

NOMINATIONS OF OWENS AND ROBERTSON

HEARING
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
EIGHTY-EIGHTH CONGRESS
SECOND SESSION
ON
THE NOMINATIONS OF HUGH F. OWENS TO BE A MEMBER
OF THE SECURITIES AND EXCHANGE COMMISSION, AND
JAMES L. ROBERTSON TO BE A MEMBER OF THE FEDERAL
RESERVE BOARD

MARCH 11, 1964



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**NOMINATIONS OF HUGH F. OWENS TO BE A MEMBER
OF THE SECURITIES AND EXCHANGE COMMISSION,
AND JAMES L. ROBERTSON TO BE A MEMBER OF THE
FEDERAL RESERVE BOARD**

WEDNESDAY, MARCH 11, 1964

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

The committee met, pursuant to notice, at 10:05 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson (chairman of the committee) presiding.

Present: Senators Robertson, Sparkman, Douglas, Clark, Proxmire, Bennett, Javits, and Dominick.

The CHAIRMAN. The committee will please come to order.

We are pleased to have before us today two very fine gentlemen, one of whom has been nominated to be a member of one of our leading financial institutions, the Securities and Exchange Commission, the other for the important Federal Reserve Board.

The one nominee has the same name as I do; unfortunately, I can't claim kinship but I am proud of the prominence he has given that name in all sectors.

Mr. Owens is nominated to fill the remainder of the term of our friend and colleague, Senator J. Allen Frear, ending June 5, 1965. Mr. Robertson is nominated for a term of 14 years beginning February 1, 1964. He has been serving since his previous term expired on January 31, pursuant to section 10 of the Federal Reserve Act, which provides that members shall continue to serve until their successors are appointed and have qualified.

The chairman is pleased to note in the audience our distinguished colleague from Oklahoma, Senator Mike Monroney. If he will come up, we would be pleased to have him present his constituent.

Senator MONRONEY. May I bring him with me?

The CHAIRMAN. Yes, indeed.

Gentlemen of the committee, I don't introduce to you, but I present our distinguished colleague from Oklahoma, Senator Monroney.

**STATEMENT OF A. S. MIKE MONRONEY, U.S. SENATOR FROM THE
STATE OF OKLAHOMA**

Senator MONRONEY. Thank you very much, Mr. Chairman, and Senator Clark. It is a privilege to be back in the Banking and Currency Committee, where I had the privilege of serving for several years.

Senator CLARK. You are missed.

Senator MONRONEY. I have missed the committee, too.

To introduce the constituent, Mr. Hugh Owens is 54 years old, having been born in Muskogee on October 15, 1909. He is the son of the late Mr. J. F. Owens, former president and chairman of the board of Oklahoma Gas & Electric, and the late Mrs. Owens. His father was one of the great pioneers of Oklahoma and virtually was the founder of this very large and successful public utility.

He attended high school at Georgetown Preparatory School here in Washington, received his A.B. degree from the University of Illinois, and his law degree from the University of Oklahoma. Upon graduation from law school, he was for about 2 years associated with a Chicago law firm specializing in securities registration under the then new Securities Act of 1933 and Securities Exchange Act of 1934. He came to Oklahoma City in 1936, where he was for some 8 years associated with the firm of Rainey, Flynn, Green & Anderson, one of the foremost law firms in Oklahoma. He later was a partner in the firm of Hervey, May & Owens, and later in private practice alone.

Following an investments scandal which rocked the State because of its large proportions, the State of Oklahoma passed a new and vitalized Securities Act of 1959, under which we operate at present. The new law is administered by a commission composed of one lawyer, one certified public accountant, and one banker, all appointed by the Governor. The administrator serves at the pleasure of the commission. Mr. Owens has been administrator of the Oklahoma Securities Commission since October 1, 1959.

Mr. Owens has done an exceptional job as the State securities administrator. He is a member of the executive committee of the North American Securities Administrators Association, the actual leader of the Midwest Securities Administrators group, representing 22 States in the heartland of the country. I believe, from the mail I have received and the people who have written regarding his nomination, that he is possibly one of the most respected and well-liked State securities administrators in the Nation.

Several factors make this gentleman an ideal choice for the vacancy on the Securities and Exchange Commission. Oklahoma was recently cited in a speech by the Securities and Exchange Chairman as being one of the two States doing the best job of State regulation of the securities industry.

Mr. Owens is a devoted family man, an active Catholic, a former vice president of the U.S. Junior Chamber of Commerce, and a combat veteran of naval service in the Pacific during World War II.

Both professionally and personally I can recommend him most highly.

May I say that Senator Edmondson joined in the recommendation to the President for Mr. Owens to the position he has been nominated for.

The CHAIRMAN. So the nomination bears the endorsement of your junior colleague, as well as your own?

Senator MONRONEY. Yes. Senator Edmondson is out of the city or he would be here. He endorsed and recommended Mr. Owens most

highly. As a matter of fact, while I believe the administrator is chosen by members of the Board, these were appointees of Governor Edmondson—then Governor Edmondson. I am sure he had a hand in the original appointment in the State office in Oklahoma.

The CHAIRMAN. One of our letters compared the State's principles to one of the Thirteen Original States. The State of Oklahoma has made a major contribution to the economic structure of our Nation.

This is the 50th anniversary of this committee. The first chairman of the committee came from the State of Oklahoma. His name was Robert Owen; very close to the name of the present nominee. In all deference to my colleague, Senator Glass, whom I succeeded, history seems to have given him about 90 percent of the credit for the bill creating the Federal Reserve System. As a matter of fact, a similar bill had failed because it went before the Finance Committee and the Republicans had control of it and wouldn't let it through. When the Democrats got control in 1913 they created a committee—I wouldn't say they packed it—but they at least put on men not hostile to President Wilson's proposal and they they named this very able man, Robert Owen.

I am convinced but for the splendid work he did on this side we wouldn't have gotten the Federal Reserve Act through when we did and I welcome this opportunity to pay tribute to him.

Then, of course, I think it is generally conceded that one of the most able and effective Members of the Senate on taxes in recent years has been the late Robert Kerr of Oklahoma. As I said when I heard of his death, a mighty oak has fallen. And we still miss him.

So that is just a little background by which I welcome into our Federal financial fold a representative of the State that has done so much to promote sound fiscal laws and policies.

Without objection I would like to file in the record telegrams I have just received endorsing this appointment, one from Bernard G. Lonctot, president, North American Security Administration, from Washington State, and one from William C. Young, director of the Securities Division, Richmond.

(The telegrams follow:)

OLYMPIA, WASH., *March 10, 1964.*

HON. A. WILLIS ROBERTSON,
*Chairman of the Senate Banking and Currency Committee,
Senate office Building, Washington, D.C.:*

As president of the North American Securities Administrators and administrator for the State of Washington, I wholeheartedly endorse and support the President's nomination of Hon. Hugh F. Owens to the Securities and Exchange Commission. He is a man of integrity and ability and will bring to the Securities and Exchange Commission a vast experience in the enforcement of securities, regulations, and laws from the State level. This is an asset and knowledge that would be of extreme benefit to the Securities and Exchange Commission and to the different States who are working in cooperation with the Securities and Exchange Commission. He is versed in the Federal law and is also an attorney of outstanding ability. He is at the present time a vice president of the North American Securities Administrators which is an association made up of the 50 States and the 10 Canadian Provinces. He has been a leader in advocating and promoting uniformity among States and will be a definite asset to the country and to the administration.

Respectfully submitted.

BERNARD G. LONCTOT,
President, North American Securities Administrators.

RICHMOND, VA., *March 10, 1964.*

HON. A. WILLIS ROBERTSON,
Senate Building, Washington, D.C.:

Hugh F. Owens who has been nominated as Commissioner with Securities and Exchange Commission is a man of good reputation, devoted to duty, and well-qualified person for the position. It is a pleasure to recommend him.

WILLIAM C. YOUNG,
Director, Securities Division.

The CHAIRMAN. It is also a well-known fact in political circles that when a man is a candidate for high office and has an attractive wife, she is "Exhibit 1" in all the pictures and so forth.

The Chairman would be glad to have Mrs. Owens stand up and let us see her. We are glad to have her with us.

(Mrs. Owens stood and greeted the committee.)

The CHAIRMAN. Mr. Owens, do you wish to make a statement on views, policies, anything?

STATEMENT OF HUGH F. OWENS, NOMINEE TO BE A MEMBER OF THE SECURITIES AND EXCHANGE COMMISSION

Mr. OWENS. I believe not, Mr. Chairman, I am delighted and honored to be a nominee for this high office, and I wish to assure you I will fill it with all the powers the good Lord has given me, with honor and integrity.

The CHAIRMAN. Coming from Oklahoma, where you have a lot of oil stocks and all, I reckon you have had a lot of experience with some people that issue good stock and with some that issue what we used to call fly-by-night stocks, and you will watch out for that?

Mr. OWENS. Yes, sir.

The CHAIRMAN. Senator Clark?

Senator CLARK. On the basis of Senator Monroney's recommendation and Senator Edmondson's, I should certainly support this nomination.

I wonder, Mr. Owens, if you have given any thought that any of your stock holdings might involve a conflict of holdings to the Securities and Exchange Commission.

Mr. OWENS. I have given it thought but so far I don't think they would.

The CHAIRMAN. We would ask you to follow the general rule to give us a statement on that which we will treat in confidence. You don't have to go into detail but just to let us know where your financial heart is. We will put it in our confidential file. As the Senator from Pennsylvania indicated, that is the usual procedure.

Mr. OWENS. Would you like me to make it now?

The CHAIRMAN. No, you give it to us and we will put it in our file.

Senator CLARK. If any question arises, we might want to call you back and check on it. It is largely routine.

The CHAIRMAN. There will be no more questions and we thank you, Senator Monroney and Mr. Owens, for coming here.

We hope we will have time before the Senate meets to go into executive session. In the meantime, you get the statement to us so we can get a look at it before we vote on the confirmation.

Mr. OWENS. Thank you.

Senator MONRONEY. I want to thank the committee for the expedition in calling Mr. Owens here for examination and testimony on this very important appointment.

The CHAIRMAN. Thank you, Senator.

Mr. OWENS. Thank you.

(A biographical sketch of Mr. Owens follows:)

BIOGRAPHICAL DATA, HUGH F. OWENS

Born in Muskogee, Okla., October 15, 1909.

Came to Oklahoma City, March of 1918.

Wife: Louise Simon Owens.

Daughter: Julie—Mrs. William Charles Pickens. Children, Lisa 4; William, Jr., 2; Dallas, Tex.

Parents: Mr. and Mrs. J. F. Owens (deceased). Father, former president and chairman of the Board of Oklahoma Gas & Electric Co., and vice president of the Chamber of Commerce of the United States.

Education: Georgetown Preparatory School, Washington, D.C., 1923-27; semi-finals, National Oratorical Contest. University of Illinois, 1927-31, A.B. degree; president, Sigma Chi fraternity; president, Skull and Crescent, honorary leadership society. University of Oklahoma, 1931-34, L.L.B. degree; president, Blue Key, honorary leadership society; president, Chi Chi Chi, honorary interfraternity society; members, Phi Delta Phi, honorary legal fraternity.

Upon graduation: First associated with a Chicago law firm (general counsel for H. M. Bylesby & Co.), specializing in securities registration under Federal Securities Act of 1933, and of Federal Securities Exchange Act of 1934. Later associated with firm of Oklahoma City: Rainey, Flynn, Green & Anderson, 1936-48; 1948-50, partner, law firm: Hervey, May & Owens, Oklahoma City, Okla.; 1950-52, counsel, Superior Oil Co., Division Office, Midland, Tex.; 1953-59, independent general law practice, Oklahoma City, Okla.

Civic activities during this period: vice president of U.S. Junior Chamber of Commerce (candidate for national president, 1940). Board of directors, Oklahoma City Chamber of Commerce. Executive committees: Community Fund and Salvation Army.

January 1942 to October 1945: Lieutenant commander, U.S. Navy: 1. Executive officer, U.S.S. *Callaghan*, Pacific Fleet destroyer (battle citation, action at Okinawa, Admiral Nimitz).

2. Operations officer, establishment of U.S. naval base, Yokosuka, Tokyo Bay, at end of war (citation, Admiral Halsey).

Present: Administrator, Oklahoma Securities Commission. Vice president and executive committee of North American Securities administrators. Part-time faculty, College of Law, Oklahoma City University.

Member: Christ, the King, Catholic Church, Oklahoma Bar Association, Men's Dinner Club, and Lawyer's Club.

STATEMENT OF JAMES LOUIS ROBERTSON, NOMINEE TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

The CHAIRMAN. Next is Gov. James Louis Robertson, who I think has done outstanding work as a member of the Federal Reserve Board. I haven't agreed 100 percent with everything he has done but I have always said he is one of the best qualified men on this Board in recent years. He is technically trained, he is industrious, and intellectually honest.

While I am more inclined to so-called tight money policies at the present than he is, I recognize there are a good many people in this country that don't agree with me—maybe a few members of this committee—and they are not too displeased to see Governor Robertson stay in this position where, if there is to be any discussion of policy, he

is certainly better qualified and prepared to advance his theory of economic policy than any new man would be.

We have the endorsement of both his Senators. They both endorse him for this appointment.

The chairman without objection will put into the record at this time an editorial from the *American Banker* of March 10, entitled "Man Who Cares." And of course all financial institutions know the high regard in which all bankers hold this daily newspaper. It is to them what the *Wall Street Journal* is to other types of corporations and Mr. Robertson can be well pleased with the high testimonial that this paper pays him.

We also have a joint statement by Senators Hruska and Curtis and a brief biographical sketch of Mr. Robertson which we will insert at this point.

(The material mentioned follows:)

[From the *American Banker*, Mar. 10, 1964]

A MAN WHO CARES

Months of speculation and rumor have come to an end with President Johnson's reappointment of James L. Robertson to a full 14-year term as a member of the Board of Governors of the Federal Reserve System. In the context of all the pressures, implied opportunities for the altering of the Board's broad policy directions, and hints of the values he would place on having his "own man" on the Board, President Johnson has made a wise decision.

The Board of Governors of the Federal Reserve is no place for a doctrinaire. It is a place for wise and thoughtful men, of firm convictions, of course, but of such a high degree of responsibility also that flexibility in adjusting policy to events is a major personal quality in each of them. Mr. Robertson measures up in full to this high standard.

More than most members of the Board, he is likely to be found in dissent. During the recent period of the Board's concern about whether to tighten the discipline on monetary policy, from balance of payments considerations, he voiced concern about the domestic results of a tightening policy, lest it inhibit economic growth.

Yet Mr. Robertson's record also makes it clear that he does not wear the uncomplicated label of a pure "easy money" man. For, in the past, when the first pressures of inflation have started to make themselves felt, he has been among the leaders on the Board in developing policies to tighten money, and to bring those pressures under control.

So, Mr. Robertson can be expected to differ in the future, as he has in the past, with both Federal Chairman William McChesney Martin, who gives high priority to international monetary policy, and with President Johnson, who has voiced the hope that domestic interest rates will not rise this year. Yet it is precisely because he is a deep and independent thinker, wearing no man's policy collar, that Mr. Robertson contributes so much to the soundness of the Board's decisions, and thereby to the economic stability of the country. He personifies—possibly even more than his colleagues because of the fact that he often differs with them—the sense that the Board delves deeply into every problem before it makes a decision; that it does not simply thump a rubber stamp on policies determined by others.

Banking gains particularly by the reappointment of Mr. Robertson. Because of personal experience and a profound concern for the problems of the industry, he has established himself as the member of the Board most actively interested in the Board's bank regulatory responsibilities. His previous long service as Deputy Comptroller of the Currency gives him unique insight into the problems of bank regulation, and equips him specially to understand the roots of some of the present disputes between the Comptroller and the Federal.

Conservatives among bankers should be especially pleased that Mr. Robertson has been reappointed, for, even though he is frequently in the minority, he has stood firm against the flood of mergers which has materialized in banking in recent years. He remains a determined advocate of the specialized, personal

service which the smaller banks can provide; and he has resisted the encroachment of big, impersonal efficiency, through merger, into this domain. He has become, even as a minority, a force to be reckoned with. His private comments in Board deliberations on proposed mergers cannot fail to force a refinement of thinking by the majority members, so that they face squarely the full meaning of their actions.

Nor does Mr. Robertson confine himself solely to discussions within the marble walls of the Federal. He demands of banking the best the industry has to offer. Quiet tolerance of institutional foibles is not his characteristic. He has proposed reforms, and has commented tartly on practices of which he disapproves. Most of all, he cares. He cares very much about banking in this country, and that is why, beyond all his other valuable personal and professional qualities, banking is fortunate that Mr. Robertson has been re-appointed.

JOINT STATEMENT OF SENATOR ROMAN L. HRUSKA (REPUBLICAN, NEBRASKA)
AND SENATOR CARL T. CURTIS (REPUBLICAN, NEBRASKA)

Mr. Chairman, as Nebraska Senators we wish to go on record favoring the reappointment of Gov. James L. Robertson to the Federal Reserve Board.

Mr. Robertson is an outstanding Nebraskan. He has had an excellent record in public service and has served with distinction as a member of the Federal Reserve Board.

As part of our recommendation, we wish to include the attached resolution of the Executive Council of the Nebraska Bankers Association.

We recommend favorable consideration by this committee and by the Senate.

ROMAN L. HRUSKA.
CARL T. CURTIS.

Whereas the Nebraska Bankers Association is deeply appreciative of the outstanding service rendered by Gov. J. L. Robertson of the Federal Reserve Board to the banking industry; and

Whereas it is generally acknowledged that Governor Robertson possesses a knowledge of banking and its problems which has caused him to become recognized as the leading authority in his field; and

Whereas the current term of office of Governor Robertson will expire in the near future: Now, therefore, be it

Resolved, That the Executive Council of the Nebraska Bankers Association does hereby endorse Governor Robertson, a native Nebraskan, for reappointment to a full term as a member of the Board of Governors of the Federal Reserve System and does hereby urge the careful consideration of this recommendation by all concerned.

Certified to be a complete copy of a resolution by the Executive Council of the Nebraska Bankers Association on the 12th day of December 1963.

HARRIS V. OSTERBERG,
Executive Vice President.

JAMES LOUIS ROBERTSON

James Louis Robertson was born and reared in Broken Bow, Nebr., the youngest son of pioneer settlers. His birth date is October 31, 1907. After attending Grinnell College in Iowa, he studied at George Washington University, from which he received the degrees of bachelor of arts and bachelor of laws. He then did graduate work at the Harvard Law School, where he received a master of laws degree in 1932.

He entered Government service in 1927 in the U.S. Senate post office, and later became a special agent of the Federal Bureau of Investigation.

He was admitted to the bar of the Court of Appeals for the District of Columbia in 1931, and to the bar of the Supreme Court of the United States in 1935.

In 1933 he joined the legal staff of the Office of the Comptroller of the Currency. He served in the U.S. Naval Reserve in 1943-44. Thereafter, he served as Deputy Comptroller of the Currency until he took office as a member of the Board of Governors of the Federal Reserve System in February 1962.

Mr. Robertson is married to the former Julia Jensen of Iowa. They have three sons.

The CHAIRMAN. Now the chairman recognizes the distinguished Senator from Pennsylvania, who wishes to inquire.

Senator CLARK. Thank you, Mr. Chairman.

I have no questions on Mr. Robertson's qualifications. I think he has shown by his performance in office that he is fully qualified for this job.

Mr. Robertson, I would like to ask you a few questions bearing on policy of the Board insofar as you helped to make it. This is a question not for Board policy but for your individual views on matters which I think are of great importance in connection with your official duties.

I would like to make this brief preliminary statement: The administration is now engaged in a rather unusual effort to stimulate the economy and to increase employment, to minimize unemployment. This is a matter of keen interest to me both as a member of this committee and its Stabilization and Production Subcommittee, and as chairman of this committee's Subcommittee on International Finance. It is also of keen interest to me as chairman of the Subcommittee on Employment and Manpower of the Labor and Public Welfare Committee which is just about to file a rather extensive report resulting from hearings during the last year which resulted in taking the testimony of over 150 experts in the general field of employment and manpower utilization.

In that investigation we were forced to the conclusion that fiscal and monetary policy had an important effect on employment opportunity. The fiscal policies of this administration, just approved by Congress, have resulted in the passing of a substantial tax reduction bill at a time of rather substantial prosperity, but quite high relative unemployment.

At the same time, we are concerned with the balance-of-payments problem, its effect on our gold supply, and on the soundness of the dollar.

The Federal Reserve Board, I take it, is vitally interested in this whole problem, is it not?

Mr. ROBERTSON. Very much so.

Senator CLARK. It has been the view of some of us—I am sure the chairman would not agree and many others would not agree—that it would be desirable for the Federal Reserve Board to reinforce the administration's fiscal policy, as evidenced by the Tax Act; its employment policies; the President's Manpower Report, which came down day before yesterday; by keeping money relatively easy, interest rates relatively low to the greatest extent possible without further prejudicing our balance-of-payments situation.

I would like to have your comments on my statements.

Mr. ROBERTSON. In response, Senator Clark, I would say that I probably have been farther on one side, the side that you have mentioned, than anyone else in the Federal Reserve, in urging that monetary policy be used more vigorously in an endeavor to stimulate economic activity, in order to correct the two real deficiencies, one the underutilization of productive capacity, and the other unemployment. I think this should be done as vigorously as can be. We never can forget other problems in the picture, such as the balance-of-payments problem, which I don't think is as serious as many people do.

Senator CLARK. And also the possibility, the threat of inflation?

Mr. ROBERTSON. There is a threat. We have now started on the policy of using fiscal policy in order to stimulate the economy. Sound fiscal and monetary policies are absolutely essential to economic growth in this country and to the solution of the problems you have mentioned. But there is also the possibility we will overstimulate and bring about inflation.

We are very much opposed to inflation, as I think everyone must be; consequently, monetary policy must be in a position where it can move decisively. We have not had inflation in this country for the past 3 years; consequently, monetary policy should have been, in my own personal view, a little more on the stimulative side. I suspect I differ from my colleagues in that I'd use monetary policy more vigorously both in combating inflation, and in promoting greater utilization of resources.

Senator CLARK. In your own thinking with respect to the monetary policy which the Board will adopt and follow, what is your thinking as to the present relationship with the Treasury, with the Council of Economic Advisers, and with the Secretary of Labor, who under the Manpower Retraining Act is given the policy responsibility for determining manpower policy?

In your opinion is there presently adequate consultation, adequate coordination, the machinery for assuring that a unified policy can be established in the national interests?

Mr. ROBERTSON. I have been in Government 37 years and I have never seen a period in which there was greater harmony between the Treasury, for example, and the Federal Reserve than has existed in the past 3 or 4 years.

Senator CLARK. Let's make it 2 or 3 years.

Senator JAVITS. We'll leave it at 4.

Mr. ROBERTSON. All problems are put on the table. The Treasury's problems are put out so we know them. We don't attempt to give advice to the Treasury, unless they ask for it; they must make the decisions in their field, and they have. There is absolute cooperation between the two. There is no attempt, so far as I can see, by either agency to go off on its own. Each makes decisions in the light of its own competence and responsibility, but also in the light of the overall objectives at which all of Government is aiming.

Senator CLARK. What are the mechanics by which this cooperation is derived? Regular meetings?

Mr. ROBERTSON. Regular meetings, and they have been going on for years. On Mondays the Chairman of the Board of Governors has lunch with the Secretary of the Treasury and every Wednesday the Secretary or Under Secretary and members of his staff, for example, Mr. Roosa, the Under Secretary for Monetary Affairs, Mr. Carlock, the Fiscal Assistant Secretary, and top members of their economic staffs, come over and have lunch with the Federal Reserve.

Senator CLARK. With different members?

Mr. ROBERTSON. The Chairman is usually there along with one or more other members.

Senator CLARK. Do you yourself participate frequently in those meetings?

Mr. ROBERTSON. I have in the past. I have not done so in the past 2 years simply because it got into the stage where the Chairman and Vice Chairman would participate regularly, which seemed to be ap-

propriate. But most of the top staff assistants are there, so all the problems of concern to either agency are known to the other. This I think brings about close understanding of the problems of each agency.

Senator CLARK. Does the Board in any regular way consult, before making monetary policy, with either the Secretary of Labor, who is charged with manpower policy, or the Council of Economic Advisers, who make the Economic Report and are generally the President's principal advisers in terms of the state of the economy?

Mr. ROBERTSON. No; monetary policies are formulated without consultation or asking advice of others unless we feel we need it. There is an avenue open always between the Federal Reserve and the Treasury. But never do we undertake to ask somebody to take the responsibility to make our decisions.

Senator CLARK. I am not thinking in terms of making the decisions, but let me put my question this way: Do you not agree monetary policy could and often does have a very real impact on employment?

Mr. ROBERTSON. A very real effect on employment and therefore we must take into consideration the Government's employment policies.

Senator CLARK. Should you not therefore be more or less regularly in touch with the Secretary of Labor, who is charged with the duty of making policy, so you will fully understand his views?

Mr. ROBERTSON. It is possible we should be in closer touch; however, we do have people on the staff who keep in contact.

Senator CLARK. I am going to make a suggestion for you to take back to your fellow members of the Board, and Chairman Martin, that you give serious consideration to this, not for the purpose of having them make the decision, but for the point of getting the views of persons making policy in allied fields, not only with the Secretary of Labor but the Council of Economic Advisers, so the monetary policy can be integrated with others who have responsibility for the economy, hopefully so in the end the administration speaks with a unified voice.

Mr. ROBERTSON. I would be very glad to do so.

Senator CLARK. Does this suggestion make any sense to you?

Mr. ROBERTSON. I'd be very glad to do it.

Senator CLARK. You have pointed out accurately the present legal situation, which I think I am correct in stating is unique in the world, at least in the world of free enterprise, in that our central banking system is independent of the administration and of the pressure; that, of course, is ingrained on both sides, I think. In your opinion, is this a sound way to operate or would we not be better advised if the central banking system were an arm of the Government to the same extent as is true in other countries of the free world?

Mr. ROBERTSON. I think we have a very great advantage in this country in the kind of setup we have. Monetary policy should be made without regard to the political pressures of the moment.

It seems to me that the Federal Reserve, the money creating agency, the credit regulating agency of the country, should be free from domination of the executive branch of the Government, especially the agency which has to finance the Government and usually wants to finance it on the cheapest possible basis. Monetary policy must be formulated in the light of the overall economic situation in the country.

Senator CLARK. Do you agree fiscal policy should be formulated by the administration?

Mr. ROBERTSON. Very definitely. I think it should be formulated by the Government but not by the agency which has responsibility for credit conditions. Government borrowing should be done on the cheapest possible basis ordinarily, but you should not create easy credit for this purpose if it were not in the interest of the overall economic—

Senator CLARK. This is an old argument which I don't want to pursue any further.

I have one more question, one more area. You are familiar with the report of the Committee on Money and Credit which was issued in 1961?

Mr. ROBERTSON. Yes, sir.

Senator CLARK. That report was made by a very distinguished group of private citizens, including gentlemen of very widely differing economic and social views, making this recommendation—I would like to ask for your personal opinion—that the Federal Reserve Board Chairman and Vice Chairman should be designated by the President from among the Board's membership to serve for 4-year terms coterminous with the President's. The Commission's report comments that this strikes a balance in formal status between tenure at the President's pleasure, which some of the Commissioners would prefer, and no change in the present law which the members of the Commission on Money and Credit would prefer.

Mr. ROBERTSON. I would support this position. I think it is very reasonable.

Senator CLARK. Another recommendation of the Commission on Money and Credit was that, the Federal Reserve Board should consist of five members, with overlapping 10-year terms, one expiring each odd year, and members should be eligible for reappointment. The Commission commented that this would assure the President of one vacancy to be filled shortly after his inauguration while retaining the general stability of Board membership. The reduction in numbers should enhance the status of members, and the 10-year term combines a sufficient protection for independence, with some safeguard against superannuation.

How do you feel about that?

Mr. ROBERTSON. I think the term is a perfectly reasonable suggestion. I don't think there is anything magic in the present setup. I have some question about the reduction of the number to five unless they go one step further and take the bank supervisory functions out of the Federal Reserve and put them in one spot, so to have unified Federal policy. If they did that I would agree with the five member suggestion.

The CHAIRMAN. Governor, in October 1962 you recall that I had a brief chat with you in the capital of one of our Latin American countries. You told me at that time you were making a quick trip to the principal countries of Latin America to study their fiscal policies and perhaps get some information about our various types of aid. Did you observe some fiscal practices that you wouldn't have approved of our engaging in?

Mr. ROBERTSON. A great many, and if you like I will submit for the record a speech which I made on that.

The CHAIRMAN. I think that would be good. Without objection that speech will be inserted in the record at the close of your testimony.

The members of the committee recall that we have had much testimony about the possibility of inflation, at least inflated prices. After all we can't control what labor unions are going to do; if they say they'll strike, we generally pay. Attention was called to the tax cut of \$11.5 billion, increasing purchasing power by \$800 million a month. While some economies are being proposed in the budget, we feel we will still have a very substantial deficit. And we don't know but what in the end the budget approved by Congress may be much larger than what we had anticipated. Certainly we are adding, if we do all the President requested, we are adding \$4 billion a month to the budget deficit of the late President and, while that won't appear in the next fiscal year, it will appear on the books of the Treasury when they go to finance it.

Now among the fiscal policies, the biggest country, Brazil, which is bigger than the continental United States, and possibly has more resources than any country in the world—great reserves of timber, great farming land, minerals, precious stones, the biggest producer of coffee, all the things that add up to wealth—isn't it true that for a number of years Brazil has owned the central bank, the Government owns the bank?

Mr. ROBERTSON. That is my understanding.

The CHAIRMAN. And when the Government wanted to spend money in excess of revenue, haven't they directed that bank to set up a credit for the Government on the bankbooks and then to print the money that is to be disbursed?

Mr. ROBERTSON. In general I think this is true but I would rather not make a definite statement with respect to this without very careful study.

The CHAIRMAN. I can understand your reluctance to make a definite statement without checking your records.

In the first place, we have been paying most of their deficits for a number of years. In the second place, they have been financing one-half of the expense of the Government simply by printing money.

Now there are certain people—I'm glad they are not in the majority—who think it unfair that the taxpayers get new money by letting the Federal Reserve Board take up a Government bond and issue dollars against it and then we pay interest on the bond. They evidently think it would be much simpler if we would just print the money ourselves because they don't call this printing press money.

When we were down there the official rate of the dollar was about 400, the black-market rate was 600-something; it is now between 1,100 and 1,200. Haven't they had inflation running close to 5 percent a month?

Mr. ROBERTSON. They have had very bad inflation.

The CHAIRMAN. You found things down there you don't think we should imitate?

Mr. ROBERTSON. Yes, sir.

The CHAIRMAN. The Senator from Utah?

Mr. BENNETT. No questions.

The CHAIRMAN. The Senator from New York?

Senator JAVITS. I have one question that relates to your basic function. It is a fact, is it not, that the tool of your policy is essentially the rediscount rate and that the rest of the Federal Reserve System

operates pretty much according to the basic concept, which is built into the law, of the relationship of production and economic activity to credit and demand?

Mr. ROBERTSON. I would say the rediscount rate is really not the principal tool. It's the overall control over bank reserves through open market operations and reserve requirements which are determinative of the money supply.

Senator JAVITS. Yes; I should have mentioned that earlier. So the Federal Reserve Board does have a direct effect.

Mr. ROBERTSON. Without question it's one of the strongest factors.

Senator JAVITS. Now the Board's judgments are taken by majority vote?

Mr. ROBERTSON. Always.

Senator JAVITS. Where there is a division, is the action of the Board considered to be the action of all?

Mr. ROBERTSON. That is correct.

Senator JAVITS. I heard Senator Clark's questions with great interest. In addition to all these things Senator Clark said about keeping in touch with employment problems, I am all for you getting all the advice and consultation you can on the Board and I also agree you should be autonomous. These all square with my own judgment.

Let me ask you first: To what extent does the Board take into consideration the work of the Council of Economic Advisers as to the direction the country is moving?

Mr. ROBERTSON. We review all the information we get from them and there is close contact between the members of the Council and the members of the Board, so we are very well aware of their economic thinking.

Senator JAVITS. Did you also review the annual analysis of the President's Economic Report by the Joint Economic Committee?

Mr. ROBERTSON. Oh, yes; very definitely so.

Senator JAVITS. Do you feel any need in our country's organizations, in view of the tremendous responsibility the Board carries, for any charting of national goals? You will remember that during the Eisenhower administration an effort was made to establish a means for defining and publishing national goals, especially economic, and in my judgment very unhappily we have more or less let that fall. I just wondered whether in your work, critical as it is in the work of the Board, do you make your own projections in terms of the American destiny, say for a decade ahead, or for any period?

For example, we know the American Telephone & Telegraph Co. is planning several decades ahead. What about you fellows? Do you plan ahead? Do you think you could very profitably use some authoritative national view as to the goals of our society?

Mr. ROBERTSON. I am sure it would be very desirable to have goals formulated by any knowledgeable group—even though they won't all agree. If there were such goals they would be helpful. We do not attempt to deal that far ahead. We have to deal with the situation as it is.

Senator JAVITS. How far ahead?

Mr. ROBERTSON. We look 3 weeks at the most, from one meeting to the next, with respect to open market operations. We certainly make

attempts through the staff to project ahead as far as we can see, but you don't formulate policy on the basis of any such prognostications.

Senator JAVITS. Nonetheless, those prognostications are made within the Board?

Mr. ROBERTSON. Yes, they are.

Senator JAVITS. In other words, you do have some chart of history for say 2 years?

Mr. ROBERTSON. Usually they are set up to show the possibilities that could happen in the light of what is known.

Senator JAVITS. You do feel it would be useful to have an authoritative national projection generally characterized in terms of national goals?

Mr. ROBERTSON. I would think so.

Senator JAVITS. At the same time I gather, Mr. Robertson, that, as part of your philosophy, you do not subscribe to the view that the Board should do anything other than administer its affairs with the basic objectives in mind from meeting to meeting. You may have these projections in mind but essentially you believe the Board must operate on a completely current basis?

Mr. ROBERTSON. I think so.

Senator JAVITS. How can you tell us how you would phrase the objectives of the Federal Reserve Board?

Mr. ROBERTSON. Economic stability, high level of employment, maximum purchasing power, and full utilization of economic resources and productive capacity.

Senator JAVITS. Including human resources?

Mr. ROBERTSON. Very definitely.

Senator JAVITS. That is called the concept of maximum employment?

Mr. ROBERTSON. That is right.

Senator JAVITS. To use that compromise word.

Mr. ROBERTSON. Yes.

Senator JAVITS. Our economy is variously estimated as progressing at the rate of 2.5 to 4 percent a year. Many consider 4 percent good; many consider 2.5 percent unsuccessful in terms of our economy. Do you feel that in your deliberations you have any criteria in mind, in regard to this definition of your objective?

Mr. ROBERTSON. I would not personally have any particular figure in mind. I would look rather at factors I can judge better myself—whether we do have full employment, whether we are fully utilizing our productive capacity.

Senator JAVITS. In other words, do you assume as a member of the Board, ipso facto, that if you have full employment and full utilization of resources, you have a satisfactory rate of economic growth?

Mr. ROBERTSON. I think I would have to say yes.

Senator JAVITS. Even though there is the danger that the full employment and the full utilization of our resources—without any disagreeable note to my friends in the cosmetic business—may be taken up making lipstick and silk stockings and so forth?

Mr. ROBERTSON. This is free enterprise.

Senator JAVITS. You would feel that whatever might be the substance of the production, if there is full utilization of resources and full utilization of manpower you will trust the American economy to balance that out, so that we have muscle as well as the other?

Mr. ROBERTSON. I would.

Senator JAVITS. You have found that to be the fact, as a matter of history?

Mr. ROBERTSON. Yes, sir.

Senator JAVITS. Now is the Board susceptible to any adjustment from the National Security Council or any authoritative agency that we need to drive our economy ahead faster in order to meet the challenges of the Soviets or the challenge of the newly developing areas, which requires probably a great deal more than even we are putting into it now?

Mr. ROBERTSON. As you know, the Federal Reserve does participate through its Chairman on the National Advisory Council. We are aware of all these areas that deserve attention.

Senator JAVITS. Whether or not you are susceptible, they are there to be brought to bear upon this?

Mr. ROBERTSON. Always.

Senator JAVITS. As for yourself and your own outlook on your work, do you think the United States ought to continue exercising its world responsibility and leadership and not to withdraw into fortress America?

Mr. ROBERTSON. Whether we like it or not that is what we are going to have to do. I think it's appropriate.

Senator JAVITS. In your work, if we confirm you, would you endeavor to perform your task in such a way as to enable us to carry out that role?

Mr. ROBERTSON. I certainly will.

Senator SPARKMAN (presiding). Mr. Robertson, I was interested in the series of questions that Senator Clark put to you before he left, and those also put to you by Senator Javits, with reference to the cooperation and the manner of working together with the Federal Reserve Board and not only the Treasury Department, but other departments and agencies of the Government regarding all of these fiscal, monetary, and economic problems.

My attention was called to the testimony of Secretary Dillon before the Subcommittee on Domestic Finance of the House Committee on Banking and Currency on last Thursday, March 5. Have you read that testimony?

Mr. ROBERTSON. I have seen references to it. I have not read it.

Senator SPARKMAN. In it he discusses quite fully Federal Reserve cooperation, independence, and the matter of the agencies and departments of the Government working together on these matters. I was going to ask you some questions on it. It seems he makes a very clear statement and without objection I should like to have that testimony of Secretary Dillon printed in the record after your testimony and I would be very glad if you were to read that testimony.

(See p. 38.)

Senator SPARKMAN. I shall not ask for any statement from you because I rather expect we may take action on this before you can submit a statement.

Mr. ROBERTSON. I am sure from what I have seen in the papers, and knowing the facts, that his statement and my statement must be in accord.

Senator SPARKMAN. He conforms to the statement that you have made so far as the relationship between the Federal Reserve and the Treasury Department is concerned.

One question I was going to ask you: For instance, I was going to ask you if the Treasury always knew about some new key departure or some change that the Board was going to make, and vice versa? I gather from his statement you are kept informed on matters generally?

Mr. ROBERTSON. No question about that; none at all.

Senator SPARKMAN. I have to go to the floor; I am going to have to leave in a very few minutes. I will ask Senator Douglas to take over, if he will.

May I say it is the wish of the chairman that there be an executive session following this. I have some votes here authorized. Mr. Hale will say something to you about what the chairman's wishes are as to that.

I will turn you over to Senator Douglas, to preside and ask questions.

Senator DOUGLAS (presiding). Mr. Robertson, I want to ask some questions about the examination of the banks. You rendered very distinguished service as Deputy Comptroller and I believe your chief responsibility was the examination of the banks?

Mr. ROBERTSON. That is right.

Senator DOUGLAS. The Comptroller of the Currency conducts the examination of the national banks and they amount to how many?

Mr. ROBERTSON. In the neighborhood of 4,500.

Senator DOUGLAS. And the Federal Reserve conducts examination of the State banks which are members of the Federal Reserve System?

Mr. ROBERTSON. That is right; another 1,500.

Senator DOUGLAS. The FDIC conducts the examination of State banks not members of the Federal Reserve?

Mr. ROBERTSON. Another 7,000.

Senator DOUGLAS. Now in terms of assets rather than in terms of number of banks, what is the relative importance of each of the three groups?

Mr. ROBERTSON. The member banks would hold about 85 percent of total bank assets, State and National, and they are divided about 55 percent in National banks and 30 percent in member State banks.

Senator DOUGLAS. I see. The Federal Reserve does not conduct examinations of the national banks?

Mr. ROBERTSON. It does not. It has the power to do so but does not as a matter of fact.

Senator DOUGLAS. The various State authorities, banking authorities, do, however, conduct parallel examinations, with the Federal Reserve and the FDIC examiners?

Mr. ROBERTSON. They do and in most instances they are done simultaneously.

Senator DOUGLAS. Since you came to the Reserve Board, where I think you have served very well, you have always specialized in examination procedures?

Mr. ROBERTSON. I probably have had more to do with it than any other member of the Board.

Senator DOUGLAS. Have you noticed any different standards between examination of national banks and examination of other banks under the jurisdiction of the Federal Reserve?

Mr. ROBERTSON. There are differences in standards and there are differences in the examinations from man to man and from year to year. It is very difficult to formulate a precise statement about these because, as you know, my only contact with national bank examinations today is reading reports of examination of national banks. This isn't quite the same; but there are differences.

Senator DOUGLAS. When you came over from Comptroller of the Currency to the Federal Reserve, did you notice differences which existed then?

Mr. ROBERTSON. Yes, there were differences.

Senator DOUGLAS. What were they?

Mr. ROBERTSON. The primary differences are that the Federal Reserve examiners devote more time to the examinations and the formulation of the examination reports than is true in the Comptroller's office. But the general quality of all Federal examiners is high and I would say there is not a noticeable difference. There is a difference, for example, on dealing with what we'd call problem cases. I think we are perhaps more severe in dealing with problem cases than some other agencies, perhaps. But here again this may be based on the fact I don't know in detail what they are doing with respect to problem cases.

Senator DOUGLAS. Have you been disconcerted by the relative number of cases of embezzlement in banks?

Mr. ROBERTSON. Over the years I have been concerned about this and of course a good deal has been done to try to curtail this.

Senator DOUGLAS. Did you have figures on the number of cases of embezzlement which come to light each year?

Mr. ROBERTSON. I do not have that in my mind, but we have compiled figures recently complying with requests from the Department of Justice and others.

Senator DOUGLAS. Would you make those available to the record?

Mr. ROBERTSON. I would be glad to.

(The compilation follows (see also p. 24, below) :)

Summary of possible defalcations of \$10,000 or more in State member banks reported to the U.S. attorney during the years 1958 and 1959 ¹

Federal Reserve district	Number of defalcations		Total amount involved		Number of banks involved		Types of shortages			
							Abstraction of cash: Withholding deposits, loan payments, or employee's own checks		Miscellaneous: Forgery, check kiting, conversion of assets, withholding income, and false entries	
	1958	1959	1958	1959	1958	1959	1958	1959		
Boston.....	2	1	\$45,160	\$49,268	2	1	1	1	1	
New York.....	8	4	183,509	424,936	6	4	2	1	6	3
Philadelphia.....	3		325,367		3		2		1	
Cleveland.....	2	1	193,300	15,000	2	1		1	2	
Richmond.....										
Atlanta.....		1		25,649		1				1
Chicago.....		5		204,069		5		3		2
St. Louis.....										
Minneapolis.....		1		24,000		1				1
Kansas City.....										
Dallas.....		4		157,235		4		2		2
San Francisco.....	2		91,000		2				2	
Total.....	17	17	838,336	900,157	15	17	5	8	12	9

¹ Does not include "mysterious disappearances" or "kiting operations" in which there was no evidence of possible criminal involvement of bank personnel.

Summary of bank shortages in State member banks reported to the U.S. attorney
DURING THE YEAR 1960

Federal Reserve bank	Total number or shortages	Total amount	Number of banks involved	Shortages								Types of shortages		
				Under \$1,000		\$1,001 to \$5,000		\$5,001 to \$10,000		Over \$10,000		Mysterious disappearance: cash, checks or securities	Abstraction of cash; withholding deposits, loan payments, or employee's own checks	Miscellaneous: forgery, check kiting, conversion of assets, withholding income and false entries
				Number	Amount	Number	Amount	Number	Amount	Number	Amount			
Boston.....	4	\$105,181	4	3	\$2,181					1	\$103,000	2	2	
New York.....	99	509,201	34	57	27,439	29	\$69,715	6	\$42,922	7	369,125	45	32	22
Philadelphia.....	17	26,459	7	11	5,649	5	15,532	1	5,278			9	4	4
Cleveland.....	12	192,225	11	4	815	4	13,579	1	9,783	3	168,048		5	7
Richmond.....	11	28,370	9	4	2,781	5	12,111	2	13,478			4	5	2
Atlanta.....	7	31,723	6	2	961	4	10,556			1	20,206	1	4	2
Chicago.....	25	232,516	25	8	4,234	11	23,112	1	9,033	5	196,137	6	12	7
St. Louis.....	13	28,161	8	5	3,995	7	15,611	1	8,555			8	4	1
Minneapolis.....	2	6,251	2	1	651			1	5,600				1	1
Kansas City.....	3	20,199	3	1	90	1	3,750			1	16,359		1	2
Dallas.....	9	151,837	7	1	150	2	5,556	3	20,144	3	125,987		2	6
San Francisco.....	26	124,910	12	16	5,894	8	19,016			2	100,000	6	13	7
Total.....	228	1,457,033	128	113	54,840	76	188,538	16	114,793	23	1,098,862	82	85	61

NOMINATIONS OF OWENS AND ROBERTSON

Summary of bank shortages in State member banks reported to the U.S. attorney—Continued

DURING THE YEAR 1961

Federal Reserve bank	Total number or shortages	Total amount	Number of banks involved	Shortages								Types of shortages			
				Under \$1,000		\$1,001 to \$5,000		\$5,001 to \$10,000		Over \$10,000		Mysterious disappearance: cash, checks or securities	Abstraction of cash; withholding deposits, loan payments, or employee's own checks	Miscellaneous: forgery, check kiting, conversion of assets, withholding income and false entries	
				Number	Amount	Number	Amount	Number	Amount	Number	Amount				
Boston.....	16	\$28,679	9	8	\$3,134	5	\$7,230	3	\$18,315	-----	-----	6	7	3	
New York.....	80	483,496	28	52	21,158	19	27,251	5	34,012	-----	4	\$391,065	34	26	20
Philadelphia.....	27	407,453	8	19	7,414	5	9,767	2	14,558	-----	1	375,714	11	12	4
Cleveland.....	9	57,998	7	4	419	3	3,205	1	8,031	-----	1	46,343	1	6	2
Richmond.....	3	5,598	3	2	1,748	1	3,850	-----	-----	-----	-----	-----	2	1	
Atlanta.....	4	32,025	4	-----	-----	1	1,219	2	11,563	-----	1	19,243	-----	1	3
Chicago.....	26	147,597	24	16	4,790	4	7,325	3	20,936	-----	3	114,546	2	14	10
St. Louis.....	18	17,879	13	11	4,279	7	13,600	-----	-----	-----	-----	-----	11	4	3
Minneapolis.....	4	53,631	4	1	500	2	5,131	-----	-----	-----	1	48,000	-----	1	3
Kansas City.....	3	33,100	3	1	400	1	1,500	-----	-----	-----	1	31,200	-----	2	1
Dallas.....	5	387,382	5	1	351	1	4,950	1	7,000	-----	2	375,081	-----	1	4
San Francisco.....	33	637,536	11	22	8,302	8	16,114	1	6,000	-----	2	607,120	-----	2	15
Total.....	228	2,292,364	119	137	52,495	57	111,142	18	120,415	16	2,008,312	67	92	69	

DURING THE YEAR 1962

Boston	24	\$66,482	10	17	\$9,541	4	\$10,059	1	\$6,400	2	\$40,482	12	8	4
New York	72	765,311	34	24	8,184	33	63,928	3	27,219	12	665,980	28	22	22
Philadelphia	31	90,074	13	17	5,830	10	18,795	1	8,500	3	56,949	17	10	4
Cleveland	10	121,548	8	5	2,041	3	6,113	2	113,394	2	113,394	1	7	2
Richmond	10	34,916	8	6	2,216	3	4,500	1	28,200	1	28,200	5	3	2
Atlanta	7	97,624	6	2	501	3	8,250	2	88,873	2	88,873	2	4	3
Chicago	19	549,726	16	8	3,021	7	15,624	2	14,281	2	516,800	2	7	10
St. Louis	18	53,986	11	12	3,812	3	5,145	2	14,347	1	30,632	11	3	4
Minneapolis	5	39,561	4	3	491	1	1,570	1	37,500	1	37,500	1	3	2
Kansas City	4	2,412	3	3	1,412	1	1,000	1	1,000	1	1,000	1	4	1
Dallas	3	10,985	3	2	935	1	1,000	1	10,000	1	10,000	2	1	1
San Francisco	39	174,754	14	19	4,648	13	30,769	4	27,345	3	111,992	7	16	16
Total	242	2,007,279	130	118	42,632	81	165,753	14	108,092	29	1,690,802	85	88	69

DURING THE YEAR 1963

Boston	12	\$55,279	7	7	\$3,155	3	\$4,748	2	\$47,376	6	4	2		
New York	53	204,523	29	27	9,043	17	35,728	3	24,192	6	135,590	11	22	20
Philadelphia	22	189,904	12	13	6,374	6	10,018	1	5,377	2	169,135	14	4	4
Cleveland	11	24,163	8	7	2,652	2	2,275	1	5,898	1	13,338	3	6	2
Richmond	10	544,129	9	4	2,885	4	5,122	2	536,172	2	536,172	4	3	3
Atlanta	5	11,928	5	2	1,337	3	10,591	1	13,338	1	13,338	1	3	1
Chicago	19	957,412	19	7	3,208	6	16,167	4	24,382	2	913,655	2	10	7
St. Louis	19	57,428	17	14	6,849	3	5,974	2	44,605	2	44,605	11	6	2
Minneapolis														
Kansas City	3	14,639	3	2	729	1	1,601	1	13,910	1	13,910	2	1	1
Dallas	3	31,687	3	1	41	1	1,601	1	30,045	1	30,045	1	3	1
San Francisco	38	52,397	15	23	8,400	12	17,619	3	26,288	3	26,288	10	8	20
Total	195	2,143,489	127	107	44,713	57	109,843	12	86,137	19	1,902,796	62	71	62

Senator DOUGLAS. Are you acquainted with the report of the Association of Bank Shareholders which has its offices in Chicago, which is headed by a bank president from Wausau, Wis.?

Mr. ROBERTSON. The name registers but I am not familiar with the report.

Senator DOUGLAS. Would you give a rough estimate of the number of cases of embezzlement which come to light each year, subject to correction, for the record?

Mr. ROBERTSON. This is very difficult. No; I prefer not. My guess would just not be good enough, Senator. You see they would vary in amounts from \$100 on up.

Senator DOUGLAS. I read these reports quite frequently and it is my impression there are 600 to 1,000 cases.

Mr. ROBERTSON. That doesn't seem an unreasonable guess.

Senator DOUGLAS. In other years it is more than this. Are these embezzlements sometimes or very frequently acts committed by leading officials of the banks?

Mr. ROBERTSON. They are at times.

Senator DOUGLAS. Or are they usually committed by minor clerks?

Mr. ROBERTSON. The vast majority are by minor officials or employees, not top management, but some are on the part of top management.

Senator DOUGLAS. Do you think this is a serious situation?

Mr. ROBERTSON. It always is serious but it isn't a matter that gives me great concern from the standpoint of the safety of the depositors or confidence in banks.

Senator DOUGLAS. There was one Federal Reserve district some years ago which had 50 bank embezzlements.

Mr. ROBERTSON. Which were discovered in a short period of time.

Senator DOUGLAS. A very short period of time. Did you go into that?

Mr. ROBERTSON. At the time I did; this is many years ago.

Senator DOUGLAS. What was the situation down there?

Mr. ROBERTSON. The situation—if we both have the same one in mind?

Senator DOUGLAS. I am referring to the Pittsburgh situation.

Mr. ROBERTSON. So am I. This was a situation brought on in part when an embezzlement which had been going on for a period of time came to light, causing more concern in other institutions and, as a result, more embezzlements were turned up at that particular time.

Senator DOUGLAS. The total figures were startling; it ran close to 50 different cases.

Mr. ROBERTSON. That is approximately right, and there is no substantial reason I know of why 50 in a given period of time would attempt to embezzle funds.

Senator DOUGLAS. If you were a public health official and if you had 50 cases of typhoid fever breaking out in a limited time, you would try to find out the cause?

Mr. ROBERTSON. Yes, and tighten down on controls; that has been done.

Senator DOUGLAS. What was done?

Mr. ROBERTSON. That I can't tell you. These are people who make up their minds they are going to embezzle and think they can get away with it.

Senator DOUGLAS. Many of these cases were very large sums.

Mr. ROBERTSON. Some were. I don't remember the aggregate volume; this was about 15 years ago.

Senator DOUGLAS. Is it not true that on the average these bank embezzlements have been occurring over a period of 6 to 8 years?

Mr. ROBERTSON. Many have been occurring over such a period as that, especially those you were referring to in that area, but I don't think it would be typical of the total number in any given year. They have continued over such periods of time, but many are caught early by internal controls.

Senator DOUGLAS. Have you made an average duration of embezzlement detection?

Mr. ROBERTSON. This would be the worst possible estimate, but if I had to guess, I'd say 3 or 4 months.

Senator DOUGLAS. Is that all?

Mr. ROBERTSON. Yes; this is because the vast number are smaller amounts.

Senator DOUGLAS. The figures I saw in one of the reports of the Associated Bank Shareholders, if I remember, was in terms of years.

Mr. ROBERTSON. It may have been limited to a given size of embezzlements. That would throw the figures out of line.

Senator DOUGLAS. If so, it is only the top of the iceberg that is visible in any one year?

Mr. ROBERTSON. Yes.

Senator DOUGLAS. In addition to the cases coming to light, are not many cases hushed up by private settlement of the officers?

Mr. ROBERTSON. I would doubt there are many of these because as soon as the information gets into the hands of people within the institution, it would cause the embezzler—if he tried to hush it up by paying it off—this would come to be known by examiners, and as soon as this was ascertained we would be immediately informed, and notify the Department of Justice. I would say these cases are not frequent.

Senator DOUGLAS. Do you think any improvements are needed in the system of bank examinations to diminish the volume of embezzlement?

Mr. ROBERTSON. Not to diminish the embezzlements. I think they need to continue to improve internal audit procedures.

Senator DOUGLAS. When an embezzlement is continued 6 to 8 years, is this a reflection on the examining procedures?

Mr. ROBERTSON. Not necessarily, because the examiners do not go into a bank for the purpose of determining the existence of embezzlements. They go in to ascertain the quality of assets. They do go into the adequacy of the internal audit but they don't verify all assets and liabilities. To do this would require a staff many times the size of our own and all others combined.

Senator DOUGLAS. How would the banks do this?

Mr. ROBERTSON. Through establishment of adequate internal audit controls.

Senator DOUGLAS. What would you regard as adequate internal audit control? Should it consist of outside auditors?

Mr. ROBERTSON. Not necessarily. The best, in my own opinion, is adequate internal audit policed by an outside private firm. Now they can set up schedules and procedures, and they can have policing methods whereby once or twice a year a check is made to see whether these

controls actually are being operated satisfactorily. This, in my opinion, is the best. Some banks have outside auditors come in. But there are very few that have enough people to do a complete job.

Senator DOUGLAS. I take it you don't think this is a real problem?

Mr. ROBERTSON. It is a problem, not one that gives me great concern.

Senator DOUGLAS. What is the total volume of embezzlement known each year in terms of dollars?

Mr. ROBERTSON. I can't give you that. I would be glad to get what I can on it for you.

Senator DOUGLAS. Would you supply it for the record?

Mr. ROBERTSON. I would be glad to.

(The information follows:)

The figures supplied on an earlier page (pp. 18-31) are for State member banks. The Board is not the primary source for figures on national banks or insured non-member banks, but figures on the latter were included by the House Committee on Government Operations in its report on "Crimes Against Banking Institutions" dated February 20, 1964. On page 10, that report stated:

"Between 1958 and 1962, inclusive, the Office of the Comptroller of the Currency reported 3,016 cases of irregularities by officers and employees of national banks, involving estimated amounts totaling over \$28 million.

"In that same period, the Board of Governors of the Federal Reserve System reported 733 cases in State member banks, involving more than \$7 million. And the FDIC reported 1,695 cases, with shortages estimated at more than \$36 million.

"Thus, between 1958 and 1962, inclusive, the 3 Federal bank supervisory agencies reported a total of 5,444 cases of internal crimes, involving over \$70 million."

Senator DOUGLAS. I take it you are proposing consolidation of the examination functions of all three of these agencies?

Mr. ROBERTSON. Yes, I am.

Senator DOUGLAS. What type of agency would you create?

Mr. ROBERTSON. I would create what I choose to call a Federal Banking Commission that is composed of five individuals selected by the President on a rotating basis, of men competent in the field, and I would hope that the Commission would take over all functions of the Comptroller of the Currency and of FDIC, and the supervisory functions of the Federal Reserve System. That Commission would have two arms, each operated by a single administrator; one would have charge of all examinations and one would have charge of all insurance of deposits.

Senator DOUGLAS. You mean take over the work of the FDIC?

Mr. ROBERTSON. Completely, sir. The insurance features of the Federal Deposit Insurance Corporation would be carried on by the Federal Banking Commission. This function would be merged into a single function. This would mean that instead of having, as we do today, conflicting policies, inconsistent decisions, agencies going at cross-purposes, you would have a single policy, as far as the Federal Government is concerned, which would be applicable to all commercial banks in this country, equally and equitably. This I think is essential. We are rapidly getting to the point where banks being subjected to the same Federal laws but are treated differently, depending on which supervisory agency they happen to come under. As a result, there is confusion as to what the law is or is not. One bank is permitted to merge, another not. This cannot go on for long.

Senator DOUGLAS. Would you have this board make decisions on mergers?

Mr. ROBERTSON. Yes. All merger problems and all general supervisory policy problems would go to the full Commission. Individual

supervisory problems would be handled by individual administrators but banks would be permitted to appeal their decision to the full board. Charters would be granted in the first instance by the Examinations Administrator but he couldn't do it without consulting with the Administrator for Insurance.

Senator DOUGLAS. This would take over all the work of the FDIC?

Mr. ROBERTSON. Yes.

Senator DOUGLAS. What would it leave for the Federal Reserve?

Mr. ROBERTSON. Monetary policy.

Senator DOUGLAS. As to the open market operation and the reserve ratios and rediscount policy?

Mr. ROBERTSON. That is right. The principal function of the Federal Reserve would stay where it is but, the supervisory functions would be moved to the Commission.

Senator DOUGLAS. This would leave you free to handle the question of monetary policy?

Mr. ROBERTSON. That is right.

Senator DOUGLAS. Did you find that you get so absorbed in examination, mergers, and other problems that you don't have enough time to decide the right plans for the money supply?

Mr. ROBERTSON. The amount of time that has to be devoted by members to merger decisions alone takes up so much of their time that, in my view, they do not have adequate time to devote to monetary policy. I think that is a full-time job, the principal function. The members shouldn't be devoting their time to going over files, that are voluminous, as to mergers and the like.

Senator DOUGLAS. What would you do with the agency which insures the building and loan associations—the Federal Savings and Loan Insurance Corporation?

Mr. ROBERTSON. This is is a different problem and I have not devoted myself to it. I think sometime we ought to think in terms of aiming at consolidation with respect to Federal supervision of non-bank institutions. But this is not something I have worked out.

Senator DOUGLAS. Thank you.

Senator Dominick?

Senator DOMINICK. I would like to follow up on the questions you are asking, just to clear up the record in my own mind.

It is my understanding that the Comptroller of the Currency at this point does the examination on the national banks and the State banks which are members of the Federal Reserve System?

Mr. ROBERTSON. The Comptroller of the Currency does not examine any State banks, only national banks. He has no power to examine State banks.

Senator DOMINICK. The Federal Reserve Board conducts examination of all State banks whether or not they are members of the Federal Reserve Bank System?

Mr. ROBERTSON. No, only State member banks, those that voluntarily decide to be members of the Federal Reserve System.

Senator DOMINICK. On the figures that you presented to the committee, the Comptroller of the Currency would be examining on 4,500 national banks and the Federal Reserve on about 1,500 State bank members, and there are about 7,000 State banks which are not members of the Federal Reserve System, and they are examined only by State officials?

Mr. ROBERTSON. No; insured nonmember banks are examined by the State officials and also by the Federal Deposit Insurance Corporation. Only about 300 very small banks are not insured; they are not supervised by the Federal Deposit Insurance Corporation.

Senator DOMINICK. So we have three separate Federal agencies doing the examination at the present minute?

Mr. ROBERTSON. That is right.

Senator DOMINICK. Are there set criteria for these examinations which are agreed upon by these agencies ahead of time?

Mr. ROBERTSON. There are none; no such cooperation among these three Federal agencies.

Senator DOMINICK. Has the Reserve Board attempted to create any such cooperative effort?

Mr. ROBERTSON. We have so endeavored and for many years we did have cooperation. We had an interagency committee. When I first went to the Federal Reserve we set up an interagency committee composed of top-level representatives of the Comptroller, the Federal Reserve and the Federal Deposit Insurance Corporation. This worked beautifully; it no longer exists.

Senator DOMINICK. Is my understanding correct that one of the reasons it no longer exists is that the current Comptroller of the Currency wouldn't have anything to do with it?

Mr. ROBERTSON. I would say that is correct.

Senator DOMINICK. Mr. Robertson, I think this banking Commission bears considerable examination. Would this agency, as you see it, take over the chartering aspects?

Mr. ROBERTSON. It would as far as national banks are concerned.

Senator DOMINICK. Would it take all of the functions of the Comptroller of the Currency?

Mr. ROBERTSON. It would.

Senator DOMINICK. And the present office of the Comptroller of the Currency would be absorbed or abolished?

Mr. ROBERTSON. Correct.

Senator DOUGLAS. Did you advocate that when you were Deputy Comptroller of the Currency?

Mr. ROBERTSON. No.

Senator DOUGLAS. That it should have control over examinations?

Mr. ROBERTSON. You mean all examinations? No, but I did take the position I thought the Comptroller of the Currency ought to continue to examine the national banks. I am now in the opposite position.

Senator DOUGLAS. Have you changed your view because you have changed office?

Mr. ROBERTSON. I have changed my view because the weakness that always existed in the structure of the system has come to light.

Senator DOUGLAS. I remember testimony you gave some years ago and it was exactly opposite to that. Excuse me, Senator Dominick.

Senator DOMINICK. That's all right. This provides helpful information along the same line I am inquiring about.

We are having problems and have been for some time on the question of whether the Comptroller of the Currency or the Securities and Exchange Commission has jurisdiction over common trust funds and so-called Smathers-Keogh investments. Under your concept of this

new agency, would they have regulatory authority or banking functions of this type?

Mr. ROBERTSON. Under my proposal the Commission would have all the regulatory powers and functions that are now vested in any one of these three Federal banking agencies. The question of where the power lies as between the Securities and Exchange Commission and the Comptroller of the Currency would not be affected. My own feeling is the Securities and Exchange Commission has greater competency in the field than does any bank supervisory agency and therefore, I'd leave it in that Commission.

Senator DOMINICK. So at the present minute you believe the commercial banks, so far as common trusts and Smathers-Keogh funds are concerned, should be under the jurisdiction of the Securities and Exchange Commission?

Mr. ROBERTSON. I do.

Senator DOMINICK. All right, that is good to know because that's exactly opposite of the bill that I have in; it's good to have this point made clear.

Now on the insurance of accounts, would this also be handled by this particular Commission?

Mr. ROBERTSON. Yes; it would.

Senator DOMINICK. In other words, practically every single function that is now carried on by the FDIC or the Comptroller of the Currency and all functions of the Reserve Board except the monetary supply would be handled by the new Commission?

Mr. ROBERTSON. Yes; I would turn it around with respect to the Federal Reserve, and say the proposal would merely take out of it all bank supervisory functions. There is one little vestigial remaining function in the Comptroller's Office with respect to currency which wouldn't be affected, it would be transferred to the Secretary of the Treasury. It's not significant.

Senator DOMINICK. What, if you know, is the attitude of the commercial banking industry in this?

Mr. ROBERTSON. It is very difficult to know what the present attitude of the commercial banking industry is on this matter. Of course when I first proposed this I expected to have almost 100 percent of the industry against it. In a survey taken by the Bankers Association itself, my recollection is something like 40 percent was in favor of my plan, which made me grateful.

Senator DOMINICK. Only 40 percent?

Mr. ROBERTSON. I think this would not be true today, Senator, because the situation is deteriorating markedly month by month. And it will not be long before the banks in this country will rise up and demand that there be some reform of the Federal supervisory functions and policies. I might be unduly optimistic; I think this is going to happen.

Senator DOMINICK. Why would they be opposed to your proposal?

Mr. ROBERTSON. The argument, and I think the only one raised by many voices, is that it represents too great a centralization of power. Of course my view is that this simply isn't correct. What the proposal would do would be to maintain the dual banking system of this country, because the States would be put in a position whereby they could build up and develop a better State supervisory force and if at the end of 3 years they could establish their ability to supervise their

own State banks in an adequate manner, and provide reports adequate for Federal purposes, then the Federal agency would withdraw from supervision of State banks except insofar as it relates to mergers and holding company applications and so forth. This would very definitely strengthen the dual banking system of the country.

Senator DOMINICK. A couple more points on the same types of questions: At the present time the decisions of the Comptroller of the Currency, on granting or denying a new national charter, are not subject to any review by any court?

Mr. ROBERTSON. That is right, in the absence of a showing of capricious action.

Senator DOMINICK. Even in that, no review?

Mr. ROBERTSON. I'd question that; it has never been tried. If it could be shown that it is an arbitrary, capricious action, it is my view there could be a successful attempt to get judicial review.

Senator DOMINICK. How could you do this when you don't have any kind of hearing?

Mr. ROBERTSON. It would be difficult, but it could be done.

Senator DOMINICK. I prepared a bill which would require a hearing on these types of applications and the right of review of the court on adverse decisions. I spoke to the Comptroller and some of the banks about it and it was just like an explosion in their midst, they didn't like that at all. Could you see any need for this type of legislation?

Mr. ROBERTSON. I think there would be less need if you had a Federal banking commission of five men instead of a single individual who is making the decision; but even then we ought to be working toward the establishment of hearings so opponents and proponents can get all the facts out on the table.

Senator DOMINICK. In your merger and holding company cases are these public or private hearings?

Mr. ROBERTSON. There are usually public hearings where there is any dispute about it at all. If you give an opportunity to be heard to one side, you give it also to the other side.

Senator DOMINICK. This is not true so far as the granting or denying of a charter is concerned. Is there any substantive significant reason for difference in attitude?

Mr. ROBERTSON. The practical question is that you have such a large number of charter applications in which a hearing would serve very little purpose. In many cases you don't have people interested pro or con except the applicants.

Senator DOMINICK. At the present time the Comptroller of the Currency is passing out charters like popcorn all over the country. There is a good deal of interest in this.

Mr. ROBERTSON. Yes, there is.

Senator DOMINICK. Thank you.

Mr. Chairman, thank you, that is all I have for the moment.

Senator DOUGLAS. Senator Proxmire?

Senator PROXMIRE. Mr. Robertson, I will be as brief as I can. You have a well-earned reputation as a very effective, helpful, and useful dissenter. I would like to ask you about this monetary situation beginning with the balance-of-payments problem. In your view, does the interest equalization tax, which I understand is likely to pass Congress and which seems to have had already quite an effect on balance

of payments, does this somewhat reduce the pressure on the Federal Reserve to have a policy of restricting the money supplies so our domestic economy will not suffer?

Mr. ROBERTSON. I would say the pendency of this measure has probably been more effective than it will be after enactment. It has been very effective in restricting the flow of funds out of this country, so the balance-of-payments problem today is not nearly as large or serious as it was before this step and others were taken.

Senator PROXMIRE. As indicated in the fourth quarter of last year, the balance-of-payments situation has been vastly improved. Would it be possible to amend the equalization tax to make it do almost anything you wanted to do?

Mr. ROBERTSON. I think you could but there are sometimes ways to circumvent economic controls of this kind.

Senator PROXMIRE. There is no necessity to have a particular differential established here; it could be higher?

Mr. ROBERTSON. That is right.

Senator PROXMIRE. So there is no reason why the increase from 4 to 5 percent by Great Britain in their prime rate should necessarily result in putting serious pressure on our monetary authorities to follow suit? An adjustment in the equalization tax should accomplish all we could, or by reducing money supply?

Mr. ROBERTSON. These are two different problems.

Senator PROXMIRE. Yes.

Mr. ROBERTSON. They affect different flows—the tax has effectively stopped a good portion of the flow of long-term funds in that direction, but it has had no effect on interest-rate differentials that influence flows of short-term funds.

Senator PROXMIRE. Why doesn't the equalization tax affect the flow of money?

Mr. ROBERTSON. Because it isn't designed to affect this.

Senator PROXMIRE. Why?

Mr. ROBERTSON. You could legislate to do that.

Senator PROXMIRE. Is it the short-term flow that's been most damaging to our international position?

Mr. ROBERTSON. This is the contention of many people. It is not my contention and I do not believe it; the vast flow is in the long-term area which isn't affected at all by short-term interest rates.

Senator PROXMIRE. In the long-term area. Isn't it true some studies have indicated the interest differential doesn't have much effect?

Mr. ROBERTSON. The interest equalization tax does not apply to bank loans.

Senator PROXMIRE. Disregarding the equalization tax, it would seem in your judgment that it is unnecessary for us to follow a more restrictive monetary policy because of higher interest abroad?

Mr. ROBERTSON. You are referring to the increase in Britain to 5 percent. I would say no; there is no need for a more restrictive policy because of that factor. It has not shifted interest-rate incentives sufficiently to induce capital outflows.

Senator PROXMIRE. Isn't it true that there are other factors, trade, for example, the speculation that follows other matters such as political stability?

Mr. ROBERTSON. There are many factors which affect the flow of funds; interest rates are one. I do not deny that interest rates have

a bearing. The problem in this country with respect to balance of payments—in other words, the funds flowing out—is not the result of our trade position; it is in surplus. We are in a different position from any country in the world in this respect—our payments deficit is caused by economic aid, military aid, and investments abroad.

Senator PROXMIRE. Isn't it true our investments tend to follow the trade surplus to some extent?

Mr. ROBERTSON. I think that's true. I think the real answer to the balance-of-payment problem in this country is to develop our own economy to the point where you increase interest in the economic activities in this country and attract funds to flow here, and induce our own people to keep funds here and invest them profitably instead of moving abroad. I think we must always appraise the problem when an excessive amount of dollars are sent abroad for international purposes.

Senator PROXMIRE. As a Governor of the Federal Reserve Board your primary job is a monetary job and the monetary policy must take our balance of payments into consideration but should be based fundamentally on domestic economic considerations, unemployment, inflation, economic growth; is that correct?

Mr. ROBERTSON. This in my opinion is primarily the responsibility of the Federal Reserve. We can't ignore the existence of the balance-of-payments problem; but it should be secondary, not primary.

Senator PROXMIRE. In making up your mind as to the validity, the accuracy of unemployment statistics would be of great importance to you?

Mr. ROBERTSON. Very much so.

Senator PROXMIRE. There has been considerable question about the validity, whether or not these do reflect in fact unemployment accurately.

What kind of analysis can the Federal Reserve Board make on unemployment statistics, do you have the feeling they are accurate, any area they should be refined or improved?

Mr. ROBERTSON. I am not an expert in this field. I must say our staff, plus Secretary Wirtz, have convinced me the figures are about as accurate as we can get at the present time. They shouldn't be downgraded. As far as I know, they are accurate. No one contends they are 100 percent accurate, but I am convinced they accurately reflect the seriousness of the unemployment situation.

Senator PROXMIRE. The unemployment is 5.4 percent seasonally adjusted this last month, which was December. Nevertheless, would you agree that an unemployment figure of 5 to 5.5 percent is such that increased effective demands would help to diminish it without inflationary—

Mr. ROBERTSON. I would hope so very much, but one never knows what public psychology would do, how wages and prices will perform. I would hope we can get a stimulative effect out of the tax cut and a monetary policy which will help to bring down the percentage of unemployed and increase production.

Senator PROXMIRE. The Wall Street Journal had a very alarming article the other day. I quote:

SURPRISE FOR CONSUMERS

The same tax cut that began putting extra dollars in workers' paychecks yesterday may make it difficult for some of those workers to get a loan to buy a house, car, or refrigerator—and may make many more pay higher interest on such loans.

So, at least, say some prominent bankers. Their reasoning: Many consumers likely will use their tax-cut dollars to make a downpayment on some major purchase, figuring to borrow the rest. And many businesses likely will use tax-cut cash to start expansion projects, then borrow to complete them. So demand for bank loans can be expected to jump at a time when the Federal Reserve Board has been restricting the supply of money banks have available to make new loans and, for various reasons may restrict it further.

It seems to me very simply, and quite accurately this article puts the finger on the economic dilemma that faces Congress and the Federal Reserve; we want to stimulate the economy but not increase prices. I voted against the tax cut. If it is going to do a job it should do it. How can you justify not providing at least a substantial increase in the money supply?

Mr. ROBERTSON. I think we have to gage the monetary needs as we go along, not try to fight inflation when it doesn't exist; try to deal with the problem that does exist, which is underutilization of resources, and unemployment. In these circumstances, you ought to make money available at as low interest rates as you can. If inflation starts, I will be one who will be fighting it, but I don't intend to fight inflation until it begins.

Senator PROXMIRE. Last year there was an increase in the GNP of more than 4 percent in constant dollars, an increase in the GNP of about 6.43 in active dollars. The money supply increased about 3.7 percent, far less than the job it had to do, therefore monetary policy tended to have a somewhat moderate restraining influence; is that correct?

Mr. ROBERTSON. I really think it did but I am not one who thinks monetary policy has been really restrictive.

Senator PROXMIRE. That may be.

Mr. ROBERTSON. The degree of the expansion of the money supply is not the whole answer. I think it depends also on velocity, the use of that money. This is a matter you have to watch very carefully.

Senator PROXMIRE. That is the reasoning we run into with some Federal Reserve witnesses, velocity is just a function of the money supply in relation to the gross national product. The tighter the money supply, the higher the velocity.

Mr. ROBERTSON. It's extremely important.

Senator PROXMIRE. If you restrict the money supply given certain amounts of economic activity, the velocity is bound to go up.

Mr. ROBERTSON. That is right, but you have to watch the whole picture.

Senator PROXMIRE. So you would keep in mind the unemployment statistics?

Mr. ROBERTSON. I don't see any sign of an inflationary movement in this country today. It could arise at any time depending on psychological attitudes, savings habits and so forth. I don't see it today. I would keep an eye on the unemployment situation, the utilization of productive capacities, and watch the situation to see if inflationary tendencies develop.

Senator PROXMIRE. Secretary Hodges spoke yesterday of 10 percent or more increase in the coming year in business investment. Now if you get a substantial stimulation, which we hope to get in our consumer spending from the tax cuts, recognizing that the 5.4 percent unemployed includes the fact that 20 percent who are unskilled are unemployed—a high percentage of semiskilled are unemployed and almost none of the skilled are unemployed—we might very well be on the verge of inflation. Especially since the utilization of additional capacity brings high cost marginal facilities into production. This, too, may mean higher prices.

Mr. ROBERTSON. I think you have all the elements but it is a matter of anyone's judgment. I would not predict we will get inflation. I will predict we are going to have problems we must watch.

Senator PROXMIRE. Thank you very much.

Senator DOUGLAS. Thank you very much.

Senator DOMINICK. I just want to thank Mr. Robertson. I think he has been an extremely able and interesting witness.

Senator PROXMIRE. He has indeed.

Senator DOUGLAS. I would like to offer one bit of advice. This question of comparative interest rates has been used by many people as an argument for increasing domestic interest rates. The last few days I have been trying to study the figures which you produced on international comparisons of interest rates. I think they can be described as very defective. To show the bank rate for the various countries is very important because in this country we discount below the loan rates and in England it's above the bank rate.

As I remember the figures, when we had 3.5 and Britain had 4.0 bank rates, our short term 90-day rate was 3.5 compared to England's 3.7. So that England, in its rate on 90-day paper, was actually above the American rate, not below it. Even this rate, however, is not given for some countries and the actual private lending rate is not given. And yet this is supposedly one of the important factors which enters into determination of monetary policy.

I think in this respect the statistics of the Federal Reserve Board need to be greatly improved and I plan to take this up with the joint committee. But I wish you would give a little attention inside the Board and see if some improvement is not available. I am sure that the data in the Economist in England, the journals in France and Italy, at least would have this. We are operating in the dark. Take, for instance, Switzerland. It's sometimes said we have to protect short-term funds from being transferred to Switzerland, but the Swiss official rate is 2 percent. It is not monetary consideration which leads to any transfer to Switzerland. This whole question needs more accurate information.

Thank you.

(Thereupon, at 11:38, the committee went into executive session.)

(The speech by Mr. Robertson and the statement by Secretary Dillon, previously referred to, follow :)

U.S. POLICIES AND LATIN AMERICAN PROGRESS

Remarks of J. L. Robertson, member of the Board of Governors of the Federal Reserve System, before the National and State Bank Divisions of the American Bankers Association, Mayflower Hotel, Washington, D.C., December 10, 1962

Several months ago I suggested the need for a fundamental reformation of our crazy quilt pattern of Federal bank supervision, a pattern which is obsolete and defies logical justification. I suggested that instead of clinging to a system in which three different Federal agencies examine and regulate the commercial banks of this country, we should consolidate them into a single independent agency—a Federal Banking Commission. It would be headed by a board of five men, appointed by the President, with the advice and consent of the Senate, on a staggered-term basis. They should be specialists who know the business of banking well, men of integrity, impartiality and competence, constituting an agency that would be completely nonpartisan, even as the Federal Reserve Board and the Federal courts are today. To this Commission would be transferred all the powers and functions now vested in the Comptroller of the Currency and the Federal Deposit Insurance Corporation, as well as the bank supervisory powers exercised by the Federal Reserve.

This would have a number of important advantages. It would raise standards. It would end a race of laxity among existing agencies, which too often reduces supervisory standards to the lowest common denominator. It would satisfy the imperative need for coordination, efficiency and uniformity of Federal bank supervisory policies. It would eliminate the confusion caused by conflicting and inconsistent decisions (for example, on mergers). It would reduce costs and increase efficiency. Last, but not least, it would provide the banking industry with a single set of "rules of the game", ground rules that would apply to all banks alike—fairly, equitably, and impartially—and without which many institutions are finding it increasingly difficult to plan their own future activities.

Shortly after my last speech on this subject, before the convention of the National Association of Supervisors of State Banks at Bretton Woods, N.H., I removed myself physically as well as mentally from the field of battle. I spent most of the month of October in Latin America, where I engaged in some on-the-spot research into the banking and economic problems that confront our neighbors to the south. On my return, I fully expected to again take up the gauntlet, but to my surprise and pleasure, I found that in my absence, and perhaps because of it, there had developed an increasingly widespread understanding of the proposal for a Federal Banking Commission, a growing realization that it would not in any way weaken the dual banking system, and a ground swell in favor of it.

I have no illusion that the issue has been decided and that the battle has been won. However, the case for reform has been stated, not only in my earlier speeches on the subject, but in articles and editorials in widely read magazines and newspapers. There is little that I can add of an expository nature. Even if I had the power, I would not want to try to win support for the reform by emotional oratory. I can only say that the more the question has been debated, the more convinced I have become that the proposal is sound and feasible. I hope and trust that after careful, openminded study of the pros and cons, bankers, supervisors, Government officials and legislators will reach a similar conclusion. If this should be the case, the plan could be effectuated either by the President under the Reorganization Act or by the Congress through the legislative process.

Believing that I have done about as much as a man in my position can be expected to do in bringing about the needed reform, I feel free tonight to turn to a discussion of the need for reform in our thinking about the problems of Latin America. I do not pretend to know as much about this as I do about bank supervision, since—when it comes to Latin America—I am, at best, what might be called a 1-month expert. I make no pretense of being anything else, and perhaps I should hold my tongue. However, the gravity of the situation

has so impressed me that I feel impelled to share my thoughts with you, in spite of the fact that they are the product of a too brief, even though intensive, survey.

I was in Mexico City when the Cuban crisis occurred. It seemed that the hand of fate itself was adding emphasis to the feeling that Latin America will influence our destiny much more in the future than it ever has in the past; a feeling that had led me to seek firsthand knowledge of the area. In those final days of October we gained a keener appreciation of the fact that small, barely noticeable clouds on the southern horizon could be the origin of storms that might threaten our very existence. Now the crisis has subsided, and we are practically back to normal. However, I think that we are all a little changed. We are more conscious of the fact that we are living in the shadow of a volcano that might erupt at any time. We are also aware of the need to find some means of immunizing this hemisphere against the kind of evil that Fidel Castro represents.

That we are still a very long way from accomplishing this was impressed upon me strongly in the first country I visited—Venezuela. Here is a country that is obviously experiencing real difficulties. The first day I was in Caracas the newspaper headlines blazoned the news of the temporary seizure of a village just a few miles from Caracas, and the slaughter of its police force, by a band of Communists. The week after I left, the Tamanaco Hotel where I had stayed was bombed and badly damaged. More recently, bombings have wreaked heavy destruction on Venezuela's oil and pipeline facilities. The Government has been forced to declare martial law and suspend civil liberties.

I commend careful study of the Venezuelan situation to all those who hold that the antidote for Communist penetration in Latin America is simply economic growth or the achievement of higher levels of per capita income. Latin American growth statistics are highly suspect, but Venezuela's growth is easily visible to the naked eye. One does not need statistics to see that in the last decade there has been an economic explosion in Caracas. It has been based on a great oil boom, which has seen production nearly double in the last 10 years. Per capita gross national product is now well over \$600, which is not only far above the level in any other Latin American country, but is higher than in parts of Europe.

This is not just statistical deception. Venezuela has attracted many immigrants from Europe, and even those working in humble positions testify that economically they are better off in Venezuela than they were in countries such as Italy or Spain. Workers on the assembly line in the Ford Motor Co.'s newly established plant earn \$10 a day. The beginning pay for bank employees is \$100 a month. Still, it is said to be hard to get competent skilled workers whether they be accountants, cooks, or mechanics, even though the number of unemployed people there is very high, indeed.

We often hear that land reform is vital in Latin America, but in Venezuela it would be more accurate to say that the problem is to find people willing to develop and cultivate the vast amount of unused land that is available. The country is larger than Texas and Oklahoma combined, and it has a population of only 7½ million people. Much of the arable land is publicly owned and is not used for any productive purpose. The problem in Venezuela is not that of appeasing the deep hunger of the people for land, but rather to find men and women willing to pioneer and open up new areas.

The Venezuelan experience rudely shatters the fond American notion that you can make people more stable politically by taking them out of the slums and giving them good housing. To the dismay of the Government, it has discovered that the hotbeds of communism in Caracas are not the miserable squatters' hovels that blight the city's hillsides, but the striking high-rise apartments that the Government built to provide decent, low-cost housing for the squatters.

Venezuela's President is Romulo Betancourt, a man who is regarded in some quarters as the apotheosis of the non-Communist left. He was democratically elected, and he has tried to undercut the appeal of the Communists by introducing various social reforms. However, he has been a special target of the Communists, and terrorism and lawlessness have been growing problems for him. The terrorism, along with some of the reforms, have worried investors in Venezuela, and in recent years there has been a slowdown in the rate of economic growth. I suspect that President Betancourt would be one of the first to agree that the complex problem of subversion confronting Venezuela is not one that can be solved merely by political reform. Observing his problem, I can better

understand what Edmund Burke was driving at when he said, "Kings will be tyrants from policy when subjects are rebels from principle."

Venezuela does not typify all of Latin America. Each country has its unique characteristics and problems. However, it does provide an interesting and challenging introduction to the area. I say this because Venezuelan experience points to both the urgency of Latin American problems and to the need for a fresh, questioning look at some of the most frequently mentioned remedies for them.

A very important step in the treatment of any ailment is proper diagnosis, and the gnawing worry that has been troubling me since my return from Latin America is that perhaps we have failed to properly diagnose that area's ills. It appears that we have tended to see the illness largely as one of capital malnutrition and income maldistribution. The accepted remedies have been the infusion of large amounts of capital and some rush operations to reform the distribution of income through taxation and through a draconian change in the ownership of agricultural land. It appears to me that we may be mistaking the symptoms for the disease, which is really more deep seated. If this is true, our prescribed remedies will be ineffective, and they may in some cases be harmful.

The shortage of capital in Latin America is very real and very obvious. One sign of this is the high rates of interest that prevail throughout the area. As a general rule, banks are pressing against the legal ceilings on interest rates, and they are usually finding ways of circumventing them. Bank lending rates are generally limited to a maximum of around 12 percent a year, but commissions and other hidden charges often push the actual cost up to as much as 18 percent. In Brazil, businessmen complain that bank officials frequently ask for a participation in the enterprise as a condition for granting credit. Even so, the banks are unable to meet the heavy demand for loans because of the inadequacy of their resources.

What's more, the banks in most Latin American countries have found that they can get around the interest rate limitations on both deposits and loans by setting up "financieras." These are finance companies which may sell shares or accept savings deposits, issue bonds or borrow funds, and relend at rates of interest much higher than the banks are permitted to charge. For example, in Brazil where the legal ceiling for bank loans is 12 percent, the *financieras* lend against good commercial paper at rates up to 40 percent a year. In Argentina, the banks are limited to 15 percent, but their *financieras* also charge up to 40 percent. They pay 18 percent on their shares or borrowings. In Mexico, where inflation and devaluation have been less of a problem, the *financieras* charge 15 to 22 percent a year. Their bonds, which they redeem at par on sight, yield 8 percent a year.

The high cost of money in these countries seems to have little to do with the policies currently pursued by the central banking authorities. Some of the central banks are ostensibly employing very restrictive policies; others are exercising virtually no control over credit. However, the only country I visited where money was not extremely expensive and where banks could fully meet the loan demand was Panama, where there is no central bank. I do not want to imply that central banks are useless institutions which might be better abolished. However, it is significant that Panama, which uses the U.S. dollar for its currency and therefore has the hardest money in the area, is the one country that has what we would consider to be a relatively reasonable structure of interest rates.

This provides a most revealing clue to the cause of the capital shortage elsewhere in Latin America. Inflation, past and present, is certainly a major factor. Some of the Latin American countries are taking painful measures to curb inflation, but once confidence in a currency has been severely shaken, it is not easy to restore it. It takes confidence to encourage savings and to get capital to flow into a country and to stay there. Those interest rates of up to 40 percent in Argentina may appear very attractive to lenders at first glance, but when one finds that the value of the Argentine peso has been nearly halved since last March, interest soon wanes. This is one reason why banks and savings and loan associations in the United States are able to attract money, with their 4- and 4½-percent rates, from countries where the local institutions may be offering rates three or more times as high.

There are other explanations for this phenomenon in addition to inflation. Fears of the confiscation of property and of legislation which makes the profitable

employment of capital difficult or impossible are also important in driving capital out of Latin America. Mexico has recently enacted compulsory profit-sharing legislation, which has raised a lot of eyebrows abroad. Brazil has recently enacted a law which limits the remittance of profits on foreign investments to 10 percent a year, calculated on the basis of the registered investment. It will not permit retained earnings in excess of this 10-percent limitation to be added to the capital base which will be used to compute future remittances. Add this to the recent nationalization there of some American-owned utilities, and you can understand why foreign investors are not exactly rushing to Brazil today.

Much concern has been vocalized over the fact that Latin Americans have been sending their money abroad and because foreign, especially U.S., investment in Latin America has markedly dwindled. (In the first half of 1962, there was actually a net reflow of U.S. direct investment capital from Latin America.) I suggest that the remedy for this does not lie in the substitution of government-provided capital for private capital. It does not lie in attempts to locate and forcibly repatriate Latin American capital deposited in American or Swiss banks. It does not lie in exhortation or special tax measures designed to persuade Americans to step up their investments in less developed countries.

The primary remedy, and perhaps the only workable one, lies in an attack on those factors that drive capital out of Latin America and discourage domestic savings. This means attacking some fairly prevalent ideas, one of the more important being the idea that inflation is unavoidable, or even desirable, in a developing country. This is not a new thought, but I wish to emphasize it because somehow our Latin American friends have gotten the impression that the Alliance for Progress program is keyed much more to such things as land reform and the writing of long-range development plans than to the adoption of sound fiscal and monetary policies and the creation of a favorable climate for both domestic and foreign investment. This has gone so far that some Latin Americans accuse us of contributing to the worsening of the investment climate by pushing for reforms that tend to drive money abroad. To show you how twisted thinking can become, some even say that we are doing this deliberately in order to ease our own balance-of-payments problem.

This leads to our second questionable diagnosis of Latin America's ills; namely, maldistribution of income. Much has been said about the problem created by the great contrast between wealth and poverty in Latin America. I do not know why Latin America is singled out in this respect. The contrast there is perhaps less than in many parts of Asia. In fact, I understand that a Latin American soccer team that recently visited Russia was shocked to find that the gap between the living conditions of the rich and the poor was far greater there than at home.

I might note that 30 or 40 years ago, not to mention the present, the contrasts between the wealthy and the poor in this country were not exactly unnoticeable. I had personal knowledge of conditions on the lower end of the scale during my boyhood in Broken Bow, Nebr. We did not have any firsthand knowledge of how the Astors and the Vanderbilts lived, but we read about it. We also read the literature of social protest—the works of writers such as Upton Sinclair, Frank Norris, and Theodore Dreiser.

Those works had a beneficial influence insofar as they stimulated corrective action against some of the ugly sores in our society. However, few would argue today that we have reached our present degree of affluence because we eliminated or greatly reduced the unequal distribution of incomes. We are better off today chiefly because we concentrated our efforts on raising productivity. One way we did this was by developing mass production, supported by mass consumption. Men like Henry Ford were lavishly rewarded for their contribution to this development. However, their great personal fortunes were picayune in comparison with the tremendous increase in the productive power of American labor, and the resulting improvement in the standard of living that they made possible.

Nothing in Latin America impressed me more than the need and the scope for improvements in the productivity of labor, both urban and rural. This, I feel, can make a much more important contribution to raising living standards there than can measures to redistribute existing income. The cake needs to be made bigger—just recutting it will not do any good. Indeed, there are cases in which the effects on productivity, of income redistribution, are likely to be harmful.

Again, this is not an original idea, but it is also one that seems to have gotten lost in Latin America. Like correcting attitudes about the desirability of inflation, this is not something you can accomplish simply by making Government loans or grants. It requires work in the area of ideas. For example, you have to

convince a very large number of people that they will get real improvements in their living standards faster if they try to maximize their productive effort than if they try to maximize their money income while minimizing their output. Well-organized groups can use their bargaining power to improve their own position at the expense of the unorganized up to a point, but in Latin America the tendency has been to grant the wage increases, the fringe benefits, the early retirement privileges, et cetera, to everyone through legislation. This often means that no group gains at the expense of any other, but rather that the whole society loses because productivity suffers.

I came away from Latin America with stories ringing in my ears of the great problems created by inefficient operations that could not be put in order because of laws and regulations restricting the dismissal of workers—even the inefficient ones. In one country, a bank was prevented from dismissing two employees who had been caught embezzling funds. In Peru, a country plagued with underemployment, I found costly machinery being used instead of unskilled labor only because complex legislation makes it easier for employers to work with machines than with men.

Elsewhere, I saw large amounts of capital being used to build plants which can operate profitably only as long as the government continues to provide them with guaranteed markets in which they can sell at high prices. The idea of stimulating mass consumption by bending every effort to bring the cost of manufactured goods within the grasp of the masses is not only ignored, it is flouted. The governments themselves must share the blame for this because of tax and tariff policies that make goods much more expensive than they ought to be.

This applies not only to luxuries, but even to some obvious necessities—matches, for example. I was particularly aware of this because I am a pipe smoker. Never before have I been in an area where matches were so scarce and of such poor quality. People joke about this. In one country they told of the fellow who took a match from a full box, lit it, and immediately threw the box away. Asked why he was so wasteful, he replied, "Oh, everyone knows there is only one in a box that works."

This exaggeration illustrates a point of some significance. There is something cockeyed about policies that make the sale of poor matches at exorbitant prices a means of helping to finance the losses incurred by a government-owned plant to produce, for instance, poor quality steel which is also sold at exorbitant prices.

I began this discussion by pointing out that the Venezuelan case suggested that economic growth per se was not the solution to the problem of political instability in Latin America, and I then went on to criticize some of the accepted solutions on the ground that they do not seem to be the measures best suited to the promotion of economic growth. I must clarify this seeming inconsistency.

I am in favor of economic growth; very much so. I want to see misery alleviated; not because it will serve our political interests, but because it is in the interest of the people of Latin America. I am also in favor of social justice, and for the same reason. However, one of the basic difficulties there is that popular concepts of social justice are often in serious conflict with some of the basic principles of economics. A country may have very impressive growth, as Venezuela has had, and still suffer from political instability because a substantial portion of the population believes that the political and economic organization of society is unjust. On the other hand, if the government succumbs to popular conceptions of social justice that are economically ruinous, as in Argentina under Peron, political stability is not likely to be attained either. I am afraid that we have not yet mastered the art of bending basic economic law to meet our own wishes.

This suggests that the Latin American problem has to be approached in the direction of modifying popular conceptions of what is economically and politically just. Governments, whether democratic or dictatorial, will have difficulties if they try to pursue economic policies that are sound but highly unpopular. But they will have no easier road if they adopt policies that are popular but economically unsound.

I believe that what this adds up to is that the proper diagnosis for Latin America is not capital malnutrition and income maldistribution. Rather, it is a combination of endemic economic miscomprehension, a widespread acceptance of certain notions of social justice that do not square with the economic realities, and a high degree of inertia.

If one accepts this diagnosis, it is obvious that high on the list of remedies must be one that will stimulate a reformation of ideas and of spirit. There is a need to somehow infuse a spirit of drive into a large part of the population of the Southern Hemisphere. There is a great need for something akin to the spirit that impelled our forebears in this country to pioneer the wilderness and open up the West, suffering not only personal discomfort but risking death to carve out a better life for themselves and their families by their own sweat and sacrifice.

What worries me is that we do not really know how to go about this. So far as I know, we have not carried out experiments or research to try to find out whether it can be done. I suspect that the closest we have come to it is in the Peace Corps program. I did not have an opportunity to observe the Peace Corps at work, but I did hear favorable reports on its activities in Latin America. This approach may be one way in which some of the necessary changes might be stimulated.

Actually, the remedial task in Latin America, under my diagnosis, is so staggering that there is a strong temptation to throw up ones' hands and look (as I fear we have done too frequently in the past) for diagnoses that call for simpler remedies—remedies, for example, that can be provided from an open pocketbook. However, in my view, the danger is so great that there are two things we cannot really afford: First, failure to comprehend the nature and the scope of the problem, and second, failure to exercise all our ingenuity and imagination—as well as our compassion—in the endeavor to aid our Latin American neighbors.

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY, BEFORE THE SUBCOMMITTEE ON DOMESTIC FINANCE OF THE HOUSE COMMITTEE ON BANKING AND CURRENCY, MARCH 5, 1964

Mr. Chairman, my testimony today will be limited to what I have experienced during my 3 years as Secretary of the Treasury. That is the only period in which I have had any close contact with the Federal Reserve System or with the operations of our commercial banking system.

FEDERAL RESERVE-TREASURY COOPERATION

It is difficult for me to conceive of any closer working relationships between two coordinate agencies of Government than those that have characterized the Treasury and the Federal Reserve during the past 3 years. That does not mean that our policy judgments always coincide—any more than do, for instance, the policy judgments of the individual Governors who sit on the Federal Reserve Board. But I believe that each agency has been fully informed at all times on the problems and policies of the other, and worked closely together in coordinating their separate actions.

I have always found the officials of the Federal Reserve eager to learn of our special problems and quick to cooperate within the bounds set by their own primary responsibility for regulating the supply of money and bank credit according to their own best appraisal of prevailing economic circumstances. This common understanding and cooperation has been of great help to me as the chief fiscal and financial officer of the Government and in my direction of our international financial relationships.

Cooperation has been reflected in a number of informal relationships that, by their presence through several administrations, are now a matter of course. Every Monday, for instance, the Chairman of the Board of Governors visits the Treasury to discuss current issues and problems with me and my associates. Every Wednesday, the Chairman, together with other Governors and members of his staff, meet at lunch with the Under Secretary for Monetary Affairs and his associates to discuss matters of mutual interest. More formally, certain aspects of international policy are cleared through the National Advisory Council under my chairmanship. These relationships have been further bolstered by free and continuous exchange of information between the staffs of the Treasury and the Federal Reserve.

In addition, Presidents Kennedy and Johnson have continued the practice of meeting from time to time with the top financial officials of the administration. Chairman Martin has participated fully in these discussions. He cannot, of course, bind the Federal Reserve to a decision that is within the province of his Board or of the Open Market Committee. But he is always willing to convey

his own appraisals and judgments to us. These conferences also enable him to interpret accurately and sympathetically the administration's objectives and policies to his own Board and to the Open Market Committee, so that those groups may have the benefit of this information in arriving at their own decisions.

This process of close consultation and cooperation cannot be attributed entirely to a happy accident of congenial personalities or to a fortuitous coincidence of objectives. Its foundation rests solidly upon the fact that the Federal Reserve is bound by the same broad objectives, cited in the Employment Act of 1946, that govern the operations of other Government agencies.

FEDERAL RESERVE INDEPENDENCE

From time to time, suggestions have been made that coordination of financial policy should be enforced by various devices. Such a proposal is contained in one of the bills before you—H.R. 9831—which would make the Secretary of the Treasury *ex officio* Chairman of the Federal Reserve Board.

This proposal seems to me to raise most important questions of public policy, for inevitably the implication is that the stature of the Federal Reserve—independent not of the Government, but of the Treasury—would be, to some degree, diminished.

Demands on the time of any Secretary of the Treasury are already heavy. Added responsibilities for the formulation and execution of monetary policy would compete with his responsibilities in other areas. Delegation of a large portion of these new responsibilities to his subordinates—and that could hardly be avoided—would in turn raise further questions about whether the critical and complex issues of monetary policy were receiving the attention they deserve. It is one thing for the Secretary of the Treasury to be continually aware of the general nature and direction of monetary policy, and to keep in close touch with the Chairman of the Board of Governors on the issues that seem most significant—as I now do. It is quite another to be responsible for the vast and complex activities of a very intricate operating organization.

Proposals of this kind also raise the possibility that decisions on monetary policy, directed toward the overall health of the economy, will at times, consciously or unconsciously, be biased by the constant pressures on the Secretary of the Treasury to assure the economical financing of the dominant borrower in our economy—the Federal Government itself. This does not mean that the Federal Reserve should not or does not properly take into account the financing needs of the Federal Government in determining its own policy. These Treasury financing operations have important implications for financial markets generally, and in their common pursuit of a vigorous and healthy economy the Federal Reserve and the Treasury share a common interest in the orderly financing of Government. But occasions could, of course, arise in which almost any Secretary of the Treasury would feel a conflict between his immediate interest in insuring a successful financing and the broader objective of maintaining a supply of money and credit in tune with the needs of the economy as a whole.

Finally, and perhaps most fundamental to a resolution of this issue, experience over many years and in many countries has taught the wisdom of shielding those who make decisions on monetary policy from day-to-day pressures. The day of private central banks operating without regard to Government policy is long since gone, and quite properly so. But around the world, almost all countries still find it useful to maintain independence for their central banks within the government.

Independence naturally implies the right to disagree; and not only to disagree, but to act on the basis of different judgments. Some differences between the Treasury and the Federal Reserve may from time to time be a fact of life. But this need not be distressing. The necessity to test policy proposals against the views of an independent Federal Reserve is, I believe, the best insurance we can have that the claims of financial stability will never be neglected.

In considering this problem of achieving a proper balance, I share the view of the present Chairman of the Board of Governors that the Chairman's term of office should be made coterminous, or more nearly coterminous, with that of the President. With a President free to choose a new Chairman upon taking office, or shortly thereafter, there will be firm institutional basis for expecting that the kind of cooperative relationship that has characterized the past 3 years will continue in the future, and that the viewpoints and aims of an incoming administration will be sympathetically reflected in the councils of the Federal Reserve.

Two years ago, President Kennedy made precisely such a proposal to the Congress. It was valid then and it remains valid today. I commend it to your attention.

THE INTERNAL STRUCTURE OF THE FEDERAL RESERVE

The bills before you raise a number of other specific issues concerning the internal structure of the Federal Reserve, including the composition of the Board, the usefulness of the Federal Open Market Committee, arrangements for appropriate audits, and the methods of covering its necessary expenditures. I will not dwell upon these issues at length for they raise a number of detailed questions of organization upon which I have no special competence.

In approaching questions of this kind, however, I do feel strongly that we should remain mindful of the relevance of one of President Wilson's remarks at the time the Federal Reserve System was established 50 years ago. He noted then that the sponsors of that legislation were dealing "with our economic system as it is and as it might be modified, not as it might be if we had a clean sheet of paper to write upon."

This committee is dealing with a living institution—an institution that has demonstrated its capacity to innovate, to experiment, and to adapt itself to a very wide range of circumstances. But in this process of change, it has never lost certain characteristics—an established tradition of independent judgment; a mixture of regional participation in policymaking with ultimate central control that is unique in our Government; an ability to attract highly qualified officials and staff; and a reputation for operating efficiently and impartially.

The structure that has resulted does not fit easily into the framework of standard tables of organizations. Policy responsibility is widely dispersed and coordination depends in part on informal working relationships built up over the years. Vestigial elements of an earlier conception of private participation in central banking policies—elements that are more symbolic than real today—are still visible.

But change without clear purpose can be dangerous too. If there are persuasive reasons for particular proposals—if it can be shown that ownership of Federal Reserve Bank stock by member banks has biased Federal Reserve policy decisions, or if budgetary or auditing practices have been loose, to take two examples—by all means, this committee should act. But I doubt the advisability of taking action simply for the sake of achieving symmetry with other Government agencies, particularly if there was danger that such action might impair a long tradition of regional participation and efficient service of which I believe the country can be proud.

Personally, I would be inclined to the view that if any change is made in the composition of the Board itself, it might better be made smaller rather than larger. I would also think that consideration might usefully be given to some shortening in the present 14-year term for Board members, as well as to the elimination both of the current special geographical restrictions on Board membership and of indications that members should be representative of particular interests.

In the same vein, I should also express my firm support for the efforts now underway to lift the salaries of Board members along with those of other Government officials. This is the appropriate path toward reducing the present anomalies—so evident within the Federal Reserve System itself—that have left Board members with salaries far below the more competitive rates paid not only in industry but within the Federal Reserve System itself.

OTHER ISSUES

Three of the bills before your committee—H.R. 9686, H.R. 9687, and H.R. 9749—raise issues of general financial policy rather than of the administrative structure and independence of the Federal Reserve itself.

The first of these, which would require the payment of interest on Treasury tax and loan accounts, is the most limited in scope. This matter, as you know, has been carefully reviewed at intervals by the Treasury Department. We now have underway a new and comprehensive study of the facts both on bank earnings that can be attributable to these accounts and on bank expenses in handling transactions of the Government. This study, which I hope will be completed by July, will shed further light on this matter.

However, in appraising the tax and loan account system, I think it is vital to keep in mind that these arrangements were basically designed not as a method

to reimburse banks for services performed but to fill a special need in our decentralized financial system, characterized by a large number of independent banks. These arrangements perform a twofold function. First, the use of tax and loan accounts avoids abrupt flows of deposits from one section of the country to another, as well as disturbing contractions or expansions in the total of bank reserves, that would otherwise be an unfortunate byproduct of the large, day-to-day cash and borrowing operations of the Treasury. Second, the tax and loan account system makes it possible for commercial banks to underwrite and distribute new Treasury securities—an indispensable element in the smooth market absorption of many new cash offerings.

I know of no arrangements in foreign countries that have been more successful in minimizing and cushioning the effects of Treasury operations on the money markets, even though in many of those countries a highly centralized banking system makes simpler the task of forestalling disturbing flows.

Any effort to seek a precise balancing of costs and earnings that emerge from the mutual relationships of the Treasury and the banks that would directly or indirectly impede these basis functions of the tax and loan account system would be self-defeating.

I would be happy to have Mr. John Carlock, who as Fiscal Assistant Secretary is directly in charge of the Treasury depository arrangements, provide you with a more detailed review of these matters at your convenience.

Much broader issues of monetary theory and practice are raised by the proposal of H.R. 9687 that we reverse the Banking Acts of 1933 and 1935 and permit banks to resume payment of interest on demand deposits. This approach was fully explored by the President's Committee on Financial Institutions. However, the majority of the Committee concluded in its report filed last year that the dangers and difficulties posed by such a change, particularly for smaller banks outside of the financial centers, outweighed any potential advantages. I joined in that majority finding.

The final bill, H.R. 9749, would commit the Federal Reserve to support the yields of all Government securities at rates no higher than $4\frac{1}{4}$ percent. This would, in my judgment, represent a departure from the principles of flexible and vigorous monetary and credit policies.

In my judgment, efforts to peg interest rates by governmental decree, or to hold them below a predetermined level, represent an unrealistic simplification of what can, in fact, be done, or properly attempted by any governmental authority. We want interest rates to be as low as possible. We want to remove any props that artificially hold rates above the levels that supply and demand in competitive markets would produce. We want the influence of Government constructively used, wherever there is room for choice, on the side of lower rates. But I think that to make a fixed level of interest rates the sole objective in any circumstances would prevent the Federal Reserve from doing most of the other things that we expect it to do—in avoiding inflation, or averting boom-bust cycles, or assisting sustained growth. The contribution that flexible interest rates and monetary policies can make to growth without inflation are so great that we must place no artificial restrictions of this kind on Federal Reserve operations.

Before closing, I would like to suggest to the committee two areas in which outmoded restrictions in the Federal Reserve Act have clearly outlived any usefulness they might once have had, and today unnecessarily constrict the flexibility with which the Federal Reserve can discharge its domestic and international responsibilities.

The first of these areas concerns the archaic requirements defining the paper eligible for securing advances to member banks.

At the present time, as you know, the Federal Reserve can freely lend to member banks at the prevailing discount rate only on the basis of Government securities or commercial paper meeting certain rigid legal requirements in its maturity, purpose, and self-liquidating character. In recent years, a much larger proposition of the Government security holdings of many banks has been needed to secure public deposits or for other purposes that effectively forestall their use in borrowing from the Federal Reserve. The supply of other paper meeting the technical eligibility requirements of the Federal Reserve Act has also declined as the character of bank lending has changed over the decades, and in any event the use of this paper for borrowing would require awkward and cumbersome procedures by both commercial banks and the Federal Reserve.

The necessity for banks to maintain assets that meet these restrictive eligibility requirements in a volume adequate to provide a reasonable margin over

foreseeable needs could become an impediment in the flexible distribution of bank credit among competing uses. Moreover, shortages of eligible paper could potentially affect the ability of the Federal Reserve to make credit promptly available at reasonable terms to its members when required. Unless these eligibility requirements are relaxed, the time could come that the flow of credit from banks to consumers, home buyers, and businesses requiring medium-term credit would be unnaturally constrained. Doubts might unnecessarily arise over the ability of the Federal Reserve to relieve any sudden pressures effectively and expeditiously. I urge that you give your early attention to removing this anachronism from law.

A somewhat parallel rigidity in the law is beginning to affect the ability of the Federal Reserve to meet its growing responsibilities in the international financial area. The Federal Reserve banks, as they acquire foreign currencies, can place these funds abroad only in bank deposits or in commercial paper of limited classes and restricted availability. For years, these restrictions were of no practical import, in view of the limited amount of foreign currencies held by the System. But, the Federal Reserve is now resuming operations in a variety of foreign currencies on a large scale and participating widely in the network of reciprocal currency agreements and other arrangements that have emerged from the increasing cooperation among monetary authorities in recent years. Consequently, the need for greater flexibility is apparent.

By permitting the foreign currencies acquired to be held in a wider variety of safe and liquid money market instruments, including, in particular, foreign Treasury bills, the Congress would be taking an important new step to further strengthen the international monetary system and the position of the dollar.

Clearly, perfection cannot be claimed for either the Federal Reserve Act, which became law more than 50 years ago, or the Federal Reserve System as it has evolved within the framework of that law. As in the past, the effective adaptation of the Federal Reserve to the needs of today and tomorrow will require that the Congress be willing to search out and eliminate faults and anachronisms that hamper effective performance. But, I would also urge this committee, in undertaking that necessary task, to protect and preserve those elements in the structure of the Federal Reserve that underlie its special strength and stature at the center of our banking system.

