NOMINATION OF JEFFREY M. BUCHER

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON THE NOMINATION OF

JEFFREY M. BUCHER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MAY 12, 1972

Printed for the use of the Committee on Banking, Housing and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE

78-312 **WASHINGTON : 1972**

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NOMINATION OF JEFFREY M. BUCHER

FRIDAY, MAY 12, 1972

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:10 a.m., in room 5302, New Senate Office Building, Senator John Sparkman, chairman of the committee, presiding.

Present: Senators Sparkman, Proxmire, Bennett, and Brock.

The CHAIRMAN. Let the committee come to order, please.

The purpose of the hearing today is to consider the nomination of Mr. Jeffrey M. Bucher, California, to be a member of the Board of Governors of the Federal Reserve System.

Mr. Bucher has been nominated to serve a 14-year term in the place of Gov. Sherman J. Maisel, whose term has expired.

In addition, Mr. William Burkett, formerly the Superintendent of Banking of California will appear as a witness.

Senator Proxmire has a statement he wants to make before we begin our questioning of Mr. Bucher.

Senator PROXMIRE. Mr. Chairman, I believe it is necessary to announce at the outset of these hearings that I strongly oppose the nomination of Mr. Bucher to the Federal Reserve Board. In so doing, I intend no personal disrespect for Mr. Bucher. I am sure he is a fine man, an able lawyer, and a competent bank trust executive.

But in my view, he is totally unqualified to serve on the Federal Reserve Board—the most powerful economic agency of the Federal Government.

During the Kennedy and Johnson administration, the competence of the Fed was considerably upgraded by the appointment of men experienced in economics and monetary policy.

The Fed was further strengthened when the present administration appointed Dr. Arthur Burns, a man who is eminently well qualified to serve on the Board and whose appointment I enthusiastically endorsed. However, during the last 3 months, the administration has sent the Congress two notably weak nominations—Mr. Jack Sheehan last February and now Mr. Jeffrey Bucher.

The administration now appears to be taking a major leap backward by appointing inexperienced amateurs to the Board. These obviously weak appointments can produce tragic results for the American economy.

I believe Mr. Bucher's nomination should be opposed. He has had virtually no previous training in economics or monetary policy. There are literally thousands of economists who are more qualified to serve on the Board.

In stressing the need for economic training, I do not say the entire Board should be composed of academic economists. If banking experience is considered to be a desirable prerequisite, why not select one of the hundreds of eminently qualified economists employed by the commercial banking industry, by the Federal Reserve banks, or by bank trade associations of consulting firms?

I believe that such men as Roy L. Reierson of Bankers Trust, Leif Olson of the First National City Bank, Tilford C. Gaines of Manufacturers Hanover, Guy E. Noyes of Morgan Guarantee, Beryl W. Sprinkel of Harris Trust or Walter E. Hoadley of Bank of America would all be well qualified to serve on the Fed. I might also add Gabriel Hauge, of Manufacturers Hanover.

All are conservative bank economists with an intimate knowledge of banking and monetary policy. Charls E. Walker, the former executive director of the American Bankers Association and now the Under Secretary of the Treasury would be far more qualified to serve on the Fed than Mr. Bucher.

All those men are conservatives, all are expert, all are well qualified.

While I firmly believe that all Fed appointees should have a background in economics and monetary policy, I realize that this is not widely shared within the Congress. However, if my position on this is not accepted, I believe there are several additional reasons for rejecting Mr. Bucher's nomination.

First, Mr. Bucher's specific banking experience has been too narrow to qualify him for the Federal Reserve Board. His principal experience has been in the trust department, a field far removed from the commercial banking functions with which the Fed has been predominantly concerned.

A trust officer essentially acts as the manager of an investment portfolio as does the investment manager of a mutual fund, pension fund or life insurance company. He has little familiarity with commercial bank credit extension which is central to the Federal Reserve Board's regulation of our banking system.

Second, Mr. Bucher would bring to the Board a serious conflict of interest. He comes from the Nation's largest multibank holding company and as a Board member, he would be required to rule on the many applications by bank holding companies to expand their range of services.

Bank competitors are likewise anxious to stop bank holding companies from invading their particular business. Under the Bank Holding Company Act, the Fed is required to weigh the procompetitive and anticompetitive efforts of bank holding company applications and render a decision which is best for the economy as a whole.

How can Mr. Bucher give an objective and impartial judgment when he comes from the Nation's largest multibank holding company and because of his young age, will no doubt seek to resume his banking career following his service on the Board?

Third, Mr. Bucher's appointment can impair foreign confidence in the soundness of our bank regulatory system because of his association with the United California Bank, a bank which has been particularly free wheeling in its international activities. This is the same bank which permitted its Swiss subsidiary to lose $48 million in an ill-fated attempt to corner the international cocoa market. This venture produced a major scandal in banking circles, and caused many foreign bankers to wonder just how effectively U.S. banks were supervising their foreign subsidiaries.

Moreover, a multimillion-dollar lawsuit has been filed charging the managers of the United California Bank with gross negligence.

While Mr. Bucher apparently was not directly involved in the activities of the bank's Swiss subsidiary, he was a member of the bank's top management team and is presumably a product of the bank's aggressive management philosophy which caused it to run up a sizable loss.

Mr. Bucher obviously cannot be held responsible for the mistakes of his colleagues. Nonetheless, because of the important role the Fed plays in maintaining confidence in our banking system, we must be extremely careful to appoint men whose backgrounds and previous associations do not contain even the slightest suggestion of imprudent or reckless judgment.

Mr. Chairman, the importance of this nomination cannot be exaggerated. We are dealing with the health of the American economy. An error in judgment by the Fed can plunge this country into a deep recession or produce a runaway inflation. We should, therefore, insist on obtaining the best-qualified men for the Board.

Under our Constitution, only the Congress has the right to regulate our monetary system. Article I, section 8 of the Constitution specifically gives the Congress the right to "coin money and regulate the value thereof."

These powers belong exclusively to the Congress and not the President. They may have been delegated to the Federal Reserve Board by the Congress. The Fed is therefore an agent of the Congress. It was deliberately created to be independent of the executive branch, but not the Congress.

Since the Federal Reserve Board is the exclusive agent of the Congress, we have a far greater responsibility in confirming appointments to the Board compared to a cabinet or judicial appointment. We have the right—indeed the duty— under the Constitution to reject a nominee if he does not measure up to our standard. If Congress is seriously interested in reasserting its constitutional prerogatives, it should begin with the Federal Reserve System where it has an exclusive constitutional jurisdiction.

If we meekly acquiesce to the President and rubber stamp any appointment, no matter how unqualified the man may be, we surrender a vital constitutional power.

If we confirm the Bucher nomination, I believe we will weaken the traditional independence of the Federal Reserve Board by placing it under the control of the President and the executive branch of the Government.

Why do I say this?

Because the appointment of inexperienced men such as Mr. Bucher will increase the power of Chairman Burns to dominate the Board. Can we realistically expect Mr. Bucher and Mr. Sheehan to argue and vote against the Chairman, when they are unfamiliar with the complex technical issues involved in setting monetary policy?

I have enormous respect for Dr. Burns. But under the Federal Reserve Act, he has only one vote out of seven. By confirming Mr. Sheehan and Mr. Bucher, we really give Mr. Burns three votes. He only needs one more to control the Board.

While Mr. Burns is a brilliant economist, he is also closely associated with the political fortunes of President Nixon. He has been one of Mr. Nixon's key economic and political advisers. Had his advice been followed in 1960, Mr. Nixon might very well have defeated President Kennedy.

Dr. Burns has also been a key member of the White House staff prior to his appointment to the Fed. In view of this close association, many may fear that if a conflict developed between a sound monetary policy and the political fortunes of President Nixon, Dr. Burns would choose the latter.

I have full faith in Dr. Burns' integrity, but the very heart of our constitutional system is to divide, not concentrate such great power as the Federal Reserve Board exercise.

By giving Dr. Burns another sure vote on the Fed, we are really giving President Nixon another sure vote—in direct violation of the Constitution and the Federal Reserve Act. Surely there must be other men with enough intellectual stature to exercise their independent judgment on monetary policy without becoming passive rubberstamps to the White House.

If we conclude there are, then we have a duty, under the Constitution, to reject Mr. Bucher and insist on the appointment of a more qualified man.

Senator BENNETT. I do not have a prepared statement, but I cannot let the statement of my colleague go by without making some observations about it.

In the first place this is the most blatant charge of guilt by association that I have ever heard. Mr. Bucher must be rejected because he has been associated: (a) with banks; (b) with a particular bank. To me, that sort of thing is indefensible.

Secondly, he must be rejected because he works for a bank that is part of a bankholding company and it was suggested that instead of him, selection might be made from a number of important men whom the Senator from Wisconsin mentioned. I have not had time, obviously to check it out, but I think all or at least most of them work for banks connected with a bankholding company.

So, if that is a reason to reject a nominee, then the reason should apply to anybody else who comes along.

The Senator makes a great point about the fact that the Federal Reserve Board should be filled up with economists. This man's fatal weakness is that he is not an economist. I would like to put into the record a little bit of history.

In January 1970, before Mr. Burns became Chairman of the Board, four members were economists and three were not. The Chairman of the Board was from the securities industry and one member was a former banker. If Mr. Bucher joins the Board, it will again consist of four economists and three noneconomists, one of whom, Mr. Bucher, will have been a former banker.

But there is an important change which the Senator from Wisconsin has admitted, which is that now instead of having a securities man as

Chairman of the Board, we have an economist. So, to the extent that we need economists in control of the Board, we not only have four of them, which was the same as existed when the administration changed, but we have one of them as Chairman.

Now, there is no former banker on the Board and traditionally, one member of the Board has always been a banker. In its 68 years of existence, there have only been 11 years when there was not at least one banker on the Board and at one time, about 1936, four members of the Board, or the control of it, were bankers. I cannot let this observation pass without noting that one of the most prominent Board Chairmen was Marriner Eccles, who came from my State of Utah.

Nobody complained in those days because Marriner Eccles was a banker.

I have inquired, and have been told that there are 250 economists on the staff of the Federal Reserve Board, and approximately 100 of them have their doctorate, have their Ph. D.'s. So the Federal Reserve Board is not without the services of economists and I cannot accept as valid the idea that one man out of seven cannot be a banker, nor can I accept the idea that because President Nixon appointed the Chairman and also Mr. Sheehan and Mr. Bucher, that Mr. Sheehan and Mr. Bucher will automatically be rubberstamps for the Chairman.

Now that carries with it the implication the Chairman must be up to some kind of evil. He must be involved in some kind of a plot to destroy the monetary policy of the United States which he cannot carry out except with the rubberstamp connivance of other men who have been appointed by President Nixon, who by implication is also involved in some kind of a plot against the soundness of the American monetary system.

To me all this is ridiculous. We have a man before us whose record we should check objectively and we have a man before us who could fill the place that has been traditionally reserved for a banker. And I think we should make our judgment on that basis, and not on this variety of guilt-by-association charges that have been entered into the record, by my friend from Wisconsin.

I think Mr. Bucher should be allowed to stand on his own feet and not be accused of all of the faults, whether they are true or not, of anybody with whom he has been connected.

I have listened also to the statement that since the Fed answers to the Congress, then it is the Congress, and not the President, who in effect should choose the members of the Fed. This is almost a claim that any man the President sends up should be rejected because he was appointed by the President unless he was cleared with the majority of Congress in advance.

Now that is not the way it is done. This President and everyone of his predecessors, since the Board was organized has had the privilege of nominating the members of the Board and selecting the Chairman. Unless Mr. Bucher is found to be unfit, completely without background or basis, I do not think we have the right or the responsibility to say to the President, you are exercising an unconstitutional power when you recommend this man for this job; and because we are Members of Congress, we have a constitutional responsibility to reject your appointment.

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The CHAIRMAN. Senator Proxmire, do you have any further statement?

Senator PROXMIRE. No, sir. I will wait for the questioning.

The CHAIRMAN. I would like to add to what has been said just two very brief points. Senator Bennett, I think, brought out one of them. As I see it, the President is the appointing officer and we must recognize that fact. Congress does not have the right to name a person.

We can suggest but if the President does not act on our recommendations we cannot force him to act. Our responsibility is to hear the man that has been named and pass judgment on whether or not he is qualified for the position.

Second, I would like to say this about Chairman Burns, and I am sure Senator Proxmire would agree with me on this; while it is true Dr. Burns was the intimate economic advisor to the President, I think we all would admit that that does not tie his hands. I recall that when he was before us for confirmation, we were not fully content with the progress that the administration was making in their game plan to restore the economy. I remember that Dr. Burns at that time, recommended something that was not in keeping with the thinking of the President. Remember he was the first one to advocate what he called, a "Wage and Price Review Board."

The President did not act on that recommendation for over a year, not until August, 1971, eighteen months after Dr. Burns was designated as Chairman of the Federal Reserve Board. My impression has been—I just throw this out for what it is worth—Dr. Burns all along has acted, I think, in a manner that showed he was independent of of the White House.

Senator PROXMIRE. I just want to say, Mr. Chairman, I have made it clear I have great respect for Mr. Burns and I enthusiastically supported his appointment as Chairman of the Federal Reserve Board. However, I think it is one thing to approve him and something else to give him three votes.

Furthermore, I do think that the fact is that this recommendation on wage and price controls was also made by Ehrlichman, Haldeman, Connally, other very close political associates of the President before the President accepted it.

Senator BENNETT. Connally was not there.

Senator PROXMIRE. Nevertheless, Connally made the recommendations before the President decided to act on—and he did.

The CHAIRMAN. I know nothing about the advice the President sought for making appointments. I do know he did not ask me, and I did not speak to him about it.

Senator BENNETT. He did not ask me, either.

Senator PROXMIRE. You can tell he did not ask me.

The CHAIRMAN. I would have been glad to recommend some one if he had asked me.

(Laughter.)

The CHAIRMAN. Another thing, I believe that under the law the Board members must come from certain areas. I am not sure I could suggest a name in the California area.

Senator PROXMIRE. Hoadley is one of the ones I suggested. He is from the Bank of America in California.

The CHAIRMAN. When did he go out there?

Senator PROXMIRE. He is there now.

Senator BENNETT. He went out before 4 or 5 years ago.

The CHAIRMAN. I know Gabriel Hauge——

The CHAIRMAN. I do not know him. I could not have recommended him if I had been called on because I do not know him. I am sure he is a good man.

Anyhow, let us proceed.

Mr. Bucher, there is a certain formal procedure that I always like to get done as soon as possible.

First, we have your biographical sketch, and without objection, that will be placed in the record at this point.

(The biographical sketch of Mr. Bucher follows:)

BIOGRAPHICAL SKETCH OF JEFFREY M. BUCHER

Home address: 222 South Figueroa Street, #1811, Los Angeles, California 90012. Telephone: 485–9386.

Business Address: 600 South Spring Street, Los Angeles, California 90014. Telephone 624—0111.

Date of Birth: February 9, 1933; Los Angeles, California.

Marital Status: Married, 5 children.

Admitted to bar: California, January 1958; U.S. Supreme Court, 1965.

Education: High School: Flintridge Preparatory School, Pasadena, California 1950; College: Occidental College, Los Angeles, California, A.B., 1954; Law School: Stanford University, Stanford, California, J.D., 1957.

Military Service: U.S. Army Reserve, 1955–1963.

Employment: 1967 to date—Senior Vice President in charge of Trust Division, United California Bank, Los Angeles, California.

Chairman, Central Trust Committee and other bank committees supervising trust and investment activities; Director, Western Asset Management Company the bank's investment counseling affiliate.

1957–1959, 1961–1967—Vice President, Secretary to the Board of Directors and Treasurer, United California Bank, Los Angeles, California.

1959–1961—Associate, Stephens, Jones, LaFever and Smith, Attorneys, Los Angeles, California. General corporate, real estate and probate practice.

Memberships: Member, Los Angeles County, California and American Bar Associations; American Society of Corporate Secretaries; Director, Travelers Aid Society of Los Angeles; Trustee, Flintridge Preparatory School for Boys; Phi Gamma Delta and Phi Delta Phi.

Other Activities: Co-author, *California Bankers Guide to the Uniform Commercial Code* (published by California Bankers Association); Author, *The Uniform Commercial Code in California* (published by the Conference of Barristers of the State Bar of California); Lecturer for the Continuing Education of the Bar, American Institute of Banking and speaker before numerous legal and banking groups.

The CHAIRMAN. Second, we have your financial statement. I discussed with you, when you came by my office, the necessity for the financial statement, and you told me you had it and that you would file it with the committee. That statement is before us now, with your certification, from the——

Senator BENNETT. Mr. Thomas J. O'Connell—which is the General Counsel's opinion as to the absence of conflict of interests.

The CHAIRMAN. And we do have a certification from him that he finds nothing. I have checked your statement, and I certainly see nothing to indicate a conflict of interest. I invite the other members to check the statement and, as I explained to Mr. Bucher, it is available to all of the members of this committee here in the offices of the committee.

After members have had that opportunity to examine the statement, it will be sealed and placed in a safe, and will be kept on file during the time that you hold this office, and for 1 year thereafter. Then it will be destroyed.

Let me ask you this question. Do you have any holdings or any interests in anything which you feel would constitute a conflict of interest with your holding this job?

Mr. BUCHER. I do not, Mr. Chairman.

The CHAIRMAN. Now, would you like to make a statement to us?

Mr. BUCHER. Mr. Chairman, I have no formal statement. You have my biography as you mentioned.

The CHAIRMAN. Yes. It has been included in the record.

I note that your age, given by Senator Proxmire, was 39 years. I have noted the different positions that you have held and your activities not only in banking but in all fields. In publications, for instance, I noted you authored the California Bankers' Guide to the Uniform Commercial Code, published by California Bankers' Association. You also were author of the Uniform Commercial Code in California, published by a Conference of Barristers of the State Bar of California. You have lectured a great deal. You have participated in various civic activities. This will be placed in the record.

By the way, just incidentally, Senator Bennett referred to Marriner Eccles. Marriner Eccles was appointed chairman of the board just a short time before I entered Congress. He was reappointed in 1936, and that was done following a reorganization of the Federal Reserve Board as authorized by the Banking Act of 1935.

Then, in 1940, he was again appointed chairman for 4 years and then, in 1944 was reappointed to a full 14-year term and redesignated as chairman. In 1948 President Truman appointed Mr. Tom McCabe, whom I recall quite well, and designated him as chairman.

Mr. Eccles remained as a member of the board until July 14, 1951, when he resigned. He had 17 years of service on the board. He was a banker, a very able banker. And I believe he is still in the banking industry out in Utah.

Senator BENNETT. No. Marriner Eccles now lives in California and heads what used to be the Utah Construction Co. It may—they may still have the same name, which was the Eccles firm which participated as one of the six companies to build the Hoover Dam, and is now engaged in construction around the world.

Marriner, in his eighties, is still the active head.

The CHAIRMAN. I'm glad to have that information.

I have letters from him infrequently. I know he still maintains a great interest——

Senator BENNETT. It's his brother, George Eccles, whom you have met who is head of the banking department.

The CHAIRMAN. Yes. But I knew Marriner quite well and I do still have letters from him from time to time.

Anyhow, I believe that's all that we have to get into the record on a formal basis.

Senator Proxmire, do you wish to commence questioning the witness?

Senator PROXMIRE. Can you tell us how you learned you were being considered for the appointment to the Federal Reserve Board?

Mr. BUCHER. Yes.

I was informed of that by a representative from the White House.

Senator PROXMIRE. Did you seek the appointment or were you recommended for it?

Mr. BUCHER. I did not seek the appointment.

Senator PROXMIRE. You were recommended for it?

Mr. BUCHER. I really don't know how the name came up.

Senator PROXMIRE. Could you identify the persons recommending you for the job?

Mr. BUCHER. No, I cannot identify persons recommending me for the job. I can identify the person who contacted me.

Senator PROXMIRE. No. I am thinking of the people who recommended you. You have no idea? You were never told by anyone?

Mr. BUCHER. I have never been formally told.

Senator PROXMIRE. How about informally told?

Mr. BUCHER. I know some people who were contacted. I think that's a better way of putting it.

Senator PROXMIRE. Are you acquainted with Mr. C. R. Smith of San Diego?

Mr. BUCHER. No, sir; I am not.

Senator PROXMIRE. To your knowledge has Mr. Smith contacted anyone in support of your nomination to the Federal Reserve Board?

Mr. BUCHER. To my knowledge, no. I have no reason to believe he did. I know nothing that would indicate that he did.

Senator PROXMIRE. As you know, appointments to to the Federal Reserve Board are for 14 years and nonrenewable.

You mentioned something about this in your opening statement. If confirmed can you assure this committee that you will serve out your full 14-year term?

Mr. BUCHER. It is definitely my present intention to serve a full term, yes, sir.

Senator PROXMIRE. Should you serve the full 14-year term I believe—you will be 53 years old. And at the peak of your career.

Would you intend at that time to return to the commercial banking industry?

Mr. BUCHER. I have no intent in that regard at this point, no, sir. I am looking forward to 14 years and I have made no plans beyond that point in time.

Senator PROXMIRE. Wouldn't it be logical that this would be what you would do?

I am 56. By my lights, at that time you will be a young man.

Mr. BUCHER. I have to be honest with you. I do not have any plans. To me that is a very long time. I am looking forward, if confirmed by this committee and by the Senate, to devoting my full efforts to the Federal Reserve Board. I really have not made any plans and I assure you, I have made no commitments.

Senator PROXMIRE. How would you feel about pledging categorically to this committee that under no circumstances would you return to the commercial banking industry following your service with the Federal?

Senator BENNETT. I don't think—we have any right to ask for commitment of that type.

Senator PROXMIRE. Then he can say yes or no to that.

The CHAIRMAN. I think that would be improper.

Senator PROXMIRE. I am not saying he should. Of course other members of the committee can vote for this nominee on any basis they want to. If he doesn't want to say this, that's what I would expect. If he does, I think that would have a great effect.

The CHAIRMAN. I just don't think a person should be required to look ahead 14 years and promise that he will or will not do any particular thing after that. I have been in a campaign down in Alabama. Some of my good friends asked me, will you run again after this term? I said, well, I won't answer a question like that at all. I just don't think it's proper.

Senator PROXMIRE. Yes.

Well, as I say I certainly am not forcing the nominee to do anything at all.

The CHAIRMAN. No. But you asked him categorically.

Senator PROXMIRE. Well, he can say no. That's it. I think all the other members of the committee will all accept that as the kind of answer they would expect as logical.

I would hope he would answer the other way. I won't press it.

As indicated in my opening remarks, Mr. Bucher, the United California Bank lost $48 million through its Swiss subsidiary in an ill-fated attempt to corner the international cocoa market. Do you think speculation is a proper market to be in?

Mr. BUCHER. No, I do not.

Senator PROXMIRE. Do you think the officials of your bank acted properly in permitting the Swiss subsidiary to engage in commodity speculation?

Mr. BUCHER. First, let me say as I have said before to other people and, I believe, to some of your representatives—I was not involved in the decision to acquire the subsidiary. I was not involved in the management or the investment-making decisions in that connection, nor with regard to the liquidation. I can, from secondhand, say that I understand some facts about the situation. It was in the public press. It was well known. I have heard it discussed.

My understanding was that that speculation was not authorized by the management of United California Bank. That speculation was undertaken by the management of the subsidiary in contravention of the express statement made to them previously by management of the California bank that they should not participate in commodity speculation.

Senator PROXMIRE. Don't you think there is a lack of effective responsibility with the officials of your bank? Or do you think the officials of your bank were negligent in not adequately supervising the activities of the Swiss subsidiary?

Shouldn't this have been known? Shouldn't you have had a method by which you could determine whether this enormous investment of $48 million or more was being made so that you could decide—it could be decided not by you but by those responsible in your bank for this kind of commitment?

Mr. BUCHER. I think the best answer I can give you is that I am not really familiar enough with the day-to-day operations of our international division, either now or during that period, to be able to speculate how much contact there was; and without that knowledge, I think it's difficult for me to make a judgment on negligence.

Senator PROXMIRE. How is it possible for a scheme of this magnitude to be carried on without the top management knowing about it?

Mr. BUCHER. I really can't answer that. Again, I have to emphasize that I don't want to speculate without the facts. That would concern me if I were to answer your question directly. Please forgive me——

Senator PROXMIRE. Let me make sure I understand what you are saying:

You are saying you don't know about it but are you telling me that the bank should have known about it and should have had a method of determining whether this kind of large commitment was being made?

Mr. BUCHER. What I am saying is I do not know how much time and how much effort was devoted to the supervision of this subsidiary. If it was a very high level of supervision and this event took place in spite of that, then I would have to comment the bank did everything they could under the circumstances and within a situation where they trusted some people who went astray. That's why I can't answer directly.

Senator PROXMIRE. Isn't it true the chairman of the bank is also the chairman of the Swiss subsidiary?

Mr. BUCHER. I believe that was true.

Senator PROXMIRE. Shouldn't he have known about it?

Mr. BUCHER. I have to go back and say I don't know how much contact he had with the bank.

Senator PROXMIRE. Let me ask you this:

One of your bank's vice presidents was quoted in the press as saying "You win some, you lose some." when he was informed of the $48 million loss.

Does that reflect your management philosophy?

Mr. BUCHER. No, sir; it does not.

Senator PROXMIRE. Did you at any time know or suspect that something was wrong with your bank's subsidiary? I am not talking about this particular incident, but in any other way?

Mr. BUCHER. No, sir.

Senator PROXMIRE. You know that in February of 1970, 6 months before your bank's Swiss subsidiary failed, that your bank ordered the reimbursement of its Swiss subsidiary for $2½ million by using unregistered stocks?

Mr. BUCHER. No, sir, I did not know that.

Senator PROXMIRE. Do you think it's proper for a bank to advise its customers to invest in unregistered stock?

Mr. BUCHER. Generally, in the areas in which I have dealt, that would not be the type of recommendation that I would tend to favor. Circumstances, I think, would have to be looked at in each case, but certainly in the investment activities in which I was involved—of course these are of a fiduciary nature—unregistered stock would not be a type of investment I would recommend.

Senator PROXMIRE. Mr. Chairman, I have two articles from the Wall Street Journal dealing with this matter which set forth the details and facts. I ask you to look them over and if you would approve, I would appreciate them being placed in the record.

The CHAIRMAN. I haven't any objection to their being placed in the record.

Senator BENNETT. I think they are irrelevant. I think this whole line of questioning is irrelevant. The witness has indicated that as trust officer of the bank he had nothing to do with the operation of the Swiss subsidiary. But if the Senator from Wisconsin would feel better if these are in the record, it's all right with me.

The CHAIRMAN. No objection. They will be placed in the record.

(The articles follow:)

[From the Wall Street Journal, Oct. 8, 1970]

JAILED CHIEF OF UCB'S SWISS UNIT TALKS OF HUGE COMMODITIES GAMBLE THAT FAILED

(By Ray Vicker)

"This could be another salad oil scandal," speculates one commodities trader, referring to the multimillion-dollar shortage that turned up last month at United California Bank's subsidiary in Basel, Switzerland. Seven officials of the Swiss bank currently are being held in local jails "on suspicion," and banking authorities in both the U.S. and Europe have begun investigations. But formal charges aren't expected to be filed for months. Meanwhile, few meaningful facts have leaked out about the case. This is the first of two articles by Ray Vicker, The Wall Street Journal's European news editor, based largely on an exclusive interview in Basel Prison with Paul Erdman, who was chairman and director of the Basel bank until he resigned last month.

BASEL, Switzerland.—For Paul Erdman, the slender, bespectacled occupant of one of this city's 17th-century dungeons, the matter of how more than $30 million vanished is fairly simple.

There he was in charge of United California Bank, Basel, a bank with an enviable record of making lots of money for itself and its customers, and little by little things were going sour. So, in a grand-slam gesture he tried to win back the losses, all of them. He turned his staff loose to speculate on the volatile commodity market. At one point, with the help of some nimble bookkeeping, they were dealing in future contracts equal to about half the world's production of cocoa.

"It was the bank I was thinking of," Mr. Erdman says. "Oh, I know how I should have called for an audit and reported everything. Instead, I thought of protecting the bank. I turned my head when the books were doctored, hoping to gain time to straighten things out somehow."

He didn't succeed, of course. The cocoa market slumped. In mid-September the Basel bank was closed. A preliminary audit shows it $31.5 million in the hole. The United California Bank in Los Angeles, whose 58% ownership makes it the parent, has put up $40 million in credit to pay off depositors and creditors. And Mr. Erdman and six of his former executives are being held, almost incommunicado, behind bars on suspicion of fraud and falsifying accounts.

STERN PENALTIES ASKED

"I've been told that even if bail is allowed, it may be as high as a million Swiss francs ($236,000) for Paul," says Mr. Erdman's wife, Helly. "That's far beyond my capacity to raise," she adds.

Already the Swiss newspapers are clamoring for stern penalties. For instance, the Wirtschaft, a Basel paper, bannered its story: "Inconceivable Act of Deception," and said the evidence seems to imply that the banks' staff "must be a band of swindlers." The newspaper added: "Although it cannot and must not be the task of the press to anticipate the judgment of the court, we see ourselves on the basis of what was said before the court, provoked to publish this sweeping judgment."

Unquestionably, it is the worst scandal in Swiss banking history. Many think its impact will change, once and for all, the lenient rules under which banks function here. And, unquestionably, it will make it far harder for other American banks to tap the rich money markets in this nation.

In some ways, of course, the disaster is the product of Switzerland's commercial atmosphere. The laws allow banks to function as much like brokers as bankers. The prospect of unlimited profit, protected by secrecy rules, draws money from all corners of the world.

It isn't surprising that the UCB's Basel failure is shot through with rumors that the Mafia, or some other international conspiracy rigged it and quietly swept the money into numbered accounts. The bank couldn't possibly have lost that much money through inept trading in cocoa futures, says a New York commodity trader.

Additional investigation may show whether or not this is correct. Max Studer, an official of Switzerland's Society for Bank Inspection, Basel, an auditing company that went over UCB's books, told the Basel court that had "indisputable proof" that six or seven members of the bank's management, plus a member of Switzerland's Board of Bank Inspection Authority, had "fraudently" procured a sum of $10 million.

But Paul Erdman doesn't seem to buy such tales. Nor is there any evidence yet to indicate that funds were siphoned from the bank into anybody's pocket.

What he does offer is a blow by blow account, rarely aired before the investment public, of slipshod management on a multinational scale in which the pressures of turning a profit permitted a deteriorating situation to turn into a monumental loss. To fully understand it one must take a close look at the events a few years ago and the rather winning personality of Paul Erdman.

A BRILLIANT STUDENT

Mr. Erdman is a personnel man's dream. He's an American of Canadian birth, schooled in Fort Wayne, Ind., Concordia College in St. Louis and Georgetown University in Washington. He received a PhD degree in economics from the University of Basel where one of his professors remembers him as "one of the most brilliant students ever to attend" the university.

His academic credentials got Mr. Erdman a job with the European Coal and Steel Community headquarters of the Common Market in Luxembourg. There, he made such a good showing he was quickly hired to become the European representative for Stanford Research Institute of Palo Alto, Calif.

But Mr. Erdman is a doer, eager to do more than consult. In 1964, he conceived the idea of a bank, operating in Switzerland, but with the gutsy go-go techniques of American fund managers. His consulting work had brought him to touch with Charles Salik, a San Diego, Calif., financier, and a man so impressed by the then 37-year-old Mr. Erdman's work and ideas that he agreed to open the kind of bank Mr. Erdman envisioned.

In 1965, with initial capital of $600,000 raised by Mr. Salik, Mr. Erdman started Salik Bank in a two-room office where a three-foot high safe was the most imposing piece of office equipment. And from the first the bank functioned not only as a deposit collector but as a brokerage house for the equity accounts of customers, as well as commodity and foreign-exchange traders.

The approach didn't sit well with conservative Swiss bankers. Salik Bank operated on the premise that capital should be appreciated, the more the better. To make it appreciate Salik Bank was willing to take big risks.

And it worked well in the early years. Assets totaled $3.1 million at the end of 1966, $9 million at the end of 1967, and $49 million at the end of 1968. As the bank grew it increased the services it offered. A customer could buy gold or silver, speculate in cocoa, indulge in speculative currency flows during monetary crisis or invest in American, European, Japanese, Australian, or South African equities. He could do so, moreover, with the guidance of the bank's management, which seemed almost prescient about money matters. In November 1967, the bank correctly anticipated the devaluation of the British pound, advised its customers to act, and made some of them rich.

One customer, for instance, earned a profit of $80,000 over a weekend by selling pounds for future delivery, worth $2.80, and then replacing them after the devaluation for $2.40 a pound.

The mastermind behind the financial guidance was Mr. Erdman, himself, and he was perfectly willing to let it be known.

HE CULTIVATED THE PRESS

Unlike most Swiss bankers, who shun the press, Mr. Erdman cultivated it, making himself readily available to reporters for interpretation of complicated foreign-exchange matters. Typically, when three of Switzerland's major establishment banks, Swiss Bank Corp., Union Bank of Switzerland and Swiss Credit

Bank, sent him a letter urging that he curtail his associations with the press, he ignored it.

He was even more aggressive when it came to getting new customers for Salik Bank. His executives literally rang doorbells outside the country drumming up business, a practice Mr. Erdman himself followed. At one time, the bank claimed to be Swiss Airline's second-largest customer in Basel, with Mr. Erdman, alone, flying 125,000 miles to contact customers.

To carry out his frantic activity Mr. Erdman assembled a remarkably young team of executives. The average age of the bank's 120 employes was 30. Average age of the management team was 41. Forty-six-year-old Alfred Kaltenbach, manager of the bank's portfolio department, was the bank's oldest executive.

Mr. Kaltenbach, a natty dresser with long sideburns and a ready smile, also is in jail. That's something that bankers here find intriguing. Mr. Kaltenbach once was associated with a Basel-based bank and mutual fund called Arbitrex, an outfit that folded with a loud crash in 1967. The case isn't closed yet. But Carl Wunderlin, public prosecutor for the city of Basel, sees nothing significant in the link. Mr. Kaltenbach, he notes, left Arbitrex in 1963.

Bernard Kummerli, 37-year-old manager of the bank's foreign-exchange and commodities department, and a key figure in the present situation, also is in jail. He is a dark-complexioned, near-sighted Swiss, with the reputation of being a "genius" in foreign-exchange trading. "Kummerli is a walking computer," says a London-based dealer who often dealt with him.

But Kummerli also has the reputation of being extremely ambitious. He kept a Reuter's electronic market-information device at home so he could better follow developments in international markets and was known to effect risky $10 million transactions without twitching a face muscle.

The cocoa trading was done in his department. In the current investigations, according to auditor Studer, not everything seemed to have been noted correctly in the right ledgers. Mr. Studer reports that he told the Basel court that many of the commodity transactions "weren't entered either in the books, or in the balance sheet."

Louis Thole, another jailed executive from Mr. Erdman's team, hails from Amsterdam, where his father had operated a family bank for years. He's a slender, light-haired man with a gentle, unobtrusive manner. He had a high reputation of trust in Basel. "I would put my hand in the fire for Paul and for Lou Thole," says a Basel resident who has known him a long time.

THREE OTHERS IDENTIFIED

Although the names of three others jailed haven't been officially released, each of them had been a key member of the youthful team. One is Beat Schweitzer, a young accountant who joined Mr. Erdman while Salik Bank was just an idea. Another is Victor Zurmuhle, an ex-UCB employee who went to work for a commodity house, Altco S.A., in Lausanne, Switzerland. The third is Helmuth Brutschi, a man Mr. Erdman assigned to oversee commodities trading when things began to sour.

It was this team and its rather startling track record that caught the watchful eye of top executives at United California Bank and Western Bancorp., its parent. It especially fascinated Frank L. King, chairman of Western Bancorp., who then proceeded to play an instrumental role in UCB's buying Salik Bank for $12 million in the spring of 1969.

There's little doubt about these motives. "We bought the bank to get Paul Erdman," a UCB official remarked at the time of the purchase. And it also is clear that Mr. King took a more than casual interest in the man. "Mr King regard Paul almost as a son," says Paul's wife, Helly.

Under different circumstances such concern might be seen as a welcome contrast to the usually impersonal relationships of a business enterprise. But in this instance it may have backfired.

The preliminary investigation of the collapse show there were few controls exerted over operations of the Basel bank, either by the UCB parent board in Los Angeles or by the board of the subsidiary. What the Swiss Banking Commission wants explained in no uncertain terms is how a spate of free-wheeling transactions in silver, cocoa and equities could have occurred without knowledge of the directors. And they aren't the only ones. A former California superintendent of banks has suggested an investigation of why the parent UCB board allowed its 58% subsidiary to get into such trouble.

Indeed, there's some reason to wonder why UCB, Los Angeles, didn't keep a sharper eye on the Basel operations. At the time of the take-over there already were some signs that things weren't as bullish as they had been.

SILVER SPECULATION CITED

The portfolio accounts handled by the bank showed an appreciation averaging 30% in 1967, says Mr. Erdman. In 1968, that average fell to 20%. And 1969 started with a disastrous showing in silver speculation, a lot of it for customer accounts.

The silver trading by the bank's staff had started in earnest in 1968 with the price of the metal rising because of scarcity. "These guys went wild buying silver," recalls Mr. Erdman. "A lot of it at the high of $2.72 an ounce, not only for our account but for accounts of customers as well," he adds.

But then the price of silver slid to a low of $1.85 an ounce in October, picked up a little, then slumped to as low as $1.81 an ounce in December. After a little pickup in January 1969 the price plunged again, hitting a low of $1.54 an ounce in the New York market in June 1969. By that time, UCB Basel was on its way out of its near-disastrous venture. "When the market swung around, we went short," says Mr. Erdman. "We played it pretty well and managed to come out of it without any loss for the bank," he adds.

But many of the bank's customers took a beating, a fact that troubled Mr. Erdman deeply. For one thing, he had sold himself to UCB's management as a superstar and felt under pressure to produce. For another, he felt personally obligated to appreciate his customers' accounts.

He began casting about for investment opportunities that might let him quickly recoup, he says. Then he found what seemed a goldmine: Cocoa futures.

[From the Wall Street Journal, Oct. 9, 1970]

"Win Some, Lose Some" Was First Reaction to Huge Losses, Says Jailed Bank Chief

(By Ray Vicker)

BASEL, Switzerland—When Paul Erdman flew to Los Angeles to tell United California Bank's top executive how the bank he ran for them in Basel managed to lose about $20 million playing the cocoa-futures market he found the reaction surprisingly tolerant.

"One of the senior vice presidents," Mr. Erdman recalls, "said something about how you win some and lose some. Then everybody agreed to keep this thing absolutely secret."

But that was Aug. 30. By mid-September the Basel bank was closed, its losses not $20 million but at least $31.5 million. The parent has set up a $36.8 million reserve to pay off depositors and creditors Yesterday, United California Bank reported a third quarter loss of $10,079,647, after securities transactions and an extraordinary charge of $18.1 million representing after-tax costs of reserves for the Basel banks losses; a year ago the bank reported net income of $7,741,086 for the quarter.

Thus, it isn't surprising that now the very mention of Mr. Erdman or Basel turns UCB officials grim. UCB Los Angeles had a 58% interest in UCB Basel, and there's a possibility the bank's American shareholders may try to prevent reimbursement of the Swiss depositors. The Swiss, meanwhile, want to know how the parent bank could have let such an enormous loss pile up—especially since it stemmed primarily from free-wheeling speculation in cocoa futures. And there are continuing rumors here that the losses could have been rigged, that the "lost" millions have been swept into secret numbered accounts.

All the more galling for UCB executives is that they had bought the Swiss bank, then known as Salik Bank, for some $12 million in the spring of 1969 so that they could get Mr. Erdman's services.

"I REALIZE I DID WRONG"

Sitting in this city's 17th century jail, with almost no prospect of getting out until at least next year and even then only to face a possible trial, Mr. Erdman feels badly, too. "I'm not a white lamb in this thing," he says. "I realize now that I did wrong when I turned my head" and let the book be doctored.

But feeling sorry seems to be part of Mr. Erdman's nature. Indeed, it was precisely that sentiment that led the bank into its present straits. Starting in late 1968 the bank was recommending speculation in silver futures. The market price slumped and then slumped even more. The bank, itself, managed to straddle the market and recover its losses by the summer of 1969. But a lot of its customers didn't and Mr. Erdman, eager to give them some quick way to recoup, began casting around for investment opportunities.

What he settled on was trading in the volatile cocoa-futures market. UCB Basel had done some trading in cocoa futures before, but never in sizable quantities. Since they now planned to do so in volume he sent Bernard Kummerli, his chief commodities trader, to Ghana where most of the world's supply of cocoa is growing. Mr. Kummerli wandered around Ghana a while and returned an "expert."

The reason Mr. Kummerli went is at least a partial reflection of Mr. Erdman's philosophy of management. He gave his various executives almost unlimited power to do things and operate on their own.

This freedom, for example, meant "there were no limits established for foreign exchange and commodity trades," according to Helly Erdman, Paul's wife. Most banks and commodity houses, of course, do place a limit on trading activity.

Mr. Kummerli's department didn't fool around. In August and September 1969, "without authorization, it purchased half the cocoa in the world," complains Mr. Erdman. He's speaking figuratively, since most cocoa-futures contracts are merely paper promises to deliver the commodity at some future date, and they don't have any direct bearing on the ownership of the physical commodity, itself.

One of the more spectacular transactions, which Mr. Erdman says he learned about only after returning from a vacation, was that "we had bought 17,000 cocoa contracts at around $9,000 a contract for delivery at various times over the following 12 months." He estimates the pound price at the time was "around 45 cents." This would indicate that the bank was trading in both the London and New York futures markets, because, at that time, the face value of a London contract was around $5,000 and the New York value was around $13,000, indicating Mr. Erdman is averaging values in both markets in his $9,000 estimate.

The face value of these contracts adds up to about $153 million. While almost all futures contracts are heavily margined, with the purchasers putting up little more than 10% of the face value, even this commitment is, nevertheless, an incredible sum especially for a bank that had only about $8 million of net assets on its books.

Who sold these contracts to UCB Basel? "We traded with fifteen other brokers including all the big ones," says Mr. Erdman. "Hayden Stone, Merrill Lynch, Lomcrest (London). You name them. We did business with them," he adds.

One reason, of course, that the brokers were willing to overlook their client's incredible sum especially for a bank that had only about $8 million of net assets of its California parent.

Mr. Erdman estimates the bank had to put up 115 million Swiss francs for the 17,000 contracts. "It's roughly about $25 million," Mr. Edrman says.

Margin figures must be listed somewhere in the balance sheet of a bank, according to Swiss law. Yet a $25 million figure, if reported correctly, would have invited an audit into the bank's commodity trading.

BALANCE SHEET "FALSIFIED"

So, "the balance sheet was undeniably falsified," according to Max Studer, an auditor with Switzerland's Society for Bank Inspection. Mr. Erdman seems to concur. "I didn't ask anybody any questions about the balance sheet. I just turned my head away," he says.

An audit, Mr. Erdman says, would have shown the cocoa trades and this certainly would have marred his and the bank's record. Moreover, if the news had got out, it might have led to a run on the bank and eventual bankruptcy.

"I should have called for the audit," he now says. "Instead, I thought I could put the lid on the trouble. My hope was that I could buy time to iron it out."

One action he took was to dismiss Victor Zurmuhle, Mr. Kummerli's right-hand man. The two had done so much trading that they were referred to as the "Lee Brothers" in cocoa-trading circles.

(Mr. Zurmuhle subsequently joined Altco, a Lausanne company that traded cocoa futures with UCB, a development that led to speculation about possible collusion. But Swiss prosecutor Carl Wunderlin declares flatly: "Altco has a clean bill of health" and adds that Mr. Zurmuhle's arrest stems from his prior connections with UCB.)

Another step he took, says Mr. Erdman, was to "straddle" the cocoa market to minimize losses. Straddling means you buy or own one contract for delivery in a certain month and sell an equivalent amount in another delivery month. The aim is to achieve a profit, or minimize risk, by taking advantage of particular strengths or weaknesses in different delivery months.

But it didn't work. "Every time we tried to get off the straddle to pick up a little profit, wham. We got hit again," says Mr. Erdman.

COCOA MARKET WAS SLIDING

One reason why the bank was having so much difficulty is that the cocoa market during that period was sliding erratically, And the bank had made its plunge at a time when cocoa was close to the highest level it would see for some time. Since November 1969, the average spot price of Ghana cocoa has plummeted from 48.57 cents a pound, in New York, to 29.74 cents a pound in June. It picked up somewhat to hit 37.97 cents a pound in August before it started to turn down again. Currently it is around 35 cents.

To compound the problem, UCB Basel had another investment on which it was losing. Late last year, Alfred Kaltenbach, the bank's portfolio manager, took a keen interest in Leasing Consultants Inc., a Roslyn, N.Y., company that financed and leased airplanes, industrial items and computer equipment. His interest had been piqued by a particularly glowing analysis of the company by a reputable Oslo, Norway, analyst. UCB plunged heavily into Leasing Consultants letter stock when "the price was around $12 to $13 a share," says Mr. Erdman.

For a while that move was golden. The stock climbed to as high as $28 a share on the over-the-counter market. And Mr. Kaltenbach was so convinced it would go even higher that he circulated a letter on the bank's stationery urging all portfolio holders to get in on the action. Nine of them did.

Then that bubble burst. On Feb. 2, 1970, Leasing Consultants reported that its 1969 earnings were overstated by $2 million. The stock plunged to around $7 a share, held there for a while, and then plunged again. On Aug. 19, the company filed a voluntary petition for protection under Chapter 11 of the Bankruptcy Act. Last week, the stock traded at 37½ cents a share bid, 87½ cents a share asked.

UCB Los Angeles was so distressed by the turn of events, especially since the stock had been recommended to customers on its subsidiary's stationery, that it voted to reimburse its customers' losses. "This was the first time anybody had ever reimbursed me for a bum trade," says one startled customer of the bank.

The Leasing Consultant's bust showed up as a $2 million loss on the Basel subsidiary's books. That's a lot of red ink but nothing compared with the gallons that were carefully being masked. On paper, the 1969 annual report showed a small profit on the margin account. Mr. Erdman claims that "anybody who studied that report very closely would have realized that something was wrong."

SWISS SPOT DISCREPANCY

Somebody did. Swiss bank examiners who went over the report in early June noted a discrepancy in the bank's balance sheet involving the margin account.

Following their usual practice in such cases they sent Mr. Erdman a note of inquiry. The note was in German, the business language of this city. Mr. Erdman, translated that note into English. But instead of translating "margin accounts" he made it read "foreign deposits" and sent it to the home office in Los Angeles.

"This was a criminal act," Mr. Erdman concedes.

He did this, Mr. Erdman says, to again win time to straighten out affairs. It did, but to no avail. On about July 10, "Bam. We got hit for about $7 million in losses, just like that," he says.

That's when Paul Erdman packed up his wife and two daughters and went on a vacation to Marbella, Spain. And that is where, while staying at the Hilton Hotel, "I realized that my hopes of straightening things out were gone."

On Aug. 7, he flew back to Basel, still casting about for some solution. Finally, toward the end of August, he placed a telephone call to the Los Angeles office to report the bank had a very substantial loss, probably in the order of $15 million to $20 million.

The first reaction he got was a lulu. When Mr. Erdman arrived in Los Angeles on Aug. 29 to check in at the Century Plaza Hotel he was met by Neil Moore, senior vice president of UCB. "Don't give me the details," Mr. Erdman recollects

Mr. Moore saying. "Just give me the exact amount of the loss right down to the penny."

Frank L. King is chairman of Western Ban-corp., parent of United California Bank. He also is chairman of UCB Los Angeles and UCB Basel. He had been instrumental in UCB buying the Basel bank and, according to Mr. Erdman's wife, regarded Paul Erdman almost as a son.

On Sunday August 30, he headed the group of UCB executives who saw Mr. Erdman. Here, the atmosphere was surprisingly cordial and it was at this meeting that the remark about winning some and losing some was made, Mr. Erdman recalls. The paramount concern appeared to be in keeping everything secret for fear of a run on the bank.

But from that point on things became increasingly cooler. On Sept. 2, Mr. Erdman returned to Basel along with Mr. Moore and an attorney for the bank. "Neither said very much to us on the way across the Atlantic," says Mrs. Erdman, who accompanied her husband.

The next day outside auditors already were at work on the bank's books by the time a conference of all the bank's officers began in the living room of the Erdman home. There, Mr. Erdman told them of the meeting in Los Angeles and then swung to face Mr. Kummerli.

"We want the truth. How much is involved? Don't lie to me any more," Mr. Erdman demanded, according to Helly, who had insisted on staying for the showdown. "Was it fifteen million? Twenty million? If you say it is twenty, can we be sure it won't be more?"

Says Mrs. Erdman: "There was no answer."

But the auditors of the bank's books were finding some answers, and the extent of the losses appeared to outstrip the $20 million mark everyone kept using. Mr. King was notified, and he immediately set out for Basel. He landed in London Sept. 3, telephoned Mr. Erdman, and suggested that a meeting of the board of UCB Basel be set for Sunday, Sept. 6, in Basel. Although UCB is the parent because of its 58% ownership it also had the task of informing minority holders.

One of the largest in this group, with 17.5% of the stock, is a highly respected Norwegian group headed by Einar Falck, managing director of Vesta of Bergen, Norway's second-largest insurance company.

Mr. Erdman owns between 3% and 4% of the Basel bank's stock, and the remainder is widely scattered among officers and big customers of the bank. Charles Salik, a California financier who in 1965 raised the bank's initial money and whose name was on the bank, was bought out by UCB and no longer owns any stock in it.

The board that was to gather at 3 p.m. Sept. 6 included Mr. King and Victor R. Rose, of UCB Los Angeles, Aurthur Schweitzer, retired general manager of Swiss Bank Corp., Basel, and an uncle of Beat Schweitzer, the UCB Basel bank's accountant. Others were H. Steiger, operator of a Swiss printing plant, R. Rieder, an executive of the Swiss company of Handels-Treuhand A.G., Alfred Hopf, a Basel financier, Mr. Falck of Bergen, and Basel attorney Peter Boeckli.

Mr. Rose and Mr. Steiger couldn't attend the meeting. And Mr. Erdman didn't stay long. Shortly after it started he was told his resignation was accepted, and he was asked to leave the room.

The precise details of that meeting are known only to those who attended and a handful of others. But one of their first actions was to send a delegation of UCB Los Angeles officials to Bern. There, they had the task of explaining the situation to the Swiss Banking Commission.

On the morning of Thursday, Sept. 10, Mr. Erdman was arrested. Soon afterward, six of his top executives also went to jail, also on suspicion of fraud and falsifying accounts.

So far, official charges have not been released by the Basel court. But then, it isn't under any pressure to hurry. In Switzerland, suspects may be held in jail on suspicion for three weeks, with the three-week periods being continually renewed if additional investigation seems warranted. Currently, Swiss authorities are investigating all trades made by the bank and that's going to take a while.

Senator PROXMIRE. Now Western Bancorporation is the apparent parent corporation?

Mr. BUCHER. That's right.

Senator PROXMIRE. Can you describe the size of this bank holding company, the total number of banks it owns, the total number of banks under its control, number of States it operates in?

Mr. BUCHER. Some of these are going to be estimates, Senator. The deposits, I believe, are in the $12 billion range.

Senator PROXMIRE. $12 billion?

Mr. BUCHER. Yes.

Senator PROXMIRE. Yes, sir.

Mr. BUCHER. That is not the largest bank holding company in the country, I might add.

Senator PROXMIRE. But it is the largest multibank holding company.

Mr. BUCHER. Bank of America is larger. Western has some 23 banks and I would guess some 650 banking offices.

Senator PROXMIRE. Bank of America is not a multibank holding company. You operate in a number of States?

Mr. BUCHER. In 11 States, that is right.

Senator PROXMIRE. This Western Bancorporation is one of the few bank holding companies to operate across State lines.

Do you see any problems in interstate banking on the part of bank holding companies?

Mr. BUCHER. Not per se. I am a great believer in competition and I believe in the antitrust laws. I think one of the significant tests should be the competitive factor. Therefore, I don't want to say categorically that I think crossing State lines is bad.

Senator PROXMIRE. Well, then, do you think think that other bank holding companies should be given the same privilege being enjoyed by the Western Bancorporation with respect to interstate banking?

Mr. BUCHER. I think you have to look at the facts of each case, Senator.

Senator PROXMIRE. What does that mean? What criteria would you provide?

Mr. BUCHER. I think you would have to look at the facts of the case that would be presented and I think it would vary depending upon the circumstances. I think the competitive factor would be very important.

Senator PROXMIRE. There is a prohibition in the law as I understand it, now, against interstate banking by multibank holding companies. Would you favor lifting that prohibition?

Mr. BUCHER. No, I wouldn't without certainly considering all the factors involved. I am not aware of all the factors that might be presented.

Senator PROXMIRE. What nonbanking activities are performed by Western Bancorporation?

Mr. BUCHER. How would you define nonbanking, Senator?

Senator PROXMIRE. Well, those that didn't have to do with the direct functions of borrowing and lending and so forth.

Is it engaged in any kind of service operation, any kind of manufacturing operation, any kind of operation of this kind?

Mr. BUCHER. Of course, banking is a service business.

Senator PROXMIRE. That is right. That is a good point. I am talking about any kind of nonborrowing or lending service.

Mr. BUCHER. Of course, the trust activity is a nonlending function, as is our investment counseling service. We provide payroll services, which as you know, is a service provided quite uniformly throughout the banking business.

Senator PROXMIRE. Computer services?

Mr. BUCHER. Pardon?

Senator PROXMIRE. Computer services?

Mr. BUCHER. We do not provide computer services as such through an affiliate as some banks do. Certainly a part of the payroll service is offering computer time.

Senator PROXMIRE. How about insurance?

Mr. BUCHER. No, sir; we do have mortgage banking divisions which are not separate companies. They are part of one of the banks. That has been that way for some time.

Senator PROXMIRE. Does Western Bancorporation have plans for engaging in future nonbanking activities?

Mr. BUCHER. Not that I am aware of.

Senator PROXMIRE. In view of your association with the nation's largest multibank holding company, how do you feel about the kind of conflict of interest which I have raised here? Do you think that you would have a serious conflict of interest in regulating bank holding companies?

Here is what I am getting at. On the one hand, the bank holding company might be eager to expand into a nonbanking activity.

On the other hand, the firms already in that business might petition the Board to prevent the bank holding company from expanding into their business.

Under these circumstances, how could you, as one who has been so closely identified, how can you render an impartial judgment which would be fair to both parties in view of your close association with the largest multibank holding company in the country?

Mr. BUCHER. The best answer I can give you is that I am not going on the board in any regard as a representative of banking, bankers, or bank holding companies. I have a very strong feeling about my attitude with regard to this type of situation should I be confirmed and become a member of the board.

I feel my background in banking—incidentally, it has been quite a bit broader than trust, work—that is only the most recent position I have held. I feel my background can be——

Senator PROXMIRE. Go ahead, and expand on that.

Mr. BUCHER. I was with the bank's law division for a number of years. This was prior to 1967, and, in that capacity, I was involved in various functions as the bank's representative in negotiating loan agreements, working with the commercial department, the installment credit department, the real estate loan department, in almost every activity they were involved with because there are legal aspects to all of these.

I was also secretary-treasurer of the bank and, in this capacity, I worked with loan committees. I feel I have very sound grounding in banking from all aspects. I don't claim to be all knowing, Senator, but I think I have a very good feel for all aspects of the commercial bank.

I was saying that I am not going to be representative of banking or bank holding companies. I can assure you that, now. My voting record, if I am confirmed, I know will be proof of that to everyone. I hope to you.

I think the best thing to do is tell you that is what my attitude is. With regard——

Senator PROXMIRE. We are in a difficult position here, as I am sure you can appreciate.

You obviously have impressed members of the committee. You have had a chance to talk with them privately, many of them. You go on—all we can judge is on the basis of what you have done. This is our only crack at your 14-year service on the Board. You don't come back in 2, 4, 6 years for confirmation. You are on for 14 years. Most of us will be in the grave by then. If not in the grave, at least in the political grave.

This is the only chance we have to determine policies of the Board for the next 14 years as far as you are concerned. So while you can give us this kind of assurance, we have to make a judgment based on what you have done so far.

Mr. BUCHER. I understand that. I am very pleased to answer any questions you have as long as you wish.

Senator PROXMIRE. In 1933 Congress passed the Glass-Steagall Act, which separated commercial banking from investment banking, one of the principal reasons, as you well know, was due to the inherent conflict of interests between a bank's investment banking activities and its commercial banking activities.

As the financial debacle of the early thirties shows, many banks sold worthless stocks and bonds to their customers.

Now, I would like to ask you this: As a matter of general philosophy, do you support the strict separation of commercial banking and investment banking?

Mr. BUCHER. Yes, I do.

Senator PROXMIRE. One of the most significant issues to face the banking industry and the Federal Reserve Board over the next 10 years is whether a similar conflict of interest exists between a bank's trust department and its commercial lending activities.

For example, if a bank has a substantial equity in trust accounts and the company were in trouble, it might be tempted to rescue it through the commercial loan department, or the reverse might be true.

This trust department might invest in a company's stock in order to shore up the shaky loan made by its trust department. Do you think there is a conflict or danger in combining these two functions?

Mr. BUCHER. I think those two functions must remain separate. I think there is no question about that. I think in most financial institutions, where they are a part of the same corporate structure, they are in fact, as a practical matter, separate. That has been true in the organizations in California.

Senator PROXMIRE. That is reassuring to make that assertion, but as I say, there is the conflict. After all, you have common ownership. They are separate only in the sense you have separate departments and separate people.

They are under the same management and have the same incentive to prevent loss and increase profits as long as you permit this operation. There is a constant tendency for conflicts to develop.

Mr. BUCHER. I would agree there are potential conflicts and that is why I think it is so important they be separated. I don't feel, however, that corporate separation is necessarily absolutely important for this purpose. I think as long as the operations are run separately, as long as the officers who are responsible understand the potential conflict, and do take every step to avoid it, which I do believe is a fact, then I am not concerned.

Senator PROXMIRE. But as a matter of fact, the only way Congress can assure this is to have the kind of surgical operation that the Glass-Steagall Act represented with respect to commercial and development banking. A clear separation.

Senator BENNETT. Will the Senator now offer a bill to forbid banks to have trust departments?

Senator PROXMIRE. I am trying to get the thinking of the future member of the Federal Reserve Board who will have a great deal to say about this. I want to see if there is some other way we can do it. I may very well do that.

Senator BENNETT. You put it clearly and state you feel there must be a surgical separation.

Senator PROXMIRE. I object to that. When I ask a question, it doesn't mean I espouse the implication of that question. I am trying to draw——

Senator BENNETT. Who else does?

Senator PROXMIRE. I am trying to draw the nominee out to find out how he feels about it.

Senator BROCK. He has answered.

Senator PROXMIRE. You fellows do this on your own time. I am happy to yield to you. If he wants to answer—if my time is up—I will come back.

The CHAIRMAN. Let me at this point put a little levity into this matter. The Banking Act of 1933, the Glass-Steagall Act——

Senator PROXMIRE. I beg your pardon.

The CHAIRMAN. I want to make that correction out of respect to Mr. Steagall——

Senator PROXMIRE. If the chairman would yield——

The CHAIRMAN. He was a friend from Alabama——

Senator PROXMIRE. This is the first time in a long time that I have been accused of having too little gall.

Senator BROCK. Probably the last.

Senator PROXMIRE. Thanks.

Senator BENNETT. I would prefer to have the Senator finish his questions.

The CHAIRMAN. That's all right. I instructed Miss Chase, the chief clerk, not to call time.

Senator PROXMIRE. I will be another few minutes.

Let me take a specific example. The trust department of your bank under your management owned nearly 5,000 shares in Lockheed. At the same time the bank's loan department loaned Lockheed $21 million under the Government guarantee agreement. Do you think a decision of your bank to take part in the Lockheed loan was influenced by the fact that your trust department has such a sizeable equity interest in the company?

Mr. BUCHER. No, I do not.

Senator PROXMIRE. You don't?

Mr. BUCHER. Were those shares that you refer to held in discretionary accounts?

Senator PROXMIRE. We received a questionnaire from the bank last year and it didn't indicate whether these were discretionary or not.

Mr. BUCHER. If it is the questionnaire usually sent out, they do define which it is. My venture would be those are nondiscretionary accounts, meaning somebody else directed the investment.

Senator PROXMIRE. That would mean that under those circumstances there is no conflict of interest?

Mr. BUCHER. I don't believe there would have been a conflict, because of the way we separate the departments. But my feeling would be, from my knowledge of our portfolios, that those were directed by a third party, which would be an added factor as far as separation goes.

Senator PROXMIRE. You see, here is the difficulty we have: It seems that when a bank gets as much as $20 million into a company like Lockheed, and they indicate they so desperately and urgently need additional funds in order to keep their head above water, then isn't there a temptation to go ahead, to be members of the team although your trust department is separate, a temptation is there, isn't there?

Mr. BUCHER. People might speculate in the abstract that there could be such a temptation. From the standpoint of practical operation, certainly in United California Bank, that would not be the case.

Senator BROCK. Was there a new issue of stock? Was this a new issue of stock, a recent issue Lockheed put out?

Senator PROXMIRE. It wasn't an issue of stock.

Senator BROCK. Any purchase of stock by the trust department wouldn't be from Lockheed providing them funds. They wouldn't be assisting Lockheed.

Senator PROXMIRE. Well, there was $12½ million of additional loans. That's what I was asking. I don't think I had any question with respect to what stock were issued.

Mr. BUCHER. My understanding was yes, you were indicating that the trust department might be supplying capital. I think Senator Brock's question is whether that would provide capital. Of course, the answer is no. The stock would be purchased on the market.

Senator PROXMIRE. No. It was the other way around.

The CHAIRMAN. I understood your question to be do you think that there might be a conflict of interests between the trust department and the bank, when the bank made this additional loan, because of the bank's ownership of an interest in the Lockheed Company.

Mr. BUCHER. Then you are talking the other way. I understand what you are saying. My answer would be the same.

Senator PROXMIRE. Let me get back. We had an interruption, and you didn't give your philosophy on the surgical separation of the trust department from banking. I may or may not take one position or the other. I want to know what your position is.

Mr. BUCHER. If I were to be confirmed, I would be serving in a capacity quite a bit different than I have before. I have said that I thought I can make use of my knowledge of the practical operations of commercial banks. I have also said that I have no predetermined ideas with respect to any aspect of bank regulations, the subject which we are discussing. My answer would have to be that I—as a member of the Federal Reserve Board—would ask for all the facts, would sort the facts. I have already said to you that I believe in competition. I believe in the antitrust laws. I think this is an important aspect. I would have to look at those facts and make a consideration. I don't believe it would be proper for me to make a philosophical expression at this point on that subject.

Senator PROXMIRE. As a former trust official, how can we expect you to render an impartial judgment, should the matter that I refer to to with respect to Lockheed loans and your former bank come before the Fed?

Mr. BUCHER. As far as any matters relating to my former association, my mental attitude is as I have already expressed. That is, that I would have an open mind. On matters directly related to UCB or to Western Bancorporation, however, because of what other people might think, I would venture that the proper action for me to take would be to abstain for at least a couple of years on decisions that directly affect those companies, and if a Lockheed matter directly affecting UCB were to arise before the board within the next two years, I would venture that abstaining would be the proper action.

Senator PROXMIRE. Why do you limit it to 2 years? If a Lockheed matter should arise during 14 years of service, why wouldn't you abstain?

Mr. BUCHER. The reason for it is not what my mental attitude is. The reason for it would be what other people might think. I would be concerned about anyone having the impression I was influenced by my past.

Senator PROXMIRE. Why shouldn't they have it 5 years from now?

Mr. BUCHER. It is purely an arbitrary choice. I can't promise you that my opinion won't change. But I think there would be less of a chance after I had shown my impartiality in my voting records on the board for a couple of years. There would be less chance that anyone might even suspect that I would be influenced by my previous job.

Senator PROXMIRE. Let me shift gears and get into another area concerning this committee, and that is the area of housing.

There was an article in the Wall Street Journal about a disturbing meeting of international economists at Montreal yesterday. Let me read the first paragraph of it:

"Prospects are dim for getting chronic worldwide inflation under control, judging from the gloomy session of the economists here. The economists presented a picture of persistent, almost unrelieved, upward price pressure, while unemployment remained stubbornly high. The only exception was the United States, "where Mr. Stein said, "The revival of price pressure in the United States is becoming a source of concern."

My problem is this. You have had a great deal of experience, as I understand it, in teaching housing law and so forth, and you have thought about this matter. How do we go about this very difficult problem of trying to insulate housing from a monetary restraint designed to restrain inflation? In the past, it's been a victim and a terrific victim of monetary restraints. In the 1966–67 period, housing starts went down below a million because they are so sensitive to high interest. What can you tell us about this as one who has been concerned about housing and replaces, incidentally, Governor Maisel on the board in this area.

Mr. BUCHER. I share your concern about housing. I am very disturbed about the effect that tight money has had on both housing and financing of local governments.

I don't think anyone has come up with the answer that universally is accepted as the final word as far as the solution to this problem is concerned. There have been proposals that I think should be looked at further, and I think make a lot of sense. One of them is to find a way during these credit crunch periods to channel capital from other areas.

The proposal has been made for an adjustment in the investment tax credit, for instance, whereby funds that would have otherwise flowed into capital spending might be available for housing to relieve the pressure. I don't purport to know the answer. I am not sure anybody does.

Senator PROXMIRE. One of the other governors of the Federal Reserve Board has suggested reserve requirements. In other words if a bank puts its funds into the housing area, the reserve requirements would be eased.

Mr. BUCHER. I am aware of that suggestion.

Senator PROXMIRE. How do you feel about that approach?

Mr. BUCHER. I know it as a theory. I have not had an opportunity to study it in depth. I think it would be unwise for me to make an answer specifically.

Senator PROXMIRE. How about the proposal that some of us have been urging very strongly, in fact it passed this committee, of permitting the Federal Reserve Board to have the discretion under these circumstances, not only to invest in Government securities, but in housing obligations?

Mr. BUCHER. Well, of course, now they have authority to purchase agencies, which has an indirect effect.

Senator PROXMIRE. I am not talking about the open market. I am talking about direct purchase.

Mr. BUCHER. This is something that I would again have to say that I would have to learn more about before I would become directly involved.

Senator PROXMIRE. I would hope this is an area where you would be able to come on the board with a fresh, vigorous viewpoint. This area is so important, where you have had some experience.

Mr. BUCHER. Senator, I am from California. California is a gigantic housing market. I have seen first hand the effects of credit crunch on housing and on people. Believe me, I would be very interested in this area.

Senator PROXMIRE. For months we have been waiting for the Federal Reserve Board housing study. It has now arrived, and it includes few recommendations for action the Federal Reserve Board can take, the Board largely limits itself to what other agencies can do. What important steps to help us meet your housing goals can the reserve system take?

Mr. BUCHER. I think we have covered this to some extent in a prior question. I know the Federal Reserve Board has concern, and I share that concern about engaging in projects which would have an adverse effect on monetary policy. This is why it becomes a difficult question. It is the balancing of the role as the monetary policymaker, in effect, with other responsibilities, and I know that is what concerns the Fed. I know they are concerned also about housing, very deeply so, and I am afraid I cannot say at this point that I know the answer.

Senator PROXMIRE. You see the problem with this is that our central bank the Fed seems to be all alone in the world. Almost every major banking system in the world, except the Fed, can and does assist housing on other sectors as a means of counteracting the adverse influence of tight money. But the Federal Reserve System continues to oppose that. Your view, I take it, is that you would have to study this, that your recognize it as a problem, especially since you come from California where you have a big housing need, and an enormous housing market, but that you don't have any settled views.

Mr. BUCHER. I do not have any settled views at this point.

Senator PROXMIRE. I have one other question, and then I will yield.

The CHAIRMAN. Let us talk off the record, please.

(Discussion off the record.)

Senator PROXMIRE. My final questions are these and I will ask them together and you can make one response.

The 1970 amendments to the Bank Holding Act engendered much controversy. The Board is required to make decisions and set limits on bank holding companies and subsidiaries.

First, I want to know do you have any views on the steps the Board has taken to implement these amendments? Secondly, is the Board going too fast or too slow in authorizing permissable activities, and finally has the Board been to restrictive or too liberal in the activities the Board has permitted?

Mr. BUCHER. I think to give a proper answer to that, I would have to do more than I have done to this point and that is to read excerpts from articles in financial newspapers with regard to rulings from time to time. I would want to have well though out answers with respect to your questions. I really don't feel that I have enough background knowledge nor enough information on the specifics—although I certainly understand generally the provisions of the act. I think it would be unwise for me to give a specific answer to your question in view of the fact that I really don't have the background on the cases that you are referring to.

Senator PROXMIRE. Let me follow up by asking whether or not you support the Hunt Committee recommendations—that regulation Q be gradually phased out?

Mr. BUCHER. I would have to study that further. The Hunt Commission report has many, many recommendations. You are speaking of the recommendations with regard to regulation Q applying to all intermediaries, is that the point you are making?

Senator PROXMIRE. That is correct.

Mr. BUCHER. I think I would have to——

Senator PROXMIRE. Commercial banks and savings and loans.

Mr. BUCHER. I want to answer your questions, but I am concerned about answering where I haven't seen the background material, the specifics and the arguments on both sides. I think that should be deferred.

Senator PROXMIRE. Thank you.

The CHAIRMAN. With reference to these last questions that Senator Proxmire has asked, I would like to say that I think that this is a matter of importance. I was about to say of real concern but I don't want to be construed as necessarily criticizing anything that has been done. But the language in the Bank Holding Company Act said that any activity that a bank could undertake would have to be closely related to banking. I have no particular objection to any ruling—any decision made—but I think some people are beginning to wonder if the Governors of the Federal Reserve Board are giving sufficient attention to the wording: "closely related to banking." I do hope that when you go on the Board, careful attention will be given to that language because it was our intention—and this, I think, was agreed to both by the House and by the Senate—that any activity other than banking, that a one bank holding company might engage in, would have to be "closely related to banking."

The word "directly" was considered at one time during our deliberations of holding company legislation. We had great difficulty in arriving at the final language. What we were trying to do was to lay down general guidelines but leave it up to the Federal Reserve Board to act on each individual case within those guidelines. I hope that they will give very close attention to that language and be careful in trying to carry it out.

There is one other thing I want to say. The subject of regulation Q has been brought up. I am aware of the Hunt Commission treatment of that matter. There is probably a feeling by a good many people that regulation Q has probably spent its force and ought to be dispensed with as far as savings and loan associations and banks are concerned. I don't feel that way. I feel that regulation Q is most helpful and certainly could be in the case of tight money policies. I hope it will not be done away with.

I don't know whether in order to eliminate the regulation, it would require legislation. I don't believe it would. I think the Federal Reserve Board could act on it.

Senator PROXMIRE. I think it could. It is a regulation.

The CHAIRMAN. But I hope they don't act on it because as Senator Proxmire pointed out, housing took a terrible beating in 1966 and 1967 in the money crunch and they suffered again in 1969 and 1970. Homebuilding always suffers when a tight money policy is invoked.

We have worked in this committee and in the Congress in trying to broaden the home mortgage market as much as possible. I think we have done a pretty good job in doing that. I would hate to see anything happen that would narrow that market. When the market is narrowed, it means a great many people cannot buy homes because the mortgages cannot be disposed of advantageously. I think it is very important that those things be done and I think it is very important that housing be kept in mind because housing always suffers the most.

I believe it was Governor Maisel who pointed out that although the amount of housing within the gross national product was only a very small——

Senator PROXMIRE. Three and a half percent.

The CHAIRMAN. Three and a half percent, that it took 70 percent of the impact——

Senator PROXMIRE. That is right.

The CHAIRMAN. Of that 1966–67 crunch. It wasn't that bad, I am quite sure, during 1969–70. And this goes back many years because I used to argue with Marriner Eccles when he was Chairman of the Board that not enough attention was given to the peculiar position that housing occupies when we go into a tight money situation. I do hope that that can be kept in mind and if other things are necessary, that they can be worked out to relieve that situation. I want to put in that word because I think it is most important to emphasize that the Federal Reserve Board does have an important part to play in it.

Senator BENNETT. I would like to yield to Senator Brock.

The CHAIRMAN. Senator Brock, do you have questions?

Senator BROCK. Thank you. I have—perhaps it would clarify it a little bit on this bank holding company matter if I could ask you a couple of broad questions. Do you agree with our intent in passing the holding company act of trying to avoid conflict of interest by expansion of bank activities into nonbank areas?

Mr. BUCHER. Yes, I do.

Senator BROCK. Do you think that the law as passed was adequate to achieve that objective?

Mr. BUCHER. I think we have to work with it and I think you shouldn't say in any instance that it should remain the same, if experience indicates there are improvements that can be made.

Senator BROCK. I think we do have——

Mr. BUCHER. Generally, I favor the law.

Senator BROCK. The point raised by Senator Proxmire with regard to central bank purchase of housing paper, you referred to European central banks. Central banks in Europe are not independent of the political body of the country. We have deliberately established the independence of Federal Reserve with a particular reason in mind, that being to have the monetary system set aside as something almost sacrosanct, to allow the authorities in control of that particular element of the economy to provide for maximum sustainable economic growth, full employment without inflation. There is in my mind an enormously valid justification for that independence, would you not agree?

Mr. BUCHER. I agree with that.

Senator BROCK. The question then arises as to whether or not if we force you to involve yourself in the purchase of housing securities, and I personally hope very much that you will not do so, we are in danger of making this more of a social purpose agency than a monetary agency. We then open Pandora's box, because if you were appearing before the education committee they would tell you to buy school bonds. Any other committee of the Congress would want you to support its particular area of interest. I think you would lose that very important quality of concentration on your fundamental purpose of maintaining an adequate money supply and encouraging maximum growth and full employment.

I won't ask you to comment. You have already done so. But I feel very strongly on the matter.

One other thing that the Senator from Wisconsin raised, the implication that you would be a pawn of Arthur Burns. Now I have a great regard, as he does, for Arthur Burns, but perhaps you can assure us as to the independence of thought that you might bring to the board.

Mr. BUCHER. I share without any reservation your feeling about Arthur Burns. It seems to be a universal feeling. That pleases me very much, and working with him is something I look forward to with a great deal of anticipation and happiness. I am really very pleased about it. I assure you, however, that I will be my own man and that is under all circumstances in every situation.

I might comment in that regard that a comparable question was asked of Governor Sheehan at his confirmation hearing. I can't cite case, number, and page, but I know that Governor Sheehan has voted on the other side from Chairman Burns in at least one instance. I know his mental attitude, and that is he will continue where he feels appropriate in a situation to do that. I will do the same.

Senator Brock. That is good. And I appreciate it.

I am sure you are familiar with section 10 of the Federal Reserve Act but perhaps for the record maybe I ought to read one particular phrase here which says the President shall have due regard to a representation of the financial, agricultural, industrial, and commercial industries of the country. Mr. Proxmire apparently wants only economists on the board, but I think it would be very difficult to have all economists and adhere to the law. He charges that you and the President are in collusion to violate the Constitution. I think the law is very clear here. The intent of the Federal Reserve Act was to require a balanced board. To be specific, when you go on the Board, it will have one lawyer, pure and simple, one banker-lawyer, if you will, one businessman, and four economists.

Now, I happen to think is a pretty good spread. I think the Board ought to have a diffusion of input to allow broad range perspective on the total problem. I happen to thoroughly disagree with the Senator from Wisconsin as to the need for all economists. That would be a mistake.

As a matter of fact, I am somewhat surprised. I thought he had a higher regard for Governor Robertson. He would surely not be a professional economist by definition. He is an attorney as I understand it. I was wondering when I read the Congressional Record of the Senator's statement whether or not he had been working with Wright Patman on that particular statement.

But anyway, there are many decisions of the Board that do deal with the specific aspects of economic life in this country and I for one think we need some practical input on that Board, not just theoretical.

I would like to conclude by saying I am absolutely delighted that the President has seen fit to appoint you and I think he is making quite a contribution to the Board just by the nature of your background. I think you will be an asset to the Board.

I think Mr. Proxmire may be giving you unusual credit. He seems to think you will dominate that Board as soon as you go on. You may do so. You would be quite a guy if you did.

I congratulate you on giving us an excellent statement today. I support your nomination.

The Chairman. That would be disregarding the rule of seniority.

Senator Brock. That is my pitch, not yours. [Laughter.]

The Chairman. Senator Bennett, do you have any further questions?

Senator Bennett. I think most of the questions I have, have been presented. I was a little sorry to see Senator Proxmire raise the question of your background as an attorney. I was saving that.

It seems to me that it is not a bad idea to have an attorney on the Board who also has banking experience, rather than a man whose practice has not been so broad.

I made a lot of notes. It is a temptation to go back and get further into the debate with the Senator from Wisconsin, but I think that would be time wasted.

I would just like to say to you, as I did when I met you for the first time in my office, that I am impressed with your background and, of course, will be very happy to vote for your confirmation, and I say to you, I envy you. At your age, with 14 years of opportunity to be at the center of financial problems of the country and the world.

I am sure you will be able to measure up to that responsibility.

Mr. BUCHER. Thank you, Senator.

Senator PROXMIRE. Could I make one closing observation, rather combine a series, very briefly.

I think the day is going to come when we have nothing but experts on the Federal Reserve Board. It may not be while I am alive and while you are alive. That Board is so important and so technical. I would hope where you have people who are bankers, they are bank economists; people from the agriculture section that are agriculture economists; that we look for that kind of expertise on the Board.

I wish you would put in the record the one instance when you revise your remarks where Mr. Sheehan differed from Dr. Burns, so we can have that as a matter of record.

(The following information was received from the Federal Reserve Board:)

INSTANCES IN WHICH GOVERNOR SHEEHAN AND CHAIRMAN BURNS CAST OPPOSING VOTES ON SUPERVISORY MATTERS

County National Bancorporation, Clayton, Missouri—application for approval under Sec. 3(a)(3) of the Bank Holding Company Act to acquire not less than 90 percent of the voting shares of Big Bend Bank, Webster Groves, Mo. *Approved.*

Majority (for approval): Chairman Burns, Governors Mitchell, Daane and Maisel.

Minority (for denial): Governors Robertson, Brimmer, and Sheehan. March 9, 1972.

Crocker National Corp., San Francisco—application under Sec. 4(c)(8) of the Bank Holding Company Act to acquire all of the voting shares of Ralph C. Sutro Co., Los Angeles, a mortgage banking firm. *Denied.*

Majority (for denial): Chairman Burns, Governors Robertson, Maisel and Brimmer.

Minority (for approval): Governors Mitchell, Daane, Sheehan. March 16, 1972.

Marine Bancorporation, Seattle—application for approval under Sec. 4(c)(8) of the Bank Holding Company Act to retain all of the voting shares of Coast Mortgage Company, Seattle. *Approved,* providing the applicant terminates its current land development activities.

Majority (for approval): Chairman Burns, Governors Mitchell, Daane, Maisel and Brimmer.

Minority (for denial): Governors Robertson and Sheehan. April 17, 1972.

Senator PROXMIRE. I wish that Mr. Brock were still here, because there is nothing in the Constitution, but nothing, to say that the Federal Reserve Board should be politically independent. It is independent of the Executive, but it is a direct agency and dependent of the Congress.

Finally, again with complete respect for you, Mr. Bucher, as a person, the fact is that you did not really give a single specific answer to any one of my substantive questions. In virtually every case, you indicated that you wanted to study it, you don't have the facts at hand, even though I was asking in areas like housing and multibank holding companies, where you should have whatever competence you bring to the Board.

I don't mean to derogate your ability, but I think this was established by the record this morning. Thank you.

Senator BENNETT. Mr. Chairman, I would like to get back into—for just one comment. I think to ask Mr. Bucher to tell us in advance what he is going to do at the end of 14 years, and then in all of the times in between with the basic problems that come before him, is like asking a baseball player how many home runs he can guarantee in next season's games.

I disagree with the Senator that the Federal Reserve Board should be all economists. It is obvious that the Federal Reserve Board is able to hire economists, 250 of them, and maybe you better have a noneconomist up there to just kind of keep the thing practical.

And one final comment about this question of independence of our central bank, which the Senator from Tennessee properly brought up: I think the key is the independence of the Federal Reserve Board from the Treasury. If the Treasury were able to use the Fed to support or assist in any social change desired by the administration in power, as has been the case in most countries around the world where their central bank is an adjunct to the Treasury, I think we would have a much more serious problem.

I agree with the Senator from Wisconsin that it was created to be answerable to the Congress. To that extent, it is not completely independent. But, thank heaven it is independent of the Treasury.

The CHAIRMAN. Senator Bennett, when you were talking about home runs, I thought you said the question was whether or not my fellow Alabamian, Willie Mays, would be able to catch up with Babe Ruth's record now that he is with the Mets. Or I will throw in another competitor, Hank Aaron with the Atlanta Braves. I believe he is one behind Willie Mays.

Senator BENNETT. I see you have been doing a good job.

Senator PROXMIRE. You have the fans' votes. You know all the answers.

The CHAIRMAN. Of course, I could name Joe Louis, Jesse Owens, Willie McCovey, and a good many others.

Senator PROXMIRE. Don Hudson?

The CHAIRMAN. Yes.

Senator PROXMIRE. Green Bay Packers.

The CHAIRMAN. Scott Hunter is up there now.

Senator BENNETT. Maybe we better get an athlete on the Federal Reserve Board.

The CHAIRMAN. I want to go back to just two things:

First, I think Senator Brock brought this out. Of course, there is nothing in the Constitution relating to this except that the Constitution gives Congress the right to legislate, and we did legislate, or our forbears did, by passing the Federal Reserve Act. That act says that the appointments to the Board should be by the President. And it further says that the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographical divisions of the country.

Now I have great respect for economists and I certainly think that at all times there ought to be a good representation of economists on the Board, but I think that these other things are essential, too.

The second thing I want to state for the record is that both Senator Cranston and Senator Tunney have approved this nomination.

Anything further from this witness?

Thank you very much, Mr. Bucher.

Now we will hear from Mr. Burkett.

(Discussion off the record.)

The CHAIRMAN. All right.

Mr. Burkett, do you have a statement?

STATEMENT OF WILLIAM A. BURKETT, FORMER SUPERINTENDENT OF BANKS, STATE OF CALIFORNIA; FORMER PRESIDENT, NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS; FORMER DIRECTOR, DEPARTMENT OF EMPLOYMENT, STATE OF CALIFORNIA, AND MEMBER OF THE CABINET OF GOV. GOODWIN J. KNIGHT; FORMER CHAIRMAN, LIAISON COMMITTEE WITH THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, AND THE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS; AND FORMER PRESIDENT AND CHAIRMAN OF THE BOARD, SECURITY NATIONAL BANK OF MONTEREY COUNTY, NOW RETIRED

Mr. BURKETT. Yes, Mr. Chairman and members of the committee, I respectfully submit the following 14 reasons why I believe Mr. Bucher should not be appointed.

The CHAIRMAN. Just a minute. Mr. Burkett, for the benefit of the record, while I stated at the beginning that you would appear and that you were a former supervisor of State banks; you are from California?

Mr. BURKETT. Yes.

Senator PROXMIRE. I would like to point out the witness has a prepared statement which has his qualifications on it. I think he has not handed it out. Perhaps if the clerk could get it we could all have copies of it.

I happen to have a copy here.

The CHAIRMAN. I was going to suggest that the record show just what your background is.

Mr. BURKETT. I was former superintendent of banks in the State of California.

Senator BENNETT. What year, Mr. Burkett?

Mr. BURKETT. 1956 to 1959.

I was also former director of employment of the State of California, prior to that, and I was a member of Governor Knight's Cabinet in California from 1953 to 1959, serving some time under Governor Brown.

I was also president of the National Association of Supervisors of State Banks and was the chairman of the liaison committee between the Board of Governors of the Federal Reserve System and the National Association of Supervisors of State Banks, and I was likewise former president and chairman of the board of the Security National Bank of Monterey County, Calif.

I am now retired, physically disabled.

The CHAIRMAN. Thank you very much.

I didn't realize that information was a part of your printed statement. I did want to have it in the record.

Mr. BURKETT. The first reason is that I believe—this gentleman is totally unqualified to serve as a member of the Board of Governors of the Federal Reserve System.

He is without any experience whatsoever in commercial banking or dealing with the economic and monetary problems of our Nation which are handled by the Federal Reserve System.

A trust department officer is not truly a banker. A man who does trust department work is as removed from a knowledge of the Nation's banking and fiscal problems as a horse doctor is from the skill required by a heart surgeon for open heart surgery.

The title "banker" or "doctor" is sometimes deceiving.

On the other hand, the Board of Governors of the Federal Reserve System appears to be sorely in need of an appointee with wide banking experience and a knowledge of the Nation's fiscal problems.

(2) As superintendent of banks, State of California, it was my duty to pass on the qualifications of a candidate selected to be the president of a State bank.

This nominee would not qualify for appointment to the presidency of even the smallest bank in California because of his total lack of knowledge and experience in banking, let alone an appointment to the most powerful banking board in the world.

There are hundreds of outstanding, knowledgeable, brilliantly qualified retired commercial bankers in the United States and in California and in the West—with no axe to grind—who would be far better qualified than Mr. Bucher, and who the President could appoint if he made the slightest effort to seek them out.

There are many knowledgeable retired presidents and retired chairmen of the board of banks who would make a major contribution to this Board of Governors if asked to serve by the President of the United States.

The term "retired banker" is purposely used here, for such an appointee would have less likelihood of "conflict of interest" while performing his duties such as sitting with the Board of Governors, while ruling on bank holding companies, or ruling on bank and branch applications where the problems of competitive banking arise.

Certainly with a retired commercial banker serving on the Board, you would eliminate the possibility offered by the ambitious young appointee looking consciously, or unconsciously, to better himself in the future with one of the Nation's 14,000 banks.

As a banker and as a citizen, I challenge the reasoning or the motive back of the appointment of such a poorly qualified person for such a vitally important governmetal position.

(3) A trust officer is the last man in the financial field that should be appointed to the Federal Reserve Board because they are a particularly evil influence on banking generally.

Many bankers believe that the trust departments of commercial banks are helping to destroy the integrity of banks because a trust department obviously operates as a "conflict of interest" within commercial banking.

(Someday, I predict, we will have Federal legislation forcing the separation of commercial banking from trust work.)

For example, Mr. Bucher's UCB trust department must have had knowledge of an $18 million bad loan that UCB made to Lockheed. His UCB made this $18 million "unsecured" loan despite the fact that Lockheed was financially insolvent.

The honest fact is that Mr. Bucher's trust department at UCB held millions of dollars in rich pension funds which were administered for Lockheed. UCB apparently thought it couldn't afford to lose such a rich, profitmaking trust.

Therefore, UCB gave special consideration to insolvent Lockheed when it asked for a loan. The commercial banker within UCB was blinded by the trust business that Lockheed had given to UCB.

(4) It is no secret that there is not a single bank in California—no large, commercial bank in California—that can or will make a large commercial loan to any corporation or business of any kind unless that corporation or business will transfer their profit-sharing pensions, trust matters, and corporate trusts to the lending bank's trust department.

Therefore, you can see the evil influence that a trust officer at UCB, or any other bank, wields in having such power to assist, or not to assist, a business in obtaining bank loans from the commercial side of the bank.

(5) Mr. Bucher's trust department was likewise negligent in allowing his UCB bank to participate in loans to Penn Central Railroad. Certainly, the commercial bankers in UCB also knew that in granting further loans to this insolvent railroad that they were enhancing, or at least protecting, the many millions of dollars of Penn Central Railroad stock and bonds which Mr. Bucher's trust department held in its various private trusts and pension portfolios, administered by UCB.

(6) This obvious "conflict of interest" type of experience that a trust officer has is, in my opinion, not the experience needed or wanted on the Board of Governors of the Federal Reserve System.

Every Senator who has the power to vote against this appointment should, I believe, demand that our Government, our powerful Federal Reserve System, should have a better qualified man.

I doubt very much that Mr. Bucher has even the slightest knowledge of the Board of Governors' regulations, let alone a knowledge of bank reserve requirements; foreign currency operations; financial flow and credit markets; Federal Reserve bank examination operations; guidelines for banks and nonbank financial institutions; lending authority of reserve banks; revenue bond underwriting by member banks; or policy actions of the Board of Governors on gold reserve requirements; international liquidity; bank holding companies; open market transactions; maximum permissible interest rates; time deposits; foreign deposits; or balance of payment and economic problems involved in our Government's monetary and fiscal problems.

All of these are problems which pass over the desks of members of the Board of Governors of the Federal Reserve System for discussion and solution.

Where would Mr. Bucher's previous knowledge of bank trust business be of value here?

I firmly believe that any one of the Chairmen of the 12 Federal Reserve banks, or Deputy Chairmen of the Board of Directors of any of these 12 Federal Reserve banks would be a far better, more knowledgeable, and more experienced appointee by the President than Mr. Bucher.

Mr. Bucher's very limited qualifications and total lack of experience or knowledge of Federal Reserve matters, or of economics would work a severe hardship on the Board of Governors who are, more than anyone else, solely responsible for the monetary and economic policies of this Nation.

(7) I further object to trust officer Bucher's appointment because he also served as secretary and treasurer of UCB where he supervised some of the investment activities of UCB.

If Mr. Bucher held these positions with UCB, I respectfully suggest that he be questioned as to how he escaped his duty as an officer of the bank when UCB lost $48 million from a 58-percent-owned subsidiary which UCB operated in Basel, Switzerland, known as the United California Bank in Basel AG. This $48 million loss to UCB seriously reflects on the management and investment policies of UCB.

The most gross kind of negligence by UCB has been uncovered. This may turn out to be one of the worst bank scandals since the bank holidays of the early 1930's. I understand, however, that Mr. Bucher has denied any involvement.

(8) Mr. Bucher wishes to sit with the Board of Governors, but I would like to ask why the Board of Governors of the Federal Reserve System ever gave their official sanction to Mr. Frank L. King, chairman of the board of UCB, to allow UCB to pay off this $40 million loss?

Did Mr. Bucher's bank inform the Federal Reserve that Mr. King was also chairman of the board of this Swiss subsidiary and a member of its executive committee at the time of the $40 million loss?

Was the Federal Reserve informed that under Swiss law, the bank's bankruptcy would make Mr. King personally liable and responsible for some of the $40 million loss? (The additional $8 million loss was UCB's investment.)

The question now is whether or not Mr. Bucher should be appointed to the Federal Reserve System at a time when this entire $48 million loss is in litigation in the Federal courts in California and an official investigation of the actions of all of UCB's officers in connection with these losses has been requested of the House Banking Committee and the Senate Banking Committee.

Senator PROXMIRE. Could I interrupt. You skipped including Mr. Bucher.

Mr. BURKETT. I have asked the House Banking and the Senate Banking Committees to investigate all officers' involvement in it. It is hard to escape which one should know or would not know. It should include Mr. Bucher.

Wouldn't it be better to have the President appoint someone not in any way connected, even remotely connected, to this scandalous UCB affair, a bank with which Mr. Bucher has been associated for the past several years?

(9) If Mr. Bucher, as an officer of UCB, claims to have no knowledge of this $48 million loss by UCB in Switzerland, and the other millions

of dollars of possible loss involved in the Lockheed and Penn Central matters, how did he escape knowing about it when it was known even by bankers outside of UCB?

And can we then regard Mr. Bucher as qualified to sit as a member of the most powerful banking board in the world? The Board of Governors of the Federal Reserve System has life and death control over every bank in the United States, which total approximately 14,000 commercial banks, and 22,000 branches with commercial deposits totaling over $500 billion.

(10) I do not believe Mr. Bucher will deny that he has been the protege and trainee of California banker, Frank King.

Mr. King wears three hats with UCB in California. He is chairman of the board of the above insolvent Swiss bank subsidiary of UCB that lost $48 million last year.

Mr. King is also chairman of the board of UCB in Los Angeles where Mr. Bucher works; and Mr. King is also chairman of the board of Western Bancorporation, the world's largest bank holding corporation which, in turn, owns approximately 98.6 percent of UCB.

If Mr. Bucher is as knowledgeable of banking as he claims to be, then why, during his career as an attorney, an auditor, and as an officer of UCB, didn't he object to such elementary bank financial statements distributed publicly by the UCB of Basel, which disclosed under the "due from banks" item some $7.5 million which actually were not in any way "due from banks," but were "due from brokerage houses,"—something entirely different—and dangerously different.

The "due from banks" item on a bank's financial statement is such elementary commercial bank terminology that even most ordinary depositors understand the term, especially a former attorney, auditor and officer of a bank.

As an officer, Mr. Bucher knew, or could have known by making the most elementary inquiry, that this Swiss bank subsidiary of UCB was operating as a gambler's bank for commodity trading. Most of the executives of UCB in Los Angeles had known this from the very beginning of the bank's existence, yet Mr. Bucher and his fellow UCB officers allowed this illegal banking practice to continue until it eventually caused the insolvency of the bank and the $48 million loss to UCB, which is the largest bank loss in the history of Swiss banking.

Such gross negligence on the part of officers of UCB is shocking. What assurance is there that Mr. Bucher's performance on behalf of this Nation would be any more responsible than his demonstrated record at UCB?

(11) Mr. Bucher claims to have knowledge and responsibilities in handling his bank's investments as well as UCB leasing business. If this is true, then why did Mr. Bucher allow UCB's 58-percent-owned Swiss subsidiary in Basel to purchase the worst kind of "lettered investment securities," meaning securities that are restricted and cannot be sold in the open market, which lost UCB $1.25 million?

It is either lack of initiative on Mr. Bucher's part in not finding out what was going on at UCB, or a studied effort to be blinded during one of the worst banking scandals to face the Nation in decades.

(12) Mr. Bucher was the personal appointee of Mr. Frank King to the positions he has held with UCB. I am sure that Mr. Bucher knows, as most California bankers know, that Mr. King has been a very large

financial supporter to Richard Nixon throughout Mr. Nixon's entire political career. I fear that Mr. Bucher's appointment will be interpreted as a political payoff and not as an appointment based on qualifications that are needed on this important Board.

(13) In connection with Mr. Bucher's appointment, I have reason to believe that Mr. King, chairman of the board of UCB, and mentor of Mr. Bucher, solicited the aid of Mr. C. Arnholt Smith, the most powerful Republican banker in California. Mr. Arnholt Smith of San Diego admits to having raised hundreds of thousands of dollars for Mr. Nixon's political campaigns. There are some reports that he has even raised as much as a million dollars during his career.

The question is raised as to whether or not it was Mr. Smith's hand that engineered the Bucher appointment from the President, with Mr. King being the first to enlist Mr. Arnholt Smith's powerful support.

(14) Finally, another point against the Bucher appointment is that Mr. Arnholt Smith recently purchased 94.5 percent of the Fidelity Bank of Beverly Hills, Calif., and this bank's purchase and merger will require the approval of the Board of Governors of the Federal Reserve System. Lawsuits are now being prepared to prevent this merge. Mr. Arnholt Smith is constantly seeking the appoval of the Board of Governors for banks that he purchases to merge into his U.S. National Bank of San Diego, owned, in turn, by his conglomerate, the Westgate-California Corp.

The U.S. National has 62 branches and assets of $746 million, and Mr. Smith is the chairman of the board of the U.S. National Bank.

In conclusion, I wish to say that I firmly believe that selfish banking interests are trying to foist upon the American public a man totally unqualified to sit as a member of the Board of Governors of the Federal Reserve System for the next 14 years, and worse than that, a man who could possibly be subjected to undue influence by his powerful former employer, the UCB bank, owned by the world's largest bank holding company, and possibly by the powerful California bankers, C. Arnholt Smith and Frank L. King. Will this gentleman be the product of the policies of his former associates? Does he reflect their type of thinking?

What will happen in the future if he is faced with "conflict of interest?"

I respectfully hope that you will vote to reject Mr. Bucher's nomination and that you will in this way ask the President of the United States to submit a better qualified candidate for this high position.

President Nixon's high sounding, idealistic public promise to bring into Government "the very highest qualified and experienced men" to serve their country should be put to the test by your committee. There are many such men who would be better qualified for this appointment in every way than Mr. Bucher.

Certainly, during these critical inflationary times, with deterioration in U.S. foreign trade, continued large deficits in the Federal budget, questionable economic activities, restlessness and lack of confidence of business, labor and the people generally, certainly this is no time for the President to appoint to the Federal Reserve System someone less than the best qualified banker in the Nation.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Burkett.

I shall ask you just a few questions. I was looking to see what was given in your little biographical sketch at the beginning of your statement, with reference to your own banking experience.

Mr. BURKETT. I was president and chairman of the board——

The CHAIRMAN. I see that. President and chairman of the board of the Security National Bank in Monterey County.

Mr. BURKETT. Yes.

The CHAIRMAN. Was that after you were superintendent or before?

Mr. BURKETTT. Yes. A few years afterwards.

The CHAIRMAN. Did you have any banking connections before you were superintendent?

Mr. BURKETT. Yes, I did.

The CHAIRMAN. What was that?

Mr. BURKETT. I was with the trust department of Bank of America which in my opinion qualifies me, I believe, to the opinion that trust department and commercial banking does not mix.

The CHAIRMAN. Was that all of the banking experience you had before being appointed?

Mr. BURKETT. Right. I had been with the U.S. Treasury intelligence unit during the Estes Kefauver tax scandals in the fifties, serving from 1945 to 1950 with the U.S. Treasury Department.

The CHAIRMAN. Were you in any way ever connected with this UCB?

Mr. BURKETT. They purchased my bank.

The CHAIRMAN. Was that the Security Bank?

Mr. BURKETT. Yes.

The CHAIRMAN. When?

Mr. BURKETT. In 1961—it's a small country bank in Monterey County with six branch offices. I received considerable UCB stock from the merger. I am most interested in UCB's welfare. This is not in the sense of a criticism of UCB, other than constructive criticism.

I received over—over several thousand shares of Western Bancorporation and UCB stock. I receive over $100,000 a year in net income from bank buildings that UCB rents from me. I have only the greatest interest in UCB's welfare.

I am critical of this—of the loss of $48 million.

The CHAIRMAN. What is the name of the holding company?

Mr. BURKETT. Western Bancorporation; they are the world's largest bank holding company. They own 98.6 percent of United California Bank and Mr. King is chairman of the board of that, and chairman of the board of UCB, and chairman of the board of the Swiss bank.

The CHAIRMAN. Mr. King was?

Mr. BURKETT. Yes, sir; and chief executive officer up until recently.

The CHAIRMAN. You said this bank was in—is it UCB or the Western—the holding company that is in litigation?

Mr. BURKETT. Both the United California Bank and the Western Bancorporation.

The CHAIRMAN. Is in litigation?

Mr. BURKETT. Yes, sir; there are three suits.

The CHAIRMAN. What are those suits?

Mr. BURKETT. Two derivative suits and one stockholders' class action suit.

Senator BENNETT. Are you the sponsor of one of the suits?

Mr. BURKETT. I am not. At one time an attorney without my authority signed my name to a complaint. I was out of the country at the time and I had been working with the attorneys, but I have a semi-cancerous condition which does not permit me to participate—this is the first public appearance I have made in about 5 years.

I thought it was worthwhile to come from California to testify because I believe in the vital importance of this, plus bringing to the Senate Banking Committee's attention this UCB banking scandal.

I withdrew—to answer your question—it was filed without my authority. I did not, in turn, file a malpractice case against the attorney. I had another attorney ask that my name be removed and it was. It did appear in the Wall Street Journal that I was a plaintiff in the suit. There is no doubt about it that I had felt strongly about the $48 million loss, and I support the suits. I also support the management in doing something about it as promptly as they can.

But I strongly objected to Mr. King and other officers' and directors' decision to take $48 million out of the assets of this bank to pay off Swiss depositors and creditors of this subsidiary—not a branch—when they only owned 58 percent. They didn't have to pay 100 percent, for UCB only owned 58 percent.

Senator BENNETT. Isn't this another case of guilt by association?

Mr. BURKETT. Absolutely not, Senator.

Senator BENNETT. You are attempting to float onto Mr. Bucher whatever guilt may belong to Mr. King and his associates who manage the bank. You are attempting to tell us that because Mr. King may have mismanaged or even been guilty of wrongdoing, we should therefore reject Mr. Bucher.

Mr. BURKETT. The last time I testified before a Senate committee it was Senator Kefauver's Committee on Organized Crime, and it was the same thing. No one had investigated a certain scandalous situation in the Bureau of Internal Revenue. Senator Kefauver agreed that these were scandalous facts that should be looked into. I am saying that it wasn't guilt by association. It was simply saying that these scandalous facts should be investigated, held up, looked into, investigate before you hastily go ahead.

In that case, six men were indicted by Senator Kefauver's committee. It took him a year or two to get all the necessary evidence to convict. The Senate committee went——

Senator BENNETT. Are you saying that Mr. Bucher is in such a situation that he probably should be indicted?

Mr. BURKETT. That's ridiculous, sir. I didn't mean it in any such way. I think you are now accusing me of guilt by these circumstances by your saying the same sort of thing.

Senator BENNETT. You made the parallel that——

Mr. BURKETT. I say as a Senate committee you have certain authority and responsibilities as elected Senators. My uncle used to be U.S. Senator. You have certain duties.

I believe that you are to pass on the qualifications of this man. I think you should be more thorough in your examination of his qualifications—I was director of the employment of the State of California. We didn't pass on men without checking into them. A cursory question or two or a superficial office meeting with them was not considered an adequate check on a man's qualifications.

I was also on the Governor's cabinet, his inner cabinet. I was the first man appointed to his cabinet, and the last man to leave Governor

Knight. We checked out nominees for high State positions very carefully.

This appointment to the Board of Governors of the Federal Reserve System is one of the most important jobs in the United States, almost in the world.

Senator BENNETT. I will come back.

The CHAIRMAN. Let me get back to my questioning.

Now, you heard Mr. Bucher say in connection with the questioning on this Swiss affair that he had no connection with the management of that bank at all; did you not?

Mr. BURKETT. Yes. He said he had no connection with the bank at all.

The CHAIRMAN. When did this happen?

Mr. BURKETT. Well, UCB bought this bank in 1969, first, this bank was not truly a Swiss bank. It was an American promoter that went to Basel, Switzerland, from San Diego, a man named Salik. I believe the SEC had some question about him. It was started in 1964 and UCB purchased this bank in 1969 with a 58 percent of the interest, and made it a subsidiary, not a branch.

The CHAIRMAN. 1969?

Mr. BURKETT. Yes.

The CHAIRMAN. Was it at the time of the Kefauver committee hearings?

Mr. BURKETT. No.

The CHAIRMAN. Was the Kefauver matter connected with UCB?

Mr. BURKETT. No.

The CHAIRMAN. I want to be sure the record is clear on that.

Mr. BURKETT. You wish to have me repeat it, sir?

The CHAIRMAN. No. You stated an answer to my question.

Mr. BURKETT. Then UCB was advised by the Swiss bank authorities in 1969 that men like Erdman and Kaltenbach, both former officers of the Salik Bank, were known for involvement in speculative deals and for making gambling loans in commodities, and UCB was asked to consider removing certain officers named by the Swiss authorities.

But these former Salik Bank officers were never removed. Mr. King was a former bank examiner. He knows that when banking authorities tell you that something is probably wrong, that these are not qualified people, they certainly should have complied with the Swiss banking authority's wishes.

The CHAIRMAN. Well, I want to get a distinction between Mr. King, who headed up the whole thing, and Mr. Bucher.

Mr. Bucher says he was a trust officer.

Mr. BURKETT. Yes.

The CHAIRMAN. And was not in any way connected with the management so far as the Swiss bank was concerned.

Do you have any reason to doubt that statement?

Mr. BURKETT. Depositions are now being taken of the officers and various people. It's one of the great bank mysteries. Swiss authorities as well as others believe it is. It was never made a "branch." It was a "subsidiary."

Here they found unauthorized commodity trading to cover up officers' fraud. Some six have been indicted. There has been——

The CHAIRMAN. Wait a minute. Six have been indicted on this?

Mr. BURKETT. Six officers in Switzerland. But on this side the UCB in California has never been investigated by the House Banking Committee or the Senate Banking Committee to determine its involvement.

There have been none—although an official investigation has been requested of your committee.

The CHAIRMAN. I notice in your statement you say investigation has been requested by the House Banking Committee and the Senate Banking Committee. I don't recall anything like that.

Mr. BURKETT. Congressman Patman——

The CHAIRMAN. No, I am talking about the Senate Banking Committee.

Mr. BURKETT. That was over a year ago. October of 1970, when the request was made.

The CHAIRMAN. Who?

Mr. BURKETT. I did it.

The CHAIRMAN. You said——

Mr. BURKETT. I talked with the staff here just recently. If I came back, I asked Mr.——

The CHAIRMAN. I was mistaken. I thought it was requested by the committee. I understand now, you meant requested of rather than by.

Mr. BURKETT. Yes.

I respectfully request it again, sir.

The CHAIRMAN. I misread that.

I think that's all from me.

Senator Proxmire?

Senator PROXMIRE. First, Mr. Burkett, I want to say that I think what you have done today is extraordinary. You are in serious condition and I understand you have had an operation for cancer of the colon.

Mr. BURKETT. My entire stomach has been removed on three occasions. I have a very limited time when effort can be expended between sleeping and taking medicine.

Senator PROXMIRE. When you say disabled, you mean disabled.

Mr. BURKETT. I am totally disabled.

Senator PROXMIRE. This is the first time you have appeared in public in 5 years so you think this is a serious matter?

Mr. BURKETT. This is right.

Senator PROXMIRE. As you say, this is the most important economic appointment a President can make, and certainly the most significant economic appointment this committee can pass upon. It has a profound effect and I want to thank you so much for your coming before us.

I am very impressed by your background. I don't know how you could have higher qualifications. You have been a bank president—you have been in the trust department, so as you say, you understand the limitations of the Bucher appointment. Would you say that it is fair and not an exaggeration to contend that Mr. Bucher will simply have to develop, on the basis of on-the-job training. that he would be getting on-the-job training as a Governor of the Federal Reserve Board that he brings no qualifications to it whatsover?

Mr. BURKETT. I agree 100 percent with what you said.

Senator PROXMIRE. In your statement you go through the functions of the board and point out in no respect does he have significant qualifications. You were present, when I questioned Mr. Bucher on Mr. Arnholt Smith, and he replied to the best of his knowledge, he had no connection with him at all.

You say in point 14, you connect Mr. Arnholt Smith with Mr. King, and say Mr. Bucher was a protege of Mr. King. Is that the only connection, as far as you know, between Mr. Bucher and Mr. Smith?

Mr. BURKETT. Yes, as far as I know.

Senator PROXMIRE. You have no reason to question the assertion of the nominee that he did not know——

Mr. BURKETT. He may not know, but many of the appointments—I say it because I sat with the Governor in his cabinet when we made appointments, we sorted them out before we gave them to the Governor. As I stated, the pressure is quite great. There are certain funnels which the applications come through, and a lot of the nominees, including my own—I knew where it came from afterward, probably. But Mr. Arnholt Smith would know everything about top nominations involving banking and finance in California. These would clear through him, through to President Nixon.

I used to have something to do with the campaign funds in the State for the Governor, and I have knowledge that Mr. Arnholt Smith—I know he doesn't deny it, that he has given many thousands to the Republican Party and even to the national committee. There are several thousands on record, if you care to call the headquarters here in Washington, D.C. It has been estimated as high as $1 million that he has raised, and he himself has admitted to have raised a quarter of a million personally.

Senator PROXMIRE. Mr. Arnholt Smith is a direct friend and contributor and benefactor of the President of the United States. And Mr. King has been his close associate; is that correct?

Mr. BURKETT. Yes. They are very close. That group of bankers works in tandem.

Senator PROXMIRE. Are you saying that this is in the way of a political payoff, that Mr. Bucher is appointed as a payoff to Mr. King and that Arnholt Smith is the man responsible for engineering it, is that the gist of what you are telling us?

Mr. BURKETT. To the best of my knowledge and belief. I believe this to be nothing else than exactly what you stated, a political payoff.

Senator PROXMIRE. And you say that because you can see no real qualifications for the Federal Reserve Board for this gentleman?

Mr. BURKETT. Yes, sir.

Senator PROXMIRE. He is very closely associated with Mr. King. Mr. King could stand to benefit greatly by policies of the Federal Reserve Board, is that right?

Mr. BURKETT. Yes, sir.

Senator PROXMIRE. Now I take it you don't share my view, and very few people seem to, that only professional economists should be appointed to the Federal Reserve Board. Although you disagree on that, you still feel that Mr. Bucher is not qualified?

Mr. BURKETT. I am sorry, Senator, I cannot agree with you on economists. They are very, very needed people, but I agree with Senator Bennett that a banker, an experienced banker with no axes to grind, should be appointed. There are many fine, honest, able men, not only active, but some retired, two or three former presidents of Bank of America, Crocker-Citizens, Security, all able and experienced men.

Senator PROXMIRE. You are saying if you want a banker, don't get a man from the trust department?

Mr. BURKETT. Right, sir.

Senator PROXMIRE. It's like getting a man to coach football who's had only experience in baseball.

Mr. BURKETT. Yes, sir.

Senator PROXMIRE. You had an opportunity to hear Mr. Bucher's answer to my questions on bank regulatory manners. In your opinion, were his answers responsive, and do they demonstrate a solid knowledge of banking?

Mr. BURKETT. I would say again if he were interviewed for the presidency of a bank in California and couldn't answer some of those basic questions, he would not in any way be qualified to be a president of a bank in California. He is certainly not qualified to be a member of the Board of Governors, Senator. I say that he is not in any way qualified because his answers were totally evasive, and certainly some of the questions were quite elementary. The questions could have been properly answered, I would say, by the majority of bankers; even the small country bankers could answer.

Senator PROXMIRE. Didn't the—I am trying to get beyond to see if there is any other example, in addition to the cocoa speculation, the Salik company where he lost $48 million, didn't the Basel Bank, this branch of UCB, speculate on the British pound devaluation in 1967? Wasn't this known to the management of the UCB when it purchased the Basel Bank?

Mr. BURKETT. Yes. This is disclosed in the audit reports—not only did the bank send auditors there, but the Swiss authorities sent auditors. It brought this out to management that substantial trading in commodities began in September 1969, and continued up to discovery of the losses in August 1970. It was several months before it was released to the public. Then the losses were disclosed to the public on Labor Day of 1970, and the points that you mentioned were involved. The chairman of the board, Frank L. King, was on the executive committee of the "United California Bank in Basel AG.," and many of the officers in the group knew about it. In fact, they had been advised by the Swiss authorities of this. They were scuttling around for several months. A loss was expected. One of the officers, it is reported—who was on the board of directors of an insurance company—rushed down and asked the insurance company for additional fidelity insurance coverage.

A bonding company will not place a bond on a loss that is known several months beforehand. There was a $15 million policy with Lloyds and another $5 million with another carrier. So there was indemnity totaling $20 million. The losses will be over $48 million. The trust department officer attends staff meetings and top echelon meetings, and he was a senior vice president—it is hard to say whether he was there or not there, but the general workings of a large bank require that there be communication between departments.

In fact, UCB communications extend through all of the branches. I can show you communications on the Basel Bank that went out to the branches.

Senator PROXMIRE. So as a former bank president who was a superintendent of banks in California, you consider it highly unusual that a man in Mr. Bucher's position had no knowledge, no understanding, about this speculation into the cocoa market and the kinds of commitment and investment they were making?

Mr. BURKETT. Well, unless he has the clerk type of banking mind, which I do not know him to be——

Senator PROXMIRE. In which case, that would be a point against him?

Mr. BURKETT. He wouldn't know what is going on. The Basel Bank was known throughout southern California as a situation that was tricky. Mr. Salik was a San Diego man and organized the Salik Bank in Basel, and sold it for $8 million to United California Bank. The Swiss banking authorities told UCB officers that these former owners were bad. It's common knowledge in banking circles that commodity trading is bad banking, and yet UCB allowed this commodity trading to continue. All of a sudden, when the $40 million in losses was discovered, UCB officials rushed down to the Federal Reserve System and asked permission to pay it all off—100 percent. So they paid off 100 percent. But was there an investigation conducted by the Federal Reserve System? The Board of Governors of the Federal Reserve System approved the manner of payment, and now $40 million has been paid off to people who made investments there. As a depositor said to an attorney sent over there to Basel on two occasions to investigate: "The only time in my life when I bought bad stock or made valueless investments, they, UCB, gave me my money back." This is one of the greatest bank losses in the United States—the worst in many, many years—not since the depression days—yet no official governmental agency or legislative committee has bothered to investigate what happened or has attempted to prevent future occurrences of this magnitude. I believe this is a matter that the Senate Banking Committee should investigate.

Senator PROXMIRE. Now, Mr. Bucher may or may not have been involved in any way in the speculations with which you are interested, the big loss in which you are a party to the investigation of the suit?

Do you have any firmer information or firmer association of this man with either the Lockheed situation which you allude to, or the Penn Central situation? As a trust department official, what would be his responsibility there?

Mr. BURKETT. I have always found in banking there were two kinds of executives. One, who took initiative and who was not wedded to his paycheck or his civil service status in Government, and who would speak out and say to management. "Look, this is a bad, unsecured loan. They didn't put up any collateral like you and the rest of us do."

Lockheed came in, insolvent, with financial statements, and they gave them an $18 million loan, unsecured. UCB had the pension funds in Mr. Bucher's trust department. When trust officers review the investments in stocks and bonds, they start to worry about things that are bad. They don't want their portfolio full of insolvent securities or insolvent businesses.

Senator PROXMIRE. So here the connection with Mr. Bucher would be that he would be responsible in one way or another, with the 5,000 shares of stock of Lockheed in the trust department and you are saying that it would be unusual if there were not some kind of influence with respect to a loan unsecured to Lockheed for $18 million in view of

Lockheed's tenuous record and difficult position, that a banker normally require there to be some security on that.

Mr. BURKETT. That is right.

A strong, able trust officer would go on record opposing such a loan and a weak one would close his eyes, and permit this sort of thing to go on.

I don't know the circumstances, but we do know the results that Lockheed received the $18 million loan, an unsecured loan, at a time they were insolvent.

Senator PROXMIRE. And apropros of a strong trust officer, what kind of a man do you think we should have in the Fed?

Mr. BURKETT. Certainly a strong man, a man who could not be influenced in any way, who would speak out.

If Mr. Bucher had a record of speaking out against these things to Mr. King, or if he had said that he had told Mr. King that he was worried about the condition of the aircraft industry in southern California. Lockheed's insolvency wasn't developed overnight—the trust department and officers make a review throughout the financial structure of the company, and Lockheed had a director on United California Bank's board at the time they obtained the loan. The chairman of the board of Lockheed was a member of the board of directors of United California Bank. When you get into that kind of money, $18 million, you go out and make a real, first-class audit of the condition of an organization.

You just don't—old school tie the situation—maybe that was the case here. I don't know. The result is, Lockheed received an $18 million loan unsecured at the very same time that Lockheed was insolvent.

And Mr. King admitted at the 1971 stockholders' meetings that the affiliated banks had about $18 million unsecured loans with Lockheed—with no collateral.

Senator PROXMIRE. Do you know as a matter of fact that Mr. King was responsible—you talk about Mr. Bucher being his protege, was this a personal relationship that Mr. King promoted, and was he responsible for the career, to a great extent, of Mr. Bucher, or do you simply——

Mr. BURKETT. Not by association, sir.

On an appointment of that category in a large bank, it has to be approved by the president. Mr. King was the president and the executive officer of the bank at that time, as well as chairman of the board.

Senator PROXMIRE. Mr. King was?

Mr. BURKETT. Yes, and he has always been a man who personally handled these things until just recently.

Senator PROXMIRE. You are saying that he would have had to have direct explicit knowledge of the appointment of Mr. Bucher and he would have been responsible—it would have had to have been cleared by him?

Mr. BURKETT. That is right.

Senator PROXMIRE. One other question.

I mentioned in my questioning of the nominee that one senior vice president of this bank was quoted as saying, "you win some, you lose some," and told about the $48 million loss.

Does that indicate that United California Bank knew about the activities of the Swiss subsidiary, that it took a risk and lost?

Mr. BURKETT. It indicated that to me, sir.

It is this type of bank management that is being criticized by members of the public, and by certain legislators.

Senator PROXMIRE. Kind of a racetrack psychology. You go out and take a little money, win it or lose it. But here you are dealing with the depositors' money.

Mr. BURKETT. I don't think anything like that has been said in banking circles publicly since the days of the Insull scandal. It is impossible to believe a banker would say that unless it is—their thinking—apparently this is what is going on with this type of management thinking.

That is what I say here, that if Mr. Bucher had spoken out as secretary-treasurer of the United California Bank or questioned these matters as a trust officer, he certainly has the potential, at least, or the responsibility of being paid as an officer of the bank to ask questions, not be a rubberstamp.

Senator PROXMIRE. Thank you very much.

The CHAIRMAN. We have ranged pretty wide in this hearing. This is not a court proceeding, but I think everyone recognizes the fact that very little of what has been said here regarding United California Bank, the Swiss bank, Mr. King and Mr. Smith—Smith is his name——

Mr. BURKETT. Yes, sir.

The CHAIRMAN (continuing). Would be allowed in testimony at a court proceeding; a lot of it is hearsay, a lot of it is surmise. It seems to me you should have realized this—there just does not appear to be any tie-in responsibility at all to Mr. Bucher.

I don't say that critically, but I just think it is well for us to keep these facts in mind.

Mr. BURKETT. I asked, Senator, if I came back here—the idea was the hope that a congressional investigating committee would investigate this United California Bank—if many millions can be lost of depositors' money by one bank, we have other international banks that we could lose many more millions the same way.

As I said at the time I appeared before Senator Kefauver's Senate committee—it was the same type of questioning. He said is this true? I said, we have reason to believe it is true. Senator Kefauver said, fine, we will investigate it. That resulted in the 1950 tax scandals in which six or seven officials were indicted in San Francisco and Washington, D.C.

That is the only relationship that I intended.

The CHAIRMAN. I agree with you on that.

I am glad you brought this before us.

I think in weighing these matters on the question of a confirmation of Mr. Bucher, we must be very careful to try to find out what the facts are.

I just wanted to make that comment.

Senator Bennett, do you have anything further?

Senator BENNETT. I have a lot of things here, Mr. Burkett, because, as a Republican, as a member of this committee, I deeply resent some of the things you have said here today.

The CHAIRMAN. That does not include raising that money, does it?

Senator BENNETT. I did not get any of it.

Senator PROXMIRE. That is why you resent it.

Senator BENNETT. You talked about an $18 million loan to an insolvent corporation. The chairman of the board of the Bank of America testified that when that loan was made, which was one of about 20 loans that were made by big banks all over the country, Lockheed had a net worth of $370 million, and had shown a net profit of $50 million a year before taxes for 6 years.

Now, those are not the stigmata of an insolvent company. Afterwards, they were discovered to be insolvent. It is easy to go back and second guess these things. But the inference that these all—all the loan officers of these 30 banks that loaned Lockheed money, of which United California was only one, were all involved knowingly in loaning the stockholder's and the depositor's money to an insolvent company just is not true.

Mr. BURKETT. Senator, it is a felony to make out a financial statement that is fraudulent. Now—perhaps your Senate committee would like to inspect this Lockheed financial statement and check it out as our bank examiners do when small businessmen might make out a financial statement, stating that he has $50,000, when he has only $2,000. Ask Lockheed to prove their financial statement line by line under oath.

Senator BENNETT. That thing was fought through on the floor of the Senate and in committees. Was it last year?

Senator PROXMIRE. Yes.

Senator BENNETT. There is no use opening it up again now. But you come here and make a categorical statement which puts you in direct contradiction with the chairman of the board of the Bank of America.

Mr. BURKETT. I do not contend to contradict you, sir. I just asked one question. Did you investigate the financial statement, line by line, of Lockheed?

Senator BENNETT. It was given to us on a confidential basis and we did look at it. The inference that we acted as we did is that we compounded the felony, by agreeing, as I do, with Mr. Medberry, that it was not insolvent.

Now, when you were a trust officer of the Bank of America, were you aware of what went on in the Bank of America's foreign subsidiaries?

Mr. BURKETT. I was in the trust department as a trainee for a year and I sat with the vice president who went to the penitentiary. I learned one thing, that was to be very careful and do some night school work and learn more. I did. I went to night school and learned more about trust work——and commercial banking. Then I——

Senator BENNETT. But you are coming here and saying, because you were part of the trust department, you are in a position to pass judgment on Mr. Bucher?

Mr. BURKETT. Yes. I was likewise the head of the investigations of every trust department of every State bank in the State of California, as superintendent of banks. There, we went over a lot of these problems. That is when I decided by talking with bankers, meeting with bankers, and being president of all the bank commissioners in the United States, I discussed this with bank examiners, and we always realized the trouble the trust departments could be to the commercial side of a bank—that is the "conflict of interest" problem.

Senator BENNETT. Let us go down to Mr. Bucher, himself. When you left your position as head of the Banking Commission of California, Mr. Bucher was 21 years of age. So you had no experience with him while you were Commissioner?

Mr. BURKETT. No. I have never—I have none whatsoever.

Senator BENNETT. Have you ever seen him before today?

Mr. BURKETT. No, I have not.

Senator BENNETT. So, you are coming here to condemn a man, pass judgment on him, and be very specific in some of the things you accuse him of, and you have never met him?

Mr. BURKETT. As far as meeting people, I am sure you have met a lot of people, Senator. You must look at their record. There are a lot of things you can judge without considering personality. This Presidential appointment has nothing to do with personality.

From what I saw, I think Mr. Bucher is a fine, able-looking person. However, you do not judge a man's knowledge, ability, or experience by how many hairs he has on his head, or by merely meeting him with a handshake and an exchange of a few pleasant remarks. [Laughter.]

Senator BENNETT. What of Mr. Bucher's record, do you know? Do you know anything of Mr. Bucher except the fact that he works for Mr. King and you do not like Mr. King?

Mr. BURKETT. That is not true. I like Mr. King. That is absolutely a false statement, sir. I have no malice towards Mr. King in anyway. I am sorry that you made that interpretation.

Senator BENNETT. You have made some rather serious charges against Mr. King for the way he allowed the Swiss Bank scandal to develop.

Mr. BURKETT. That is your personality issue. I am talking about his administrative ability and banking judgment. You are talking about personalities here.

Senator BENNETT. I am talking about his position as chairman of that bank. You attack Mr. Bucher because you think he is Mr. King's protege. Do you know whether Mr. King got him the job in the bank in the first place? Did Mr. King have anything to do with the successive promotions he got before he became the senior vice president in charge of the trust department?

Mr. BURKETT. Mr. King had something to do with his promotions within the bank. No one can become secretary-treasurer of the 14th largest bank—in the United States without the president of the bank—knowing something about the man, and then to move him up to the senior trust position?

Senator BENNETT. Is that not true of every officer in that bank?

Mr. BURKETT. No.

Senator BENNETT. Isn't it true of every major officer of the bank, and can you then say that all of them are proteges of Mr. King, and that what Mr. King does that may be wrong rubs off on them and makes it impossible for them to qualify for a job like this?

That's the inference you have left with us.

Mr. BURKETT. Was that a question, sir?

Senator BENNETT. If not, I will phrase it as a question: Do you believe that Mr. Bucher is the kind of a protege of Mr. King who, because of his associations with Mr. King would be rendered undesirable to be appointed in this particular job?

Mr. BURKETT. Yes.

Senator BENNETT. So, is it not guilt by association?

Mr. BURKETT. Not in the way I look at it, sir.

Senator BENNETT. You admit you don't know the man. You admit you don't know anything about his specific record and all you know is the record of Mr. King.

So if Mr. Bucher is unfit for the job, it's because he worked for Mr. King and the inference is that in order to work for Mr. King, he had to be a party to or involved in certain things that you think were improper.

Mr. BURKETT. I say that in the top management of a bank where he was, he would have to have some knowledge of what's going on. There is nothing in the record that he spoke out against any UCB policies or procedures or that he did not approve of these things. He never said that certain bank policies are bad. He said he had to study it. He had no knowledge about this or anything else.

Senator BENNETT. And you want us to assume that the chief trust officer of a bank has a responsibility for the operation of the subsidiary in Switzerland and you just assume because he has that position he automatically has the information and you don't know whether he spoke out or not. You don't know anything about it.

Mr. BURKETT. I think that question was asked indirectly. He said he had no knowledge.

Senator BENNETT. Just one final comment. In your testimony you indicated that there are many fine retired bankers who would be better candidates for this position. Have you heard of a youth movement in the United States? Don't you think the President was interested in getting a young man into this position as he has been interested in getting young men in other positions and can you suggest a retired banker who could hope to serve out his 14 years as a member of the Federal Reserve Board without bumping his head against the—the age 70 limit?

Mr. BURKETT. Yes. I believe there are. But there is no assurance that Mr. Bucher will not drop dead next week.

Senator BENNETT. I am not talking about serving out in terms of living to serve it out. You take a retired banker and put him in a job that has two qualifications: It's a 14-year job and you have to quit when you're 70——

Mr. BURKETT. Yes, sir.

Senator BENNETT. Do you know of any retired bankers that could meet those two qualifications?

Mr. BURKETT. Yes. I believe there are some in California and on the west coast particularly.

Senator BENNETT. Men who have retired at less than 56?

Mr. BURKETT. Yes, because of differences on policy of certain banking operations. They have taken their hat and taken a walk.

There are some in Pebble Beach where I live.

Senator BENNETT. You think they would be more qualified for the job than Mr. Bucher?

Mr. BURKETT. Yes, sir.

Senator BENNETT. You think anybody would be more qualified for the job than Mr. Bucher.

Mr. BURKETT. I didn't say that, sir. I was referring to a banker's qualifications, knowledge of economics, monetary, and fiscal policies of this Nation.

Senator BENNETT. You admit you don't know anything about his personal record, his personal experience; all you know is what you read in the papers or what you judge by looking at the résumé? You have no personal background to judge Mr. Bucher?

Mr. BURKETT. You mean this piece of paper saying where he went to college? That's all I have seen, that's right.

Senator BENNETT. On that basis you condemn him?

Mr. BURKETT. No, I don't condemn him by this one piece of paper.

Senator BENNETT. You didn't condemn him on that basis. You condemned him on guilt by association because he works for Mr. King.

Mr. BURKETT. That's a matter of opinion, sir, if it's your opinion, fine; it's not mine.

Senator PROXMIRE. Mr. Burkett, I think you have performed a very tough and difficult and painful job. It's no fun to come before a committee and have to oppose a nomination. You are a sick man. You have come all the way across the country, your only public appearance in 5 years.

As I said before, I think you have served as a very good citizen and as one Senator, I am deeply grateful that you have appeared before us.

The most important judgment we can make, I think, is with respect to the Federal Reserve Board. The one way we have an opportunity, or a real influence on the Federal Reserve Board, is to scrutinize the appointees carefully and make sure they are well qualified. I think in this case we have no more information than the Senator accused you of having.

We just have these résumés in front of us. The only way we can develop additional information is to try to find out what has been done by the nominee in the past, what his responsibilities are, and what he knows about those areas where he has had some influence.

I must say on the basis of the record this morning, it's very clear the nominee does not have knowledge even in the areas where he has had training and experience.

Senator BENNETT. Mr. Chairman, I remind myself of the cartoon of the husband and wife, somebody said, doesn't your wife have the last word, and the husband said, she's never reached it.

So I have to have one last word.

Mr. Bucher asked to visit I think every member of the committee. He came to visit me. I had an opportunity to discuss much more than the background on this résumé with him.

Did he get to visit you?

Senator PROXMIRE. Let me say I made the decision that under no circumstances will I ever again have a nominee come into my office in advance of a public hearing to discuss privately with me whether he should be appointed. I made that decision because again and again I found that I am a nice affable fellow just like you Senator Bennett, and I always want to make him feel good.

I say that without having had a chance to hear the man as a witness, without having a chance to study his record. I have talked as a matter of fact with other Members of the Senate. Just yesterday on the telephone, about this nominee. They asked me why didn't you tell me before he came into my office? I think this is a great evil and as far as this Senator is concerned, I say in the future, no nominee is going to see me privately.

That's a policy I am going to adopt from now on.

The CHAIRMAN. I think that is all right. I think it would be fine.

Senator BENNETT. While you say you are not seeing him privately you are going to see him publicly. You have developed with Mr. Burkett a very obvious campaign against him.

Mr. BURKETT. I want to say on the record, Senator, I never read it in the newspapers, and I never knew Senator Proxmire, was opposed to him. I only learned from the paper last night that he was against Mr. Bucher's appointment.

When I was invited to express my views before this committee, I sat down and dictated them hurriedly, and I have not been able to finish them as completely as I would like.

But I didn't know that Senator Proxmire had these views. I commend him for them because the Federal Reserve System has become weakened. It sorely needs a strong, well qualified appointee.

Senator BENNETT. Will you tell the committee on the record that you have had no previous contact with Senator Proxmire or any member of his staff with respect to the testimony that you have given here today?

Mr. BURKETT. I talked to a staff member of this committee—the Banking Committee, Mr. McLean. I have asked him questions.

Senator BENNETT. Did you outline to him the nature of the testimony?

Mr. BURKETT. He asked me what I thought of Mr. Bucher. I had about 20 reasons why Mr. Bucher should not be appointed. In the interest of time I reduced them to 14.

The CHAIRMAN. I think we have discussed this sufficiently.

Mr. Burkett, I feel certain that you felt moved to come here and present your case. I want to say on behalf of the committee that we appreciate your coming.

Mr. BURKETT. Thank you, sir.

The CHAIRMAN. Thank you. The hearing is adjourned.

I will ask members of the committee to stay here a minute.

(Whereupon, the open session of the hearing was adjourned to executive session at 12:45 p.m.)

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