing the pressure on prices by encouraging people to postpone construction to a later date. That may be very desirable in a period of inflation. What they found was very startling to me. They studied some \$2,685 million in dollar volume of issues during the first half of 1958. And it was a very competent, fine survey by your own organization, the Federal Reserve Board. They found of these \$2,685 million, only \$45 million in construction was delayed, state and local.

What does that mean? Does it not mean that, once again, this tight money policy is not having the effect of diminishing the pressure on prices by discouraging borrowing and business activity?

Mr. KING. As I said earlier, I think really the purpose of the System has been to restrain inflation more than to try to slow anything down or to stop anybody from doing anything. I think—

Senator PROXMIRE. If you do not stop them from doing anything, how do you stem the pressure on prices?

Mr. KING. Well, sir, it is up to each individual to make his own decision as to whether he will or will not do something according to the interest rates. Frankly, I do not think that the rates that are in general effect now are prohibiting anybody with a legitimate demand for credit or legitimate loan from getting credit.

Senator PROXMIRE. As I understand it, there are just two ways that the higher interest rates can mollify the effect of inflation. Number one is by tending to discourage borrowing. Number two is by encouraging saving.

We have been discussing borrowing. And on the basis of the evidence that I have been able to find—these are just two examples and there are many—as you know, there seems to be very little effect in discouraging borrowing. People pay more when they build their hospital or build their school or build their plant if they have to borrow money for it. There is a selective kind of inflation, but they do not postpone it. They still do it, and it still has this same effect on inflation as it would have if interest rates had not been increased.

So the borrowing aspect of this thing, it seems to me—the saving would be something else. I want to come to that in a minute—but the borrowing aspect, it would seem to me that the evidence is clear that credit restraint has not been successful in inhibiting borrowing.

Mr. KING. I think it all points up the limitations that monetary policy has and points up the need, as the Joint Economic Committee report has shown, for greater use of fiscal policy.

Senator FULBRIGHT. Will the Senator yield for questions?

Senator PROXMIRE. I would be delighted to yield.

Senator FULBRIGHT. Maybe you have covered this, Mr. King, but what do you think would be the effect if the budgetary surplus were \$12 billion instead of \$4 billion?

Mr. KING. A budgetary surplus?

Senator FULBRIGHT. A Federal budgetary surplus. The budget recently submitted to Congress provided a \$4 billion surplus, which is much less than our deficit last year. In other words, if this year's surplus balanced last year's deficit, instead of only a \$4 billion surplus, what would have been the effect upon the interest rates; this problem you are speaking of?

Mr. KING. I think that would tend to lower the interest rates, Senator. I would think that would be the normal consequence.

Senator FULBRIGHT. Do you think it would be beneficial to our whole fiscal policy, including this matter which is causing so much concern now, the balance of international payments, if we had a budgetary surplus of \$12 billion?

Mr. KING. Yes, sir; I think it would be a very, very healthy thing for the country.

Senator FULBRIGHT. Did the Federal Reserve Board recommend to the administration that they have a \$12 billion surplus instead of a \$4 billion surplus?

Mr. KING. No, sir; I do not think the Board, since I have been on it, has recommended anything along that line to the administration. I mean, we really do not, to my knowledge, include in recommendations to the administration in that particular field. We feel that our own—

Senator FULBRIGHT. The point the Senator was making illustrates the limitations of monetary policy. If the Board is interested in keeping the level of our economy on a reasonable basis, why does it not make a recommendation that it believes a budgetary surplus of \$12 billion would be beneficial to the economy?

Mr. KING. Well, sir, I would certainly be glad to recommend that to anybody, but I am a junior member of the Board and, as such, have not been called upon by the administration for an expression along that line. I would be glad to give anyone that thinking of mine, but I would not presume to advise the President about—

Senator FULBRIGHT. Do I understand that the administration does not consult the Federal Reserve System on important matters such as how the budget should be balanced and how our Government's fiscal policies are set up? I do not mean you personally; I mean the Federal Reserve System and the Board. They are not consulted?

Mr. KING. There is certainly some contact between the administration and the Federal Reserve Board. I personally have had very, very little. I make up my mind and cast my vote on each matter in an entirely independent manner.

Senator FULBRIGHT. The administration is in a very critical situation, it seems to me. It would be perfectly proper if the Board feels this way that they make a recommendation to try to straighten the administration out. It is in bad shape, apparently.

Mr. KING. Well, sir, I think the Board has been more concerned with trying to deal with its own direct statutory responsibilities.

Senator FULBRIGHT. But it is tied in with this other problem. I know the other members of the Board's staff, I have heard, thought that we ought to take off this ceiling on the interest rates in behalf of the Government's bond policy, in behalf of a better fiscal situation. You do recommend that, do you not, that we remove the 4¼-percent ceiling?

Mr. KING. I think it would be in the best interests of the country to remove it, at least on a temporary basis.

Senator FULBRIGHT. It is my understanding you all recommended that. I think you recommended it to this committee.

In answer to questions, you said, "Yes," you think that it is a good thing. Is that not so?

Mr. KING. Yes, sir.

Senator FULBRIGHT. I do not see why you are being so backward about recommending to the administration some more sensible policies with regard to its budget.

Mr. KING. Well, sir, I think the Board has had no desire to appear to be suggesting or advising the Congress or to the administration as to what they should do.

Senator FULBRIGHT. In answer to my question, then, you would recommend, if you were asked, that there be a larger surplus?

Mr. KING. Yes, sir.

Senator FULBRIGHT. Of course, there are two ways to do that. One is to cut expenditures, if they can; and, if they cannot, they ought to increase taxes, should they not?

Mr. KING. That is correct, sir.

Senator FULBRIGHT. Do you think an increase in taxes is justifiable, assuming they cannot find any way to cut expenditures?

Mr. KING. That would be a matter that I am glad the Congress would have to decide, Senator.

Senator FULBRIGHT. I know we need advice. I am asking your advice. You are here to give us advice.

Mr. KING. I would not recommend it is as long as we could maintain something like a \$4 billion surplus.

Senator FULBRIGHT. Now you are backing up. You said \$12 billion would be much better, and it would be good for the country. Why not 12?

I think it would be perfectly proper for you to answer. You are supposed to give us advice, both the Congress and the country. You are experts on this. You have nothing else to do, but contemplate these problems.

Mr. KING. I think a \$4 billion surplus would be a fine thing. I think \$12 billion would be better. But I would not recommend raising taxes to try to increase the surplus from 4 to 12.

Senator FULBRIGHT. Why not?

Mr. KING. Because I think, in the light of the circumstances that we are in today and what the country is trying to do and the position it is in trying to get and provide a climate for people to go ahead and develop their full capabilities and possibilities, that it would be undesirable.

Senator FULBRIGHT. Is it true that the net Federal take out of our gross national product is no more now than it was in 1953? Is that not true?

Mr. KING. In the form of taxes?

Senator FULBRIGHT. Yes.

Mr. KING. I thought it had gone up, Senator. I do not know the exact figures.

Senator FULBRIGHT. Your staff, I think, can tell you that the percentage of the gross national product today is no more than it was in 1953.

Is that not right, Mr. Young?

Mr. YOUNG (Ralph A. Young, adviser to the Board). That is about right, yes, sir.

Senator FULBRIGHT. And we have a growing economy. Why would you hold it back to the same level as 1953?

Mr. KING. I do not think it would be a matter of holding anything back. I think that the lower the taxes are in general, the more it stimulates people to go ahead with business enterprises that benefit, in my opinion, all of America. I do not think there is any such thing as saying that this level or that level is too high or too low. But I think that there is some point there where it does discourage people from going ahead.

So I would approach tax increases—although, as I say, that is not in my field. But since the Senator has asked me about it, I want to tell him what I think to the best of my ability. I think that increases only discourage this type of thing. And I think that it is fine for this country when people are encouraged to go ahead and are able to profit if they risk. Through the risk, they provide jobs for people of this country and, of course, that will be one of the tremendous problems that we have in this next several years ahead. It is consideration for the employment in the country that there are jobs for all of these people that will be here.

Senator WILLIAMS. Mr. Chairman, will the Senator yield?

Senator PROXMIER. I yield to the Senator.

Senator WILLIAMS. I wonder, in this connection, Mr. King, what you consider a healthy rate of growth in this country?

Mr. KING. Well, sir, I will admit that that is one that has me slightly buffaloed. I do not know exactly how it would be measured. I have heard people measure it in terms of gross national product, and I think that is certainly an important thing. But I think growth is something to be achieved through a climate of as much freedom as possible for the citizenry to go ahead in, rather than to try to artificially achieve any certain rate of growth. I think in producing the climate for expansion of the country, in producing a climate that will permit its citizens to be encouraged to try to expand their investments and their plant and operations, that we will truly achieve more growth than in trying to more or less, through governmental means, force a certain amount of growth.

Senator WILLIAMS. Are you now satisfied with the climate and the opportunity for growth at this time?

Mr. KING. No, sir. I confess, I am never completely satisfied with anything, I am afraid. I am more inclined to hope that we can continually perfect our system. I think that we have been having a reasonable growth in this country.

As I go about the country and into other cities and observe industries, such as aircraft, and I see the tremendous expansion that we have had in this country in the last few years, I think that we really have had considerable growth. Now, I do not know exactly how I could measure that in any percentage, for example. But from what my eyes tell me, we have had a considerable amount of growth. I am not against more growth, because I am for the Government providing the most favorable climate possible, conducive to its citizenry to go ahead and provide this growth.

Senator WILLIAMS. Thank you.

Senator PROXMIRE. I want to return in a minute to the effectiveness of monetary policy. But before I do that, I want to follow up the questioning of Senator Fulbright.

The Chairman of the Board of Governors of the Federal Reserve System, Mr. Martin, speaks out frequently and with great effectiveness on the editorial pages of America. Also, of course, we listen to him. I read everything he says. He is a very persuasive man when he speaks out. Does he speak out as an individual, or does he consult you and clear what he says with you and the other six members of the Board?

Mr. KING. Well, certainly, sir, he is free to say many things on his own by virtue of his position. Official Board matters, though, such as any policy decision or any action, including replies to the congressional committees and the like, of course, come before the Board for its inspection, criticism, or alteration.

Senator PROXMIRE. He makes his recommendations to Congress, which he has done frequently on various policies, including the 4¼-percent limit, after consultation with you and other members of the Board, or does he do that as—

Mr. KING. Oh, no, sir. He does that in consultation with the Board during regular Board meetings.

Senator PROXMIRE. You have had an opportunity to pass on that with your approval or disapproval?

Mr. KING. Yes, sir.

Senator PROXMIRE. Can you tell me, or is it private, as to how that vote went? Was it unanimous?

Mr. KING. Well, sir, I would not think it was proper for me to—

Senator PROXMIRE. That is all right. Just say it was an executive decision.

Mr. KING. That is right, sir.

Senator PROXMIRE. You say that you thought we should have a surplus of \$4 billion, which it just happens is the figure that the President recommended. Do you favor the President's recommendation for an increase in the gas tax and the postal increase that he recommended?

Mr. KING. I am sorry, Senator, but I am not qualified on those. I know nothing about those particular fields.

Senator PROXMIRE. That is the only way we can have the surplus, unless you say we ought to have other taxes.

Mr. KING. Well, sir, I really do not know anything about those particular taxes. I think it is outside my field.

Senator PROXMIRE. When you said a \$4 billion surplus, you apparently meant we ought to have as big a surplus as possible. Whether we have those taxes or do not have them is a matter of—

Mr. KING. That is right.

Senator PROXMIRE. To return to the effectiveness of monetary policy, you agree that it has its very substantial limitations? I would like to turn to the savings aspect and call your attention to a Wall Street Journal article just yesterday which had this to say:

The best overall gage of savings is the Commerce Department's figure for personal savings. This is the difference between personal after-tax income and personal consumption expenditures. The Department's figures for the full year of 1959 are not complete, but the President's Council of Economic Advisers estimates they will show personal savings last year totaled \$23.3 billion, down from \$23.5 billion in the previous term. (Very close to the same, but a slight drop.) The 1959 figure would amount to 7 percent of after-tax income down from 7.4 percent in 1958 and the lowest percentage for any year since big spending 1955.

The fact is that this year we have the highest interest rates we have had in 30 years. Yet, the evidence is overwhelming that people are saving less.

This article goes on to point out that the most savings executives—they talked with a number of bank executives—doubt that higher interest rates induce consumers as a group to save a larger percentage of their income. Therefore, it would seem that if high interest rates do not discourage borrowing, if they do not encourage savings, what real effect do they have in dampening the flames of inflation?

Mr. KING. Well, sir, they have a limited effect on it, I think, as there are so many other factors bearing on the problem. I think, though, how bad it would be if it had not been for what dampening effect it does have. I think I recognize limitations of monetary policy, but I am very happy that the System has done what it has done to try to maintain the integrity of our currency.

I am inclined to think that if the rates had been lower in general, how much less the saving would perhaps have been and how much more inflation we would have had. I think the Federal Reserve

System certainly does not try to make a case for stopping inflation, but rather of doing what it can to keep the value of the dollar as stable as possible.

Senator PROXMIRE. Is not this the same thing? What is the difference between stopping inflation and doing what it can to stabilize the dollar?

In other words, if it is not taking any action that is going to stop inflation, then it is not doing anything that is going to stabilize the dollar.

Mr. KING. Yes, sir, as I say, I think their ideas are to do what we can to be helpful, realizing that we cannot do the complete job. But the realization that we cannot do everything is no reason to do nothing.

Senator PROXMIRE. What effect can the monteary policy have if it does not substantially discourage borrowing and if it does not encourage savings?

Mr. KING. I think it is the alternative that we have to think about which is the result of what would follow from releasing credit in greater and unwarranted quantities through openmarket operations or through reserve requirements.

Senator PROXMIRE. Mr. King, this is a matter of degree and, of course, when we speak as polemicists—I am not accusing you of being one, but what we do is accuse our opponents of having a very extreme position, and we attack that. I have never advocated any sudden, huge expansion of the money supply. I do not think Senator Douglas has or those of the rest of us who disagree with the Federal Reserve have done so. What we have advocated is that we have a moderate expansion and keep pace with the growth in the gross national product.

Why do you think that this would tend to be inflationary?

Mr. KING. I think it is just a matter of common experience that the more credit that is turned loose—and even on pure economy theory—the more money there is to buy the same amount of goods, and that is necessarily going to produce a certain amount of increase in prices that are not related to increase in productivity.

I am, frankly, in favor very much of providing what increases are proper for the money supply to be able to go ahead and do its part in the achievement of the maximum growth and development consistent with as much stability of the currency as possible. It is a very inexact thing, and I am reminded of the Radcliffe report issued in England this past year.

They studied for 2 years, and 100 of the most learned people on the subject participated. When I got through it, I came out with the conclusion that they, too, realize it was a complicated subject, and that they had not been able to really say anything absolute, either—that it is more a matter of whether human beings are to be entrusted with the responsibility to make these decisions or whether there is a way of doing it by a machine of some kind to grind out answers and policies.

I am aware of the frailties of humanity and of the frailties of my own mental faculties. I merely hope to do the best I can for the country, and I can assure you, Senator, that my devotion is to this country more than anything else. I intend, if I am confirmed, to do

the best I can for the country. I am not an expert, Senator. I have been on this job for about a year, and I have tried to apply myself, and I have done the best that I know how.

With your permission and the permission of the Senate, I will continue to try to learn with, I think, a very, very open mind, based on the dedication for what I feel is a great sense of responsibility to the American people as a whole, not just to the American people today or those of us that are occupying this room or those that are on earth today, but also to those that will come along in the future. I think in having this sense of responsibility, it is awfully hard to say that this, that, or the other is absolute in the field of monetary policy.

I just propose to do the best I know how to do and to try to continue to learn. I do not pose, as I say, as an expert. If I stay on the Board for possibly several more years, then perhaps I might be considered as being one. At least, I should hope to become more expert than I am now. But that is simply my intention. It is just to do the best that I know how to do.

Senator PROXMIRE. I think that is a very commendable statement of intentions.

I realize there are no final definitive answers. But this is one of the reasons why, with human frailty, with its tendency for agencies to become the satraps of the industry they are supposed to regulate—that is why some of us are thinking about the possibilities of limiting the power of the Federal Reserve so we would have a regular increase in the monetary supply rather than have one that is subject to crystal-ball gazing and guesses and one that seems to be resulting in higher and higher interest rates.

I would like to call your attention to some figures that I have noted over the past 8 or 10 years. The fact is that our money supply has increased between 1952 and 1959 at a fairly regular rate from \$129 to \$140 billion. At the same time, the gross national product has increased from \$347 to \$480 billion.

In order to make this simple, the fact is that the ratio of the money supply to gross national product has declined sharply from 37 percent in 1952 to 36 percent in 1953 and went back up to 37 percent in 1954 as the Federal Reserve Board tried to expand monetary supply to meet the recession problems. Then, they contracted it again to 34 percent in 1955 and 33 percent in 1956 and 31.5 percent in 1957. They let it go up a little in 1958—not much—to 32.7. Now it is down to 29 percent. It is the lowest relationship that we have had in 30 years.

The result of that has been to increase interest rates on Treasury bills from 1.8 percent in 1952, 1.9 the next year, and so forth, up to 4.6 percent today.

It has had the effect of increasing AAA bonds from 2.96 to 4.6 percent.

My question is: Is this policy of keeping the money supply stringent in relation to the gross national product wise in view of the very sharp increase in interest rates over the past 8 years?

Mr. KING. Well, sir, I think generally that the monetary policy has been wise over the past 8 years. While I have not been there for that period and thus am not qualified to say, I nevertheless think that it is entirely possible that the Board, the System, has

done some things that it would have been somewhat better in retrospect to have done in a different way.

Senator PROXMIRE. Let me go to some more specific points on this. When the interest rate increased from roughly 2.1 percent up to 4.1 percent on long-term bonds, municipal bonds, it meant that the cost of interest in financing the building of a school, a \$1 million school, went up by \$300,000 if it is financed over a 30-year period. It went up by that much without providing another brick, and without providing a dollar's increase in salary for the people working on it. It did provide great discouragement for school builders, a great burden on property taxpayers in various local districts. This is an enormous price to pay for a monetary policy which a Governor of the Federal Reserve Board admits is very limited in its impact, a monetary policy which cannot point to any specific benefits it has had in dampening the effects of inflation.

The school example that I pointed to is exactly the same with regard to hospitals. It is the same with regard to all kinds of things which this country urgently needs. The effect has been to increase the price very greatly, to some extent to discourage building or to result in building only at very great cost.

Mr. KING. Well, Senator, I can say that I do not believe I have any bias toward high interest rates or toward the institutions that we regulate. I would say, rather, if I had any, it would be on the other side because of my personal background, which I cannot erase in any way. I cannot get rid of the fact that I am from industry, primarily, before I came on this Board to which I now devote my full time. That industry is directly connected through its operations, its profits or losses—and we have had losses—with the construction business. So I certainly have no desire to dampen construction.

As I say, if I had a bias, it would be in that direction. I certainly—

Senator PROXMIRE. You recognize, then, the very adverse consequence on school construction and on education in America? The fact is that this high-interest-rate policy has greatly increased the cost of school construction to local school districts.

Mr. KING. Well, Senator, the only schools I am familiar with are the ones in my home State. And even in spite of monetary policy of the past several years—as I say, I do not propose to defend every action of the Federal Reserve System back into history, but only that I have approached it from the standpoint of trying to do what I can while I am on the Board in the interests of the country. But in our State, our schools are going ahead very well.

There are some cases, naturally, where the people in our municipalities want to do all at once everything that they could reasonably do in a period of several years. They would like to constrict it all into one period. Naturally, if they do this it will put a load and a strain on the credit markets, which has a tendency to—not a tendency—but rather, which certainly adds to the cost of the buildings.

But I believe, frankly, that what restraint has resulted to that particular field, it has been worth it to the community to bear that amount of restraint rather than to have borne the alternative, which would have been Federal Reserve creation of inflationary credit in larger and larger amounts.

Senator PROXMIRE. No. Supposing they simply followed a policy beginning, say, in 1954-1955, of maintaining a ratio of 34 percent, a moderate ratio much lower than it has been during most of the past 30 years—a little bit higher than the 1920's, but not a monetary stringency so that interest rates are now at the lowest level since—

Mr. KING. Well, Senator, I think you will have to recognize that the velocity of money during that period, the rate at which people have found it possible to turn money over—

Senator PROXMIRE. Of course. The velocity of money cannot do anything else if the money supply is low and the gross national product increases. By definition, the velocity of money is bound to go up. By definition it cannot do anything else. It is bound to follow. If you diminish the money supply, cut it in two, and if the gross national product somehow maintained its level, then you just have a doubling in velocity. It is just automatic. So when you say velocity takes care of it, sure, it does.

The way you can tell the effect of this velocity taking care of it is in the interest rates and what happens to the interest rates. What has happened is, as I have shown, it has increased enormously, not only for Treasury bills and the taxpayer's costs, but also for people who want to build schools, hospitals, and for individual companies or businesses.

Senator BENNETT. Will the Senator yield?

Senator PROXMIRE. Yes.

Senator BENNETT. I have been following the Senator's reasoning. If we carry it to a logical conclusion, the solution of the problem is to supply all the money the market demands in terms of—

Senator PROXMIRE. May I answer my friend from Utah by saying the "logical conclusion" is *ridiculo ad absurdum*. You can make any argument ridiculous by then saying, "provide an infinite amount." What I am saying is we should simply have a moderate policy of fairly neutral action by the Federal Reserve Board, not pegging interest rates, but keeping the supply of money at a level so it keeps pace with the growth in the economy.

Senator BENNETT. To me, there is a very definite necessary relationship between the supply of money and the savings of people. I have been listening to your questioning of the witness, and it seems to me you have put the whole burden on the amount of increase in the supply of money for credit.

As a matter of fact, money and credit are not wealth, and the people who borrow money to build school buildings or buy houses are limited, eventually, by the amount of actual savings, wealth, that the people are willing to contribute to the process. If we doubled the supply of money tomorrow, we would not increase wealth by \$1. But eventually, we would double the price of everything we put out.

This concentration on the fiscal supply of money as the solution of this problem seems to me to be essentially fallacious.

Senator PROXMIRE. May I answer my good friend from Utah by saying that the only element in the economy over which the Federal Reserve Board, in my judgment, has any degree of control is the money supply. I would agree 100 percent with my good friend from Utah that this is not the whole answer at all. I am saying it is an answer that affects interest rates. It is an answer that affects inflation

very slightly on the basis of the best evidence we can find that has not been contradicted. But it is an answer which has very serious consequences on the American people in many, many very serious ways. And I am trying to get from the nominee his thinking about the consequences, not only on the economy as a whole and in general, but the consequences on our schoolchildren and the consequences on people who want to buy a home and build a house.

Senator BENNETT. The thing that bothers the Senator from Utah is that you set up your premise which, to me, is not stable or sound, that the failure to increase the actual supply of credit is the sole reason for the rise in the interest rate. Then you finally bring yourself to the point, as I have tried to follow you, that the monetary policy of the Federal Reserve is to bear the whole responsibility for the situation you feel is bad.

Actually, I think over the last 3 or 4 years the supply of available credit in this country has substantially increased, as has the supply of savings. I do not agree with the premise of the Senator that the policies of the Federal Reserve Board have not increased savings and therefore, they have no effect on that phase of the inflation problem and they have not dampened down borrowing. Actually, we have no way of testing what the situation would have been like if the policy the Senator proposes had been followed out. But, looking back at history, generally, when those conditions existed, we have had high inflation. I feel the record should not be based entirely on the idea which I think the Senator, probably unintentionally, is putting into the record that the Federal Reserve, by failing to increase the money supply at a rate consonant with the increase in the gross national product, has somehow been solely responsible for the rise in the interest rates and this, in turn, has choked off, or has helped to choke off, our growth.

Senator PROXMIER. May I reply to my good friend from Utah by saying that perhaps the word "solely" would not be correct and, as the Senator from Utah said, this was unintentional.

Let me say it is intentional on my part to say that the one conscious agency in our society that has been influencing in a planned way, in an orderly and thoughtful way, the rate of interest has been the Federal Reserve Board. Perhaps the Treasury to some extent, but I think—the Federal Reserve Board has primarily done this. Let me show you that in 1952 the ratio was 37 percent of money supply to gross national product. The interest rate on bills was 1.8. The next year, the ratio dropped, interest rates went up—36 percent and 1.9. The next year—this was a recession year, 1954—the ratio went up again. The money supply was increased and interest rates dropped. They dropped all the way down to 1 percent.

The next year, the ratio was diminished as the money supply failed to increase as gross national product increased. What happened to the interest rates? They went up sharply. The next year the same thing happened. Money supply was maintained almost static. As the gross national product grew, interest rates shot up to 2.7 percent.

The next year, exactly the same thing happened. The ratio dropped down to 31.5; interest rates went up to 3.3. The next year the Federal Reserve Board followed the policy of credit ease. They increased the

money supply. The gross national product remained about the same. That was the recession year of 1958. Interest rates dropped to 1.8.

And this year, 1959, during the middle of the year, the ratio was 29 percent. It is even less now, I believe, and interest rates went up.

I say this is direct, immediate; this is as explicit and specific as we can possibly get. This is one agency which has amazing control over the element in the economy that they are supposed to control, and that is the interest rate. I do not know how anybody can dispute that in view of these figures.

Senator BENNETT. I think they are not charged with control of the interest rate; they are charged with the management of the money supply, and the interest rate changes as an automatic result. I think that is one of the basic differences between me and the Senator from Wisconsin and one of the things that I think is the basic fallacy in his assumption that the Federal Reserve Board is charged with the responsibility of fixing interest rates.

Interest rates are an effect; they are not a cause.

Senator PROXMIRE. They are an effect that follows inevitably, I think, from this policy.

I do not want to detain the nominee too long. You have been very, very patient as well as responsive in your replies. I would like to call your attention, however, to two other things. One is the front page of the Wall Street Journal just 2 or 3 days ago. George Shea who wrote this is a very fine financial writer, and I think we can agree the Wall Street Journal is one of the leading financial papers in the country. Mr. Shea in the Journal has just pointed out our economy is well below capacity in most industries. Automobiles will be far below the 8 million capacity which they achieved in 1955. Machine tools will be below two-thirds of capacity. Steel is about 95 percent of capacity now, but they are replenishing inventories because of the strike situation, and they are expected to operate during most of the year at 80 or 85 percent of capacity. So we do not have a situation which has excess demand putting pressure on capacity and driving up prices in that sense.

Also, I would like to call your attention to the point that the most recent figures we have on employment is that 5.2 percent of the work force, far more than 3 million men, are out of work now, looking for work, bidding for work. There is an excess labor supply.

Under these circumstances, it is apparent that we do not have a shortage of human resources, and we do not have a shortage of factory capacity and the argument that we have an excess of demand that is likely to cause an inflationary situation, it seems to me, is answered by the cold, hard facts of life that show, on the contrary, we have an excess capacity and an excess labor force.

Under these circumstances, the argument for further credit restraint is answered fairly conclusively by the facts of life, particularly in view of the fact that the stock market appears to be anticipating a further diminution in industry activity toward the end of the year and in view of the fact of the National Industrial Conference Board and others suggesting that they are going to taper off industrial activity.

I would like your reaction to that.

Mr. KING. Senator, those are all factors I would take into consideration in arriving at a decision. There are, of course, many other factors that would have to be considered in connection with that. I will say to you, sir, that I very strongly dislike seeing people out of work.

As a matter of fact, the business that I came from—and I am not an official any more—has a plant in Monroe, La., that manufactures oak flooring. The plant is shut down right now. Normally there are about 125 people there, and I hate to see those people out of work, Senator. I have had a very close relationship with them. They are not numbers on a piece of paper to me. They are real people. So I have a very, very keen awareness of people that are out of work. But that has happened on occasions.

I suppose that my main interest in being on this Board was to attempt, within the framework of my capabilities, to help make decisions that would minimize unemployment and would permit the country to go ahead on an even keel toward sustainable growth as much of the time as possible, because the ups and down of the economy can have very, very terrible effects on business, and that has an effect on unemployment.

So I am probably more interested in this job because of an awareness of these things that you talk about. As I have indicated I certainly oppose unemployment. I do not think, though, that the answer to call of the ills that we have is for the Federal Reserve to grind out more and more credit.

In fact, Senator, I think it is really an unreasonable position to say that the Federal Reserve is responsible for all this problem that we are in. I think that the Congress must take its full share of the responsibility. And my hope is that if I am permitted to continue in the Federal Reserve that we can conduct our policies in harmony with the Congress toward a concerted effort to give the American people more stability.

Senator PROXMIRE. I would like to ask you about two specific problems. One is the 3-percent limit on time deposits for national banks, which the Federal Reserve has maintained. There is a feeling on the part of many people that this may be a concession to the industry, that, obviously, the national banks have an interest in limiting competition among themselves and limiting the amount they have to pay out to time depositors. And I am wondering, in view of the very sharp increase of interest rates generally, in view of the feeling that the Federal Reserve Board has expressed that Congress is delinquent by not taking the 4¼ percent interest off long-term bonds, why the Federal Reserve Board does not permit the national banks in this country to be competitive, too, and not maintain this artificially lower pegged interest rate which is in the interest of the banks, certainly, and not the general public.

Mr. KING. Senator, I can give you only my own thinking on that. The subject has been discussed pro and con at the Board on many, many occasions.

The Congress, in what I consider its wisdom, has required the Board to place a maximum limit on the interest that member banks may pay on time and savings deposits. And the Board increased that maximum about 3 years ago, I think. That was before I

came on the Board. It was then moved from 2½ to 3 percent, and the FDIC took the same action for nonmember insured banks.

I agree very wholeheartedly that, if the present general interest-rate structure continues, there is no reason to deny people a higher rate of return on savings deposits unless it might involve some danger by placing the banks in competitive positions of having to bid too highly to get deposits. The mere moving up of the maximum, however, would not require the banks to pay higher rates since the maximum rate, whatever it is, is only permissive. But, then, if the maximum permissible rate were ever moved down as the general structure of interest rates moved lower, that would be a harder action in the sense that it would require banks that were paying the maximum to reduce their rate. Therefore, the movement of the rate up can be said to be an easier thing than a movement down in the ceiling.

My belief is that an increase in the past, and I am not speculating on the future because I will have to decide that in the light of the conditions at the time, but in the past, though, it has been my belief that an increase in it might help to shove the whole structure into higher ground, which I think could have the effect of making the next drop a sharp drop and, therefore, contribute to a more rigorous up and down.

As I said earlier, I am more concerned with trying to straighten out these ups and downs or make them as little up as possible and also as little down as possible and to let the economy ride along on as much of an even keel and with as much stability and sustainable growth as possible.

Senator PROXMIRE. This is your province. It is something which you should have a conviction about what Congress should do. Would you recommend that Congress just knock off this Federal Reserve power to determine, fix, the maximum limit on time deposits and let it be competitive?

Mr. KING. No, sir; I would not.

Senator PROXMIRE. If we did eliminate this power, you would not have to worry about the argument you are making now that you have trouble lowering it. It would be competitive. That would be it.

Mr. KING. I would rather have the trouble of doing it, Senator, than to have it left wide open. You would risk too wide open competition. I think the legislative history shows that a reason for enactment of the law was to attempt to eliminate wide open competition of banks for savings deposits, and I am aware of the fact that today this places commercial banks in rather poor competitive position with other savings institutions and also even with—

Senator PROXMIRE. Why should they not be competitive?

Mr. KING. Sir?

Senator PROXMIRE. Why should they not be competitive?

Mr. KING. Well, sir, I think that they should be. I think it is really more a question, though, of whether it is better to throw down safeguards or to keep them where they can be maintained in the absence of safeguards in other fields. I think it is entirely true that the scramble for the funds of other people in the form of this fellow bidding more and this one bidding more and this one bidding

more contributes to a subsequent drop in the economy that is very, very hard on people.

Senator PROXMIRE. You have a scramble now with savings and loans bidding it up.

Mr. KING. Yes, sir; that is right.

Senator PROXMIRE. This is just one artificial limitation. One area does not provide a blanket overall limitation for all institutions.

Mr. KING. That is correct, sir.

Senator PROXMIRE. It seems to me inefficient and, in a sense, it handicaps the national banks although I can see why they would be interested in maintaining it.

Mr. KING. I will say this, too: If I thought this developed to a critical enough point, I would probably conclude I had to vote to raise that minimum. The Board has not voted on this. I am expressing an opinion here that has not been an official position I have taken on the Board. We have discussed it as I indicated earlier.

Senator PROXMIRE. You have an open mind on it?

Mr. KING. Yes, sir.

Senator PROXMIRE. All right.

I just have one further area of questioning, and that is with regard to reserve requirements. There has been criticism which may or may not be well founded of a policy the Federal Reserve Board follows, which is mighty profitable for the banks and mighty expensive for the taxpayer. This is to increase the money supply whenever the Federal Reserve increases it, by lowering reserve requirements.

On the other hand, the way the Federal Reserve contracts the money supply when it does this is by engaging in open-market operations. If open-market operations were used as a means of increasing the money supply, it would be done by the Federal Reserve Board going into the bond market, buying bonds and receiving the income that private banks now receive from those Federal bonds. And if they did this over a period of 8 or 10 years, it would mean a very substantial procurement of Federal bonds. It would mean a sharp reduction in service on the national debt, and it would be in the great interests of the economy for our Nation. We could reduce our Federal cost by hundreds of millions if the Federal Reserve followed this policy of expanding the money supply by open-market operations instead of reserve requirements, although the banks might not enjoy profits that they enjoy under present Federal Reserve policies.

How do you feel about that?

Mr. KING. Well Senator, I feel that they are both tools for a flexible monetary policy. I think that it is very advisable to leave the Board, if the people who are appointed to it are considered competent to make reasonable decisions—that it is better—

Senator PROXMIRE. Let me just interrupt at this point to say it is my understanding that the members of the Board feel they ought to be 10 percent down from 16 percent now. That would mean a very great increase in the supply of money over a period of many years. It would mean a great improvement in bank earnings. It would also mean that the Federal Government would be forgoing a mighty substantial revenue it should be enjoying. So it is a matter of whether you are for the taxpayers or the bankers.

Mr. KING. Well, Senator, I can assure you I have no bias toward the reserve requirement route of increasing the money supply. I think that it is——

Senator PROXMIRE. Why does the Board always do it this way? Why does it not ever do it by open-market operations?

Mr. KING. It has not been done since I have been on there, sir. Reserve requirements have not been—I am not competent to defend the Board and the System for all of their actions in the past.

In fact, I might disagree sometimes with some of the actions——

Senator PROXMIRE. May I say that we passed a bill last year. I was the author of a similar bill. The bill we passed was the chairman's bill, but my bill was similar to permit banks to count vault cash. This bill meant that credit could be expanded. This was my understanding. But we made it clear that the new law should not be used for this purpose. The law was simply a means of correcting inequities and permitting the country banks to take advantage of their vault cash and thereby create a more equitable situation.

However, it is my understanding also that the Federal Reserve Board has permitted banks to count some degree of their vault cash now in accordance with the law and has not contracted reserves when they did it. So the effect has been to expand bank reserves. The Federal Reserve expanded the money supply by following this route in recent months. Is this not correct?

Mr. KING. Yes, sir, that is correct, although the increase in relation to the total is rather small. The Board felt that it was desirable to make a start in implementing the act, although an ideal time to implement that feature of the act would be in a time of decreased activity. The Board had a very strong feeling of not wanting to do anything through vault cash to affect the overall economy one way or the other. Consequently, the action, which was of a seasonal nature, was rather small and was, I should say, a start toward effectuating the purposes of the act.

Senator PROXMIRE. Your answer is what worries me because it implies that, given a period when you think the money supply might be increased, that you are going to follow a policy of permitting vault cash to be counted as soon as you can, which is a matter of expanding bank reserves and thereby the money supply by permitting the banks to increase their loans and enjoy more profits.

It is not the way of expanding the money by increasing the Federal Reserve Board purchases of Government bonds.

Mr. KING. Senator, my own proposal and plan which I presented to the Board—even though I was junior and I recognized my neophyte status, I did present a plan to the Board. My plan called for increases in reserve requirements to offset the vault cash permitted to be counted. My plan was not accepted, and it did not hurt my feelings at all because I realize that I was very, very junior. And, on further thought, I realized that possibly any action to permit the counting of vault cash in large amounts and offsetting with reserve requirements might have an adverse effect on the economy as a whole, and that it would possibly be better, in the light of the views of those with more experience with the subject than I, to more or less abandon my approach to the matter at the time.

But I think that should be fairly strong evidence that I do not lean toward increasing the money supply in that direction alone.

Senator PROXMIRE. So your method of increasing money supply would be by open-market operations?

Mr. KING. Well, sir, I would not want to make a statement as to what I would do in the future in the light of the then existing circumstances.

Senator PROXMIRE. You feel on the basis of what the current situation is that that might be a wiser way. You would certainly consider as an advantage of open-market operation that it is a way of reducing the cost of servicing the national debt. That would be an important consideration for you?

Mr. KING. That would be an important consideration.

Senator PROXMIRE. I think that is all I can ask.

Mr. KING. Yes, sir, it would be.

Senator PROXMIRE. Thank you.

Mr. Chairman, I would like to make one correction for the record. I inadvertently used the index of AAA bonds with corporations before, and I should have used the Standard and Poor Municipal Bond Index, which is even more decisive in the point I wanted to make.

Between 1952 and currently, the interest rate has gone up from 2.19 to 4.2. And, as I calculate, the cost of a \$1 million school over a 30-year period, it has increased by \$300,000 or nearly one-third of the total cost because interest rates have increased as they have since 1952.

I would like to tell the nominee that he has been most patient. I did not mean to make a marathon interrogation, but it appear I have done so. You have been very kind and thoughtful in your answers. I certainly did not mean to do anything improper in questioning you about your views. I do think when a man is appointed to the Federal Reserve Board to be one of the seven money managers of this Nation for a 14-year period, that we have a duty to find out your views, your opinions, and, in doing so, of course, attempt to evaluate your ability as well as to just get the facts about your biography.

Mr. KING. I agree with you entirely, Senator. I have really enjoyed today. I think I have enjoyed this more than any day I have been in Washington, frankly.

Senator PROXMIRE. I'm glad to hear it. Thank you very much.

Senator SPARKMAN. Mr. King, I shall not detain you longer. The hour is late. Let me see if I can more or less summarize your view as stated in the early part of your questioning.

That is when you were discussing guidelines you would use. You consider the acts of Congress, the laws passed by Congress, as being your guidelines?

Mr. KING. Yes, sir.

Senator SPARKMAN. But that does not mean that you disregard opinions of others such as Senator Proxmire? You would take these as advisory and consider them along with other factors?

I believe from your comment that you must have read the report of the Joint Economic Committee issued recently?

Mr. KING. Yes, sir.

Senator SPARKMAN. You are familiar with the various recommendations made in it?

Mr. KING. Yes, sir.

Senator SPARKMAN. Senator Bennett, anything further?

Senator BENNETT. No further questions.

Senator SPARKMAN. Thank you very much, Mr. King.

Off the record.

(Discussion off the record.)

Senator PROXMIRE. Mr. Chairman, I move the nominee be favorably recommended.

Senator SPARKMAN. All right.

Senator BENNETT. Second the nomination.

Senator SPARKMAN. A motion has been made and seconded.

Those in favor say, "Aye."

Senator PROXMIRE. Aye.

Senator SPARKMAN. I vote, "Aye," and I am voting Senator Robertson, Senator Fulbright, Senator Frear, and Senator Williams, "Aye."

Senator BENNETT. I will vote Senator Capehart, Senator Bush, Senator Beall, in addition to myself, "Aye."

Senator SPARKMAN. If there are others, I would suggest they be given an opportunity to indicate their vote.

Thank you very much, and it will be reported favorably.

The meeting stands in recess.

(Whereupon, at 12:35 p.m., the committee recessed subject to call of the Chair.)

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