

NOMINATION OF ARTHUR M. OKUN

HEARING
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
EIGHTY-NINTH CONGRESS
FIRST SESSION
ON
THE NOMINATION OF ARTHUR M. OKUN TO BE A MEMBER
OF THE COUNCIL OF ECONOMIC ADVISERS

JANUARY 26, 1965

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NOMINATION OF ARTHUR M. OKUN

TUESDAY, JANUARY 26, 1965

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, Proxmire, Williams, Muskie, Long, Neuberger, McIntyre, Mondale, Bennett, and Tower.

The CHAIRMAN. The committee will please come to order.

The Chair is going to start this hearing on a nomination before all the members of the committee have come, because the majority leader has called a conference of Democrats in his office at 11 o'clock, and the Chair will have to attend that meeting. It may be other members of this committee will want to attend it, and so we would like to have an opportunity to dispose of the agenda if we can between now and that time.

The first item on our agenda is the nomination of Arthur M. Okun, of Connecticut, to be a member of the Council of Economic Advisers.

We have received and distributed to the committee members a biographical sketch of Dr. Okun, and without objection this will be placed in the record. Both Senators from Connecticut have endorsed his nomination.

I should also like to place in the record, following Dr. Okun's testimony, excerpts from the Employment Act of 1946, which will explain the makeup and functions of the Council of Economic Advisers.

At this point I would like to read the statement of Senator Thomas J. Dodd which he asked me to present to the committee, because he was unable to be present himself.

(The statement of Senator Dodd was read as follows:)

I am pleased to have an opportunity to speak in favor of and endorse the nomination of Dr. Arthur M. Okun to be a member of the Council of Economic Advisers.

Dr. Okun is a young man—he will be 37 later this year—who has advanced rapidly in the field of economics, from instructor to full professor within the brief space of 11 or 12 years.

And he has done this at one of our leading academic institutions, Yale University, where there are many capable men on the faculty and competition is keen.

In addition, Dr. Okun has written an impressive number of papers for conferences and leading economic publications and he has had 2 years of experience as a staff economist with the Council of Economic Advisers.

One very noteworthy development in personnel policy during President Johnson's months in office is the President's willingness and determination to promote people "from the ranks" to high appointive positions.

The nomination of Dr. Okun, who has previous experience working for the Council in addition to an outstanding academic background, is an example of this enlightened policy of the President, and I am confident that Dr. Okun will do an excellent job and fully justify the President's faith in his ability.

I urge prompt approval of Dr. Okun's nomination by the Banking and Currency Committee and by the Senate.

The CHAIRMAN. At this point I insert in the record the biographical sketch of Dr. Okun that has been presented to our committee. (The biographical sketch is as follows:)

BIOGRAPHICAL INFORMATION FOR ARTHUR M. OKUN

Born: November 28, 1928, Jersey City, N.J.

Family: Married Suzanne Grossman, July 1, 1951; children: Lewis Edward, Matthew James, Steven John.

Education: Public schools, Passaic, N.J.; A.B., Columbia University (with honors and special distinction in economics and Albert Asher Green Prize for highest scholastic average in class of 1949); Ph. D., Columbia University, 1956. Dissertation: "The Effects of Open Inflation on Aggregate Consumer Demand."

Government service: Staff economist, Council of Economic Advisers, 1961-62; member, Council of Economic Advisers, 1964-.

Academic service: Instructor, Columbia University, summer sessions, 1951, 1952; instructor, Yale University, 1952-56; assistant professor, Yale University, 1956-60; associate professor, Yale University, 1960-63; staff member of Cowles Foundation for Research in Economics at Yale University, 1956-; professor, Yale University, 1963- (on leave 1964-).

Consultant and advisory positions: Consultant, Commission on Money and Credit, 1959-60; consultant, Ford Foundation, 1960; member, nominating committee, American Economic Association, 1960; member of Census Advisory Committee of the American Economic Association, 1961-; consultant, Council of Economic Advisers, 1961-64; consultant to President's Advisory Committee on Labor-Management Policy, 1962-63; consultant, Treasury Department, 1962-64; editor, Yale Economic Essays, 1963-64; director of graduate studies in economics at Yale University, 1963-64.

Professional and honorary affiliations: Phi Beta Kappa, American Economic Association, American Statistical Association, and Econometric Society.

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Statement before the Joint Economic Committee, Congress of the United States, April 1963, "*The Federal Budget as an Economic Document*," pp. 6-10; 17-30.

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The CHAIRMAN. We will now ask Dr. Okun if he will come up to the witness table and be recognized.

STATEMENT OF ARTHUR M. OKUN, NOMINEE, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. OKUN. Thank you, sir.

The CHAIRMAN. Gentlemen of the committee, we have before us for approval as a member of the Council of Economic Advisers Dr. Arthur M. Okun, and the biographical sketch shows that he was born in New Jersey in 1928, is married, has degrees from Columbia University with special honors, and he has been in Government service as a staff economist. He has been an instructor at Columbia University and Yale and a professor at Yale and a consultant in many organizations. He is a Phi Beta Kappa, a member of the American Economic Association, American Statistical Association, and the Econometric Society.

The Chair recognizes a most distinguished member of the committee, the Senator from Illinois, Mr. Douglas.

Senator DOUGLAS. Mr. Chairman, Dr. Okun is a brilliant, able economist who, despite his comparative youth, has risen very rapidly in his profession and has published a number of extremely able papers. He is obviously an excellent team player, because he has worked with a number of commissions and committees both as a consultant and as a member.

I think the country is very fortunate to have his services, and President Johnson was very wise in selecting him.

I have no questions to ask him.

The CHAIRMAN. The Chair recognizes the Senator from Utah.

Senator BENNETT. Dr. Okun, I think all the Republicans believe that particularly in this kind of an appointment, which is advisory to the President, the President should certainly have the right to select the people without question, and I am sure there will be no opposition from the Republican side.

But I would like to ask you—you have been on the Council for a few months—would you say that the three members of the Council now have more or less identical economic philosophies? Is there any opportunity in the Council to develop divergence of views, or are all three of you more or less oriented on the same economic philosophy?

Mr. OKUN. I think we are, as you put it, “more or less oriented on the same economic philosophy” and on a philosophy that is compatible with that of the President. I think this is really necessary and desirable to the development of coordination within the Council and the development of advisory material that can be most useful to the President.

Now, I should go on from there and emphasize that it is “more or less”; we do not hold identical views on every subject and, indeed, we have a lot of interchange in trying to develop our own thinking and to develop good policy advice that we can pass along to the President. There certainly is an interchange of views. But I think the differences are, you might say, on tactics rather than strategy.

Senator BENNETT. So what might be called the traditional philosophy of economics, or the conservative philosophy of economics, is not represented on the Council?

Mr. OKUN. We feel that we are conservative in many respects. We are interested in conserving American institutions and promoting the development of the economy. Conservatism in the sense of a particular school of thought is different and is not represented on the Council.

Senator BENNETT. When Harry Truman was President, he had Dr. Nourse as a member of his Council. You have no counterpart of Dr. Nourse among the three of you?

Mr. OKUN. I do not know that Dr. Nourse would like to be called a paragon of the conservative—

Senator BENNETT. I did not call him that.

Mr. OKUN. I did not mean to imply you had. I think there has been some change in the thinking about the role of the Council and the relevance of economic philosophy in Council membership.

Dr. Nourse began with a concept that the Council could act in a detached, scientific way, and he felt, indeed, that the Council might be so above partisanship that it might maintain the same composition when administrations change, and so forth.

I think it did not work that way, and that notion has since changed a good deal. It is necessary, I think, for the President to be getting advice from people who, at least in general philosophy, are sympathetic with his views and on whom he can rely as reflecting an ideological position that he finds congenial.

There was a turnover in the Council when President Eisenhower took office in 1953, and the people who served under him were people who could reliably be expected to support Republican policies and hold views compatible with that administration. I think the people who have served under Presidents Kennedy and Johnson have similarly been in the tradition of democratic or liberal thinking in economics.

Senator BENNETT. No further comments, Mr. Chairman.

The CHAIRMAN. Does any Democratic Senator wish to inquire? Does any Republican Senator wish to pursue the questions?

Senator TOWER. Yes, sir.

The CHAIRMAN. Senator Tower.

Senator TOWER. Dr. Okun, what are your views on Government expenditures in relation to Government receipts?

Mr. OKUN. This is, of course, the question of Government deficits, surpluses, and balanced budgets. I think that Government deficits are appropriate, and, indeed, desirable when the economy has a large volume of idle resources, when it needs stimulus in order to put men and machines to work.

We have seen in the records of the past that it can be self-defeating to try to balance the budget in an economy which is not balanced, where the economy has idle men and idle machines. Where demand does not match the productive capacity of the economy, we cannot have a balanced budget and a healthy economy. When the economy does have the opportunity to make full use of its resources without the stimulus of Government deficits, then it is highly appropriate, desirable, and necessary for the Government to balance its budget.

We have seen that the strength of private demand changes from time to time. During the first decade after World War II, most of the time our demand was so strong as to press on our productive capacity. Under such circumstances, we should certainly want Government revenues at least to match expenditures and, in general, to exceed them.

More recently we have seen private demand insufficiently strong to use the full productive potential in the economy, and under those circumstances attempting to balance the budget would weaken the economy. I think that is the philosophy that is reflected in the tax cut of the past year and in the budget which was submitted by the President yesterday.

Senator TOWER. What do you consider to be the major contributing factor as to the present level of unemployment?

Mr. OKUN. I believe that the difference between the 5-percent rate of unemployment we have today and the 4-percent unemployment rate that we had in the mid-1950's and in the late 1940's is largely to be explained by the strength of total demand in the economy, that with a higher level of demand, with more spending by consumers and by businesses, we could lower the unemployment rate to what has been called an interim target of 4 percent. That 4-percent level reflects structural and frictional problems in the economy; you do not get a perfect match of men and jobs; there are some jobs that remain vacant because there are not people with the right skills to fill them; there are some men who go without jobs because they do not have the skills to meet the present demands of the labor market.

What is called for to reduce our unemployment rate is a combination of measures to keep demand growing, keep the total economy moving ahead, and at the same time to engage in manpower policies that can improve information in labor markets so as to help people find the jobs that are available, that can help to improve the skills, and do a better job of matching people to the present needs of the labor market. I think it is very important to develop new skills as certain kinds of occupations diminish in importance and other kinds of skills are in greater demand in the labor market.

Senator TOWER. You do, then, recognize that unemployability is an important and significant part of the problem?

Mr. OKUN. Very definitely, but let me just qualify that by saying that unemployability can be a relative matter. It does depend upon what the labor market happens to need at the particular point in time. A person who is unemployable one day can, through a better market for jobs, find that he is employable at a later time.

There are some people who in some absolute sense are unemployable, but there are also people who, in a sense, were unemployable in time of recession that have become very much employable when the economy is expanded and jobs are available. We have had a few million extra jobs in manufacturing in recent years, and many blue-collar workers who were formerly viewed as having obsolete skills are now found to have skills which are in demand.

Senator TOWER. Do you think with increasing technological sophistication we are going to perhaps have a proportionate increase in this problem of employment or of people being adequately trained to get jobs in an automated system?

Mr. OKUN. Yes. The next few years will bring an unprecedented number of young people into the labor force. On the average they will have had more formal education and more training than any group of new entrants to the labor force ever before. In that sense, again on the average, they will be better prepared for the labor market than was the case in the past. But that average certainly contains many people who are much below the average and who will find it very difficult unless there are special efforts made to provide them with the skills.

The labor market has shown a great deal of adaptability in the past. It has absorbed large numbers of people throughout our history. It works to match men and jobs, really, in a remarkable fashion.

But at the same time it will be subject to a major challenge from the big inflow of teenagers and young people in the years ahead, and we are going to have to make special efforts to see that these people are absorbed into the ranks of the employed.

Senator TOWER. Thank you, Doctor. Thank you, Mr. Chairman.

The CHAIRMAN. Are there any other Senators who desire to inquire? If not, Doctor, we thank you.

(Excerpts from the Employment Act of 1946 follow:)

EMPLOYMENT ACT OF 1946, AS AMENDED, AND RELATED LAWS

(60 Stat. 23)

[PUBLIC LAW 304--79TH CONGRESS]

AN ACT To declare a national policy on employment, production, and purchasing power, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Employment Act of 1946".

DECLARATION OF POLICY

SEC. 2. The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and

local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power. (15 U.S.C. 1021.)

ECONOMIC REPORT OF THE PRESIDENT

SEC. 3. (a) The President shall transmit to the Congress not later than January 20 of each year an economic report (hereinafter called the "Economic Report") setting forth (1) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared in section 2, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in section 2.

(c) The Economic Report, and all supplementary reports transmitted under subsection (b) of this section, shall, when transmitted to Congress, be referred to the joint committee created by section 5. (15 U.S.C. 1022.)

COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT

SEC. 4. (a) There is created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President, by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government in the light of the policy declared in section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise.¹ The President shall designate one of the members of the Council as Chairman.

(b) The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this Act, without regard to the civil service laws and the Classification Act of 1949, as amended, and is authorized, subject to the civil service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this Act, and fix their compensation in accordance with the Classification Act of 1949, as amended.

(c) It shall be the duty and function of the Council—

(1) to assist and advise the President in the preparation of the Economic Report:

(2) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in section 2 for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(3) to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 of this title for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the

¹ The Federal Executive Salary Act of 1964 provides that the annual rates of basic compensation shall be \$30,000 for the Chairman and \$27,000 for the other two members of the Council of Economic Advisers.

achievement of such policy and to make recommendations to the President with respect thereto;

(4) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power;

(5) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) The Council shall make an annual report to the President in December of each year.

(e) In exercising its powers, functions, and duties under this Act—

(1) the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups as it deems advisable;

(2) the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

(f) To enable the Council to exercise its powers, functions, and duties under this Act, there are authorized to be appropriated such sums as may be necessary.

* * * * *

REORGANIZATION PLAN No. 9 OF 1953

(Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, June 1, 1953, pursuant to the provisions of the Reorganization Act of 1949, as amended)

COUNCIL OF ECONOMIC ADVISERS

The functions vested in the Council of Economic Advisers by section 4(b) of the Employment Act of 1946 (60 Stat. 24), and so much of the functions vested in the Council by section 4(c) of that Act as consists of reporting to the President with respect to any function of the Council under the said section 4(c), are hereby transferred to the Chairman of the Council of Economic Advisers. * * *

INTRODUCTION OF WOODLIEF THOMAS, CHIEF ECONOMIST

The CHAIRMAN. In view of the fact that this is the first public meeting we have had since the Chair appointed a new chief economist, and we are thinking now in terms of economists, I am going to ask the clerk of our committee to give us a brief biographical sketch of our economist.

Mr. HALE. Dr. Thomas came from Tennessee; he went to the University of Pennsylvania, and has a Ph. D. from the Robert Brookings Graduate School.

He was 42 years in the Federal Reserve System—in the Federal Reserve Bank of Philadelphia, the Federal Reserve Bank of New York, and he was many years with the Board of Governors of the Federal Reserve System. At the time of his retirement he was adviser to the Board of Governors of the Federal Reserve System and economist for the Federal Open Market Committee.

During the last 2 years, up until very recently, he was chief of a mission sent to Chile by the World Bank to study the problem of the development of a capital market in Chile. Since then he has been doing some advisory work in FDIC. I might add that Senator Robertson, in his press release on the appointment, expressed great pleasure in being able to secure his services.

Senator DOUGLAS. Mr. Chairman, I would like to say this is a very distinguished appointment. Dr. Thomas is a very able man with a

distinguished record of public service. I do not think we could have obtained a better person. I want to congratulate the chairman.

The CHAIRMAN. The Chair appreciates that compliment.

The Chair will be frank. He figured we will be going into a period where money, and fixing the value of money, is going to be a major job, so he directed the chief clerk to inquire everywhere he could to see who would be the best qualified man, and he came up with the recommendation that here is a man whose whole life has been spent with this subject.

Of course, I did not ask him where he was from, because in Virginia they say never ask a gentleman where he is from. If he is from Virginia, he will tell you; if he is not, do not embarrass him.

In view of the fact that the Senator from Illinois, who is an economist by profession, has praised the Chair for this appointment, the Chair is very much flattered.

I want you to understand Dr. Thomas is the economist for the entire committee. Republicans and Democrats alike will have access to him to do any type of research or investigating work they feel should be done to help them in discharging their very serious duties, one of which will be the hearing that we will start next Tuesday.

That will be on a very important but rather delicate operation on our currency system: to remove a part of the physical brake of gold backing on a portion of our money; that is, the deposits in the Federal Reserve banks. Now the Federal Reserve Board can waive the requirement but only for 2 weeks at a time. And that would not be a very practical thing to do if it should be necessary to release \$4 or \$5 billion worth of gold to meet our commitments.

We will start hearings next Tuesday—and I will put that in the Congressional Record today. The first witnesses will be the Secretary of the Treasury, the Federal Reserve Board, and other proponents, and then we will take up the opponents.

Senator DOUGLAS. Mr. Chairman, may I ask that the Committee on Economic Development be invited by the committee to testify? They issued a statement yesterday which I thought was very sound.

The CHAIRMAN. I realize that you have been studying that problem, and one of my good friends, a leading banker, testified last year before your committee. His name is Harvie Wilkinson. He may testify before us, and I will tell the clerk that the distinguished Senator from Illinois would like for the Committee on Economic Development to be requested to appear and testify.

The announcement that I am putting in the Congressional Record is that the President has asked us to give top priority to this. Our outflow of gold last quarter was just a little disturbing. We do not know whether it has been checked yet or not, but we do not want to get down to the point where if somebody presents dollars we cannot meet them. And this proposal would release \$4 or \$5 billion worth of gold and maybe end this feeling that we are going off the gold standard, or revalue the dollar. We are not going off the gold standard, we are not going to revalue the dollar, and it is now and will be for the foreseeable future, the best currency in the world, so much so that all foreign nations are still trying to get as much of it as they can.

So I just announce, then, that we will start on that basis, hearing Government witnesses and then the representatives of organizations. Individuals may file statements or briefs. If they have demonstrated some peculiar knowledge of the situation, we may be able to give them 10 minutes.

But I say, the President wants this bill on the floor of the Senate this month. As chairman of this committee, the President's wish is my law, and when he asks me to expedite a bill, whether I am for it or not, it goes before this committee and then the committee has the privilege of reporting it out.

We will now go into executive session.

(Whereupon, at 10:23 a.m., the hearing was concluded.)

