

# NOMINATION OF PHILIP C. JACKSON, JR.

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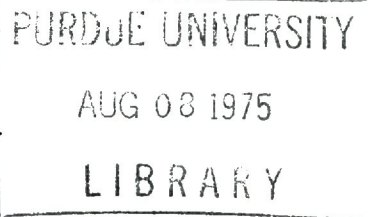
HEARINGS  
BEFORE THE  
COMMITTEE ON  
BANKING, HOUSING AND URBAN AFFAIRS  
UNITED STATES SENATE  
NINETY-FOURTH CONGRESS  
FIRST SESSION  
ON  
THE NOMINATION OF  
PHILIP C. JACKSON, JR., TO BE A MEMBER OF THE BOARD  
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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JUNE 9 AND 20, 1975

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(III)



## NOMINATION OF PHILIP C. JACKSON, JR.

MONDAY, JUNE 9, 1975

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

The committee met at 10 a.m. in room 5302 of the Dirksen Senate Office Building, Senator William Proxmire, chairman of the committee, presiding.

Present: Senators Proxmire and Garn.

The CHAIRMAN. The meeting will come to order.

This morning we meet to consider the nomination of Philip C. Jackson, Jr., to be a Governor of the Federal Reserve Board.

Senator Allen from Alabama will introduce Mr. Jackson.

### STATEMENT OF JAMES B. ALLEN, U.S. SENATOR FROM THE STATE OF ALABAMA

Senator ALLEN. Mr. Chairman and members of the committee. It is an honor and pleasure for me to present Philip C. Jackson, Jr., to the committee and to endorse his nomination and urge the committee to approve the nomination. I might say at the outset, Mr. Chairman, I'm authorized to say to the committee that Mr. Jackson's nomination has the enthusiastic endorsement of my distinguished colleague, Mr. Sparkman, formerly chairman of this committee. Senator Sparkman is enroute from Alabama by train and, inasmuch as Mr. Sparkman does not fly, he asked me to express his regrets in not being able to be on hand to endorse Mr. Jackson personally. Mr. Chairman, the nomination of Mr. Jackson, as Governor of the Federal Reserve Board is a nonpolitical appointment and certainly this is a case where the position sought the man rather than the man seeking the position, which is somewhat of a novelty in Government today.

Mr. Jackson has been an outstanding servant in Alabama. He was born in Birmingham, Ala. He has lived in Alabama all his life and he is one of our outstanding citizens. He was educated at the University of Alabama and he attended the School of Mortgage Banking at Northwestern University in Chicago. He has been associated with the Jackson Co., which is a mortgage banking company in Birmingham. Later I'm sure he will testify to the fact that immediately before being contacted about this position he sold his interest in this company and has no interest whatsoever in the company. There would be no conflict of interest at all in this matter.

Mr. Jackson had a very distinguished business career. He is director of Alabama Power Co., in Birmingham. He is a member of the Advisory Board of the First National Bank of Birmingham. He is chairman of the Advisory Committee of Federal Mortgage Association

and is on the Board of Directors of the Mortgage Bankers Association of America.

He has been president and was for the years 1971 and 1972 of the Mortgage Banking Association of America.

He has been contributing to the textbook "Mortgage Banking." He has been active in business and civic and charitable work in Birmingham and in Alabama for all of his life.

I'm sure, Mr. Chairman, that you will check with Mr. Jackson about his various philosophies—his fiscal policy and philosophy and his monetary philosophy and policy.

Coming from the business world, from which he does come, I would feel that, in addition to being a fiscal conservative, I would say that on monetary policies he would certainly bear in mind the need for an expanding money supply and the availability of money at low rates of interest. He would recognize the power of the Federal Reserve Board, both to check inflation and to get us out of recession, and he would recognize that there is a fine line of activity there that the Board could engage in. And he will speak for his philosophy.

I would think that he would tilt a little bit in the direction of having adequate moneys available for investment purposes in the country. He would seek to promote a stable economy, a growing economy, with emphasis on sound business practices, but with a recognition that if we ought to grow economically in this country, money must be made available for investment purposes. It must be made available at rates of interest that the buying public can accommodate with.

Mr. Chairman, I believe that Mr. Jackson is an outstanding person who has been named to the Board. He is a young man, and I feel he has many years of distinguished service to render to the Federal Reserve Board and to the country.

I thank you.

The CHAIRMAN. Thank you Senator Allen for a very, very fine statement. We appreciate your strong endorsement of the nominee.

Mr. Jackson, would you like to make any opening statement?

Mr. JACKSON. I have no statement at this time, Mr. Chairman.

The CHAIRMAN. There are a couple of regular, standard questions that the committee asks of nominees for the Federal Reserve Board and other top policy positions.

One, we had a chance to look at your financial holdings. As I understand it, you have been cleared in terms of no conflict of interest. You have taken the position that you will put your holdings into a blind trust; is that right?

Mr. JACKSON. That is correct.

The CHAIRMAN. Does that include all of your holdings? One of the great problems for you is there is nothing you can invest in. No matter what you invest in, it is affected by your policy. It is a very difficult position, unless, I guess, you do put your holdings into a blind trust. I presume that is what you are doing?

Mr. JACKSON. The trust is in the process of being prepared, and I expect to complete it prior to taking the oath of office, sir.

The CHAIRMAN. Would you respond favorably in requests to testify before this committee or other committees of Congress?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. Senator Allen outlined your background and it is an impressive background. I would like to ask one or two questions

further. Did you have any kind of training or any experiences or any opportunity to study monetary policy as such?

Mr. JACKSON. During undergraduate days that was part of a normal economics course at the University of Alabama. Since that time, as a person who has made his living in trying to anticipate monetary policy actions in the buying of mortgages at some risk, I have studied monetary policy in that context, but I have never been a formal student of monetary policy.

The CHAIRMAN. What do you see as the principal functions of the banking system?

Mr. JACKSON. To provide a vehicle through which the economic and personal resources of the country can be utilized and developed.

The CHAIRMAN. How important is the availability of credit at moderate rates to the growth of our economy?

Mr. JACKSON. What do you mean by moderate?

The CHAIRMAN. I would like to ask you. Handle it any way you wish.

Mr. JACKSON. Moderate is a relative adjective. It is like the question, "how is your wife?" "Compared to who?" It is difficult to answer it, Mr. Chairman. You can answer it one way, saying, "moderate" to the man who has none, would be more than he has.

The CHAIRMAN. I am glad you are considering it that way. We get some witnesses saying they believe in moderate rates, without coping with the word "moderate." I am glad you recognize that this is a critical point. What I am getting at, of course, is the kind of thing Senator Allen referred to in his introduction.

We are in a serious recession. There is every indication, including the most optimistic kind of projections, that we will have high unemployment for 3 or 4 years, at least even with substantial growth. I am anxious to see as much activity in the private sector as possible rather than in the public sector. One way to do it is have credit available as freely as you can.

Senator Allen mentioned the other aspect, if you go too far in that direction, which is you suffer from inflation, because the money supply gets too big. Just give me your reaction to how we meet this problem.

Mr. JACKSON. I think the only fair answer to you, sir, is that I don't presently have all the facts on which to make even a personal judgment. I think one of the things that we are going to have to look at, as we face the issue, is, No. 1, what will be the effect of current fiscal policy. That is, the potential effect that may take place, in the near future, together with the reaction of the private sector on the efforts that the monetary authorities have already made. It would be my judgment that the question is open.

The CHAIRMAN. Let me get to that in a little more detail later on. You are responsible for monetary policy primarily. Our responsibility is the fiscal responsibility and the monetary responsibility.

Let me ask you another aspect. The Federal Reserve Board is a regulatory body, too. You regulate the member State banks. What views do you have on the adequacy of our present financial institutions with respect to solvency? Do you have any feeling of concern with respect to solvency of our banking system?

Mr. JACKSON. I think the question during the past year became one not only of fact, but of attitude toward facts. I have not tried to personally examine the actual solvency of the individual banks. However, I think the fundamental question is how strong is the economy on which their assets are based.

The CHAIRMAN. What about the adequacy of the capital of our banks? There has been concern that the banks are overextended, that they don't have the capital banks need to protect themselves. This has been aggravated with respect to the big banks in recent years.

Mr. JACKSON. I believe Chairman Burns has testified that he hoped the capital of the banks would be increased.

The CHAIRMAN. Do you agree with that?

Mr. JACKSON. I don't honestly have a professional judgment, sir.

The CHAIRMAN. We have been concerned that some big banks, a big San Diego bank, Franklin Bank in New York and Security Bank, are having serious problems. You haven't developed a personal judgment as yet?

Mr. JACKSON. No, sir.

The CHAIRMAN. Do you have a judgment on the availability of credit at the present time to housing, as a mortgage banker?

Mr. JACKSON. Today there is a substantial amount of credit available to housing. The question is whether it is available at a price at which our housing consumers can and are willing to pay for it?

The CHAIRMAN. Well, the—it is almost always the case that the funds are available, if you are willing to pay the price. Almost anything is available, if you pay the price. The question is the credit to housing, in view of the situation we have in this country, the need for housing, the need for jobs in housing. Many of us feel that the availability of credit for housing is limited and that is one of the most serious aspects of our financial system now.

We need to somehow find a way of making housing credit readily available.

Mr. JACKSON. As you know, there has been a substantial increase in the amount of savings flowing into the thrift institutions which historically are a principal source of housing credit.

The CHAIRMAN. There has been enormous increase, but it hasn't affected the mortgage rate. Big drop in primary rate, but not for housing. It has remained around 9 percent or higher. What can we do about that? Is there anything the Federal Reserve Board can do about it?

Mr. JACKSON. It is my personal opinion, based on discussions with a number of chief executive officers of thrift institutions conducted in the normal course of my business activity, that the managers of thrift institutions fear that there is likely to be a substantial increase in interest rates in the future. This would, in turn, result in disintermediation of the deposits they are receiving. As a result, they are maintaining an abnormally liquid position to the extent that many of them are saving some of their assets, perhaps, for outflows later, and they have not made substantial forward commitments in the housing sector that they would normally make.

The CHAIRMAN. That is a logical explanation.

That leads us to a very serious problem: Housing starts at below a million a year. If long-term rates do go up as you say the banks and S. & L.'s expect—

Mr. JACKSON. They are more concerned about the short-term rates.

The CHAIRMAN. If long-term rates don't come down, we will continue in a housing depression; isn't that logical? Unless long-term rates come down, you will not be able to finance housing.

Mr. JACKSON. I think the fundamental question, to which I do not have the answer, is, what would be the attitude of consumers about the rates as they exist?

The CHAIRMAN. What I am talking about is the fact if you have a 9-percent rate, only a small proportion of the population can afford to buy homes, less than 30 percent, some people say less than 15 percent. So, under these circumstances, it would seem to me we have to find some way of making housing money available at a lower rate, a rate they can afford, below 9 percent.

I hope you can contribute to that on the Board, because you will be undoubtedly the housing expert. You are the only man on the Board with the kind of experience you have had in housing. It has been a great concern of the former chairman of this committee, Senator Sparkman, who has been Mr. Housing in the Senate for many, many years, and many of us feel this is the single most important industry to lead us out of the recession. If we can get housing started, it would be 2 million jobs, and it would be a great momentum.

Mr. Woodcock said that the best way to help the automobile industry was to help housing. This was something on which the Federal Reserve Board can make a substantial contribution.

I have a number of other questions, but I will yield the floor to Senator Garn.

Senator GARN. This entire discussion has gone on all year long between the distinguished chairman and I primarily being the ones to carry it on. I do not disagree at all with Senator Proxmire on need for additional housing starts and jobs that will come from that and spinoffs into other areas of the economy. I have been stating all year long as that primary cause is Federal deficit spending. I firmly subscribe to the crowding out theory. I do not see that it makes much sense when we, in the Congress, and our fiscal policy, are the primary cause of the lack of availability of money, for reasonable or modest interest rates or whatever that means.

Then we come back with housing bills to subsidize 6 or 7 percent mortgages. Government causes the problem, and Government comes back in to solve the problem which, I think, they could solve by not spending so much money in a deficit manner.

Do you subscribe to the crowding out theory? Do you think it exists and makes less money available in the private sector and drives interest rates?

Mr. JACKSON. If you are asking whether crowding out may or may not occur, it will to a significant degree depend on how much, and how many, and of what nature, other borrowers are in the market seeking credit at the same time as the Treasury may be. The answer to that question, I don't know. Much would depend on the nature of the economy at the time.

Senator GARN. This year, or fiscal year 1976, I estimate we will have at least a \$75 billion budget deficit. What is your estimate of how that will affect the market next year when the Government has to go out and borrow? You will be involved as a Federal Reserve

Governor. That money has to come from your printing it or your borrowing it in the private sector. How would the crowding-out theory work with you borrowing \$75 billion or are you creating it next year?

Mr. JACKSON. I don't have an answer today for the question you are asking.

Senator GARN. I don't expect you to have a specific answer, because we are all guessing. The economists we had parading before us this year, were wrong in regard to 1975, no matter who they were, conservative or liberal.

Do you think a deficit of \$75 billion will cause crowding out and much higher long-term interest rates?

Mr. JACKSON. I don't think there is a question in my mind that many times interest rates are influenced by what exists, but, more so, by people's attitudes about what will exist in the future. Some have felt, in the last few months, that the crowding out concept will be valid, and have made decisions on that assumption. You have seen people pay higher interest rates than they otherwise would have paid, if they had not believed in the crowding-out theory.

Senator GARN. You made a statement that I agree with that you can't separate fiscal and monetary policy. In light of the fiscal policy of the Congress and the huge deficits we are continuing to build up each and every year how do you feel about the pressure for greatly increased monetary supply by the Federal Reserve Board. Some people are talking about as much as 10-percent increase.

Mr. JACKSON. I think the only answer I can give you is I don't know. I don't have all the facts on which to base a judgment.

Senator GARN. You are going into a job as a member of the Federal Reserve Board. You must have some opinions. Not being a member of the Board yet, I am sure you have not had opportunity to look at their figures. I am not trying to pin you to specific numbers. That is why I'm phrasing my questions in broad generalities.

You must have some opinion as to where we ought to go. Chairman Burns talked in wide ranges, 5 to 7½ percent.

Mr. JACKSON. It would be my hope at the Federal Reserve Board not to base my decisions on my hunches or opinions but on the best available information at my command and the Board's command.

I am not trying to dodge your question. I do think in the long run inflation is a serious problem in this country and is a problem that must be faced not only by the Federal Reserve Board, but by the Congress as well. To the extent that inflation continues to be a problem it should be a proper concern of the Congress as well as the Federal Reserve Board. Based on the actions of either, the other may react to counterbalance that from time to time.

Senator GARN. Even though we all recognize that the recession is serious, that we do have high unemployment problems, do you feel in the longer term that inflation is more of a problem than the current recession? I do phrase it in the long term. I'm not talking about as of today, do you think inflation is more of a problem than recession?

Mr. JACKSON. I think inflation is a problem in the entire world. It is a problem that must be faced.

Senator GARN. I have no further questions at this time, Mr. Chairman.



The CHAIRMAN. Your answers are frank and helpful, because they indicate you do have an open mind. I'm concerned about the importance of having a man appointed by the President of the United States and confirmed by the Senate and who has a record of fine success as you have in the business will be in a position on the Board to exercise independent judgment.

I am not saying there have been rubber stamps of the chairmen in the past, but there have been allegations to that effect. One way you get that, especially coming to a monetary policy field where you have not had as much experience as you have in housing is by having a staff available.

One of the problems with respect to the Federal Reserve Board is that the staff is tightly controlled by the chairman. That happens in some of the congressional committees. I hope it is not true in this Committee.

Senator GARN. I agree with that.

The CHAIRMAN. Have you had opportunity to be informed by the Chairman of the Board and others as to the availability of the staff to you? Would you be free in making up your mind on the appropriate increase in the money supply? Would you be free to consult privately and directly with members of the staff at the Federal Reserve Board or do you have to go through the Chairman?

Mr. JACKSON. It is my understanding from previous members of the Board, Mr. Chairman, that each member of the Board is free to discuss his personal points of view, and the facts with any member of the staff. As far as I'm able to learn, based on preliminary discussion with the other members of the Board, you are free to have those discussions.

The CHAIRMAN. Would you have any staff at all to advise you directly, two or three experts?

Mr. JACKSON. It's my understanding, and I'm not familiar with the details, that the Board members each have an administrative assistant of his choice to work under him. At the same time it is my understanding that each Board member has access to all members of the staff.

The CHAIRMAN. Do you think that one adviser would be adequate, one administrative assistant? Maybe I shouldn't say "adviser."

Mr. JACKSON. I don't think one man can give you all the answers to the questions, no, sir.

The CHAIRMAN. Do you think each member should have his own staff? One of the things that concerns us is the bureaucracy. Every policymaker who has a staff of his own, if they did, it would be burdensome. Our monetary policy is so important, do you think it would be wise to consider having Governors with somewhat more advice available to them, directly by people they appoint, people that they can rely on.

Mr. JACKSON. I have never thought of the issue and I don't have an opinion. Offhand, having seven members of the Board of Governors with each having their own staff, might make it more difficult to arrive at a conclusion satisfactory to anybody. Again it might not. I recognize the value of independent judgment.

The CHAIRMAN. I agree, and I think all of us here agree, Senators Allen, Garn and I want to discourage increase in the bureaucracy. At

the same time where you have a man entering a position of great policy-making power we want to see he gets good independent advice we can rely on.

In your view, is the Federal Reserve Board independent of the President and executive branch?

Mr. JACKSON. My understanding is that the Federal Reserve Board is a creature of the Congress.

The CHAIRMAN. Its a creature of the Congress?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. I'm glad to get that response, because that is my conviction, too.

Do you believe that when the Federal Reserve Board takes major action such as interest rate changes, tightening of money supply or in announcing its monetary goals that it would be a good idea to state the effect it would have on the number of houses to be built or the effect on the housing industry?

When Chairman Burns told us what the monetary policy was to be for the following year—it was very welcome—but when he does it, wouldn't it be wise to tell us what consequence that would have on housing?

Mr. JACKSON. The committee might well consider whether it would want the Chairman to give a reaction to housing. I think it would be a mistake to isolate housing per se. The ramifications for all sectors as well as any specialized sector of the economy ought to be of interest to the committee.

The CHAIRMAN. How about the rate of inflation and unemployment. Wouldn't it be a good idea to indicate if they have a monetary policy of a certain kind that they expect a certain rate of inflation, range of inflation or range of unemployment?

Mr. JACKSON. I'm not sure I'm getting the exact thrust of your question, Mr. Chairman. As I understand your question, you are saying would the Federal Reserve Board properly say, if we do this, then this will naturally result?

The CHAIRMAN. I'm not saying that.

I recognize these things are not in anyway controllable and never will be in a free system. You can follow a certain policy and hope it will get a result and it may not. When the Federal Reserve comes in with a particular monetary policy and it is expected to be more expansive than in the past, and it is appropriate because we have a recession, maybe they would at the same time give some indication of the general pattern that they expect prices and employment or growth, economic growth, to take.

If they did that, we would have some notion of the basis, the reason for their adopting of the particular monetary policy.

Mr. JACKSON. I think your judgment is superior to mine in that respect. I don't honestly have one.

The CHAIRMAN. Well, the Federal Reserve Board is in the position to do this. They have the computers, excellent staff, fine economic staff, one of the best or the best in Washington. They would be in a better position than I would be or any other Member of the Congress would be. They must have some idea of the impact of what they are doing or how do they determine that particular policy?

Mr. JACKSON. I understand what you are saying.

The CHAIRMAN. Why won't it be desirable to tell us?

Mr. JACKSON. If the committee and the Congress wishes, I don't know why it could not say anything that the Congress wants them to say.

The CHAIRMAN. Why wouldn't it be desirable? They haven't done it.

Mr. JACKSON. I don't know.

The CHAIRMAN. We not only have high unemployment now, 9.2 percent, the highest since the Great Depression. We have a tremendous idleness of our plants. They are operating at less than two-thirds of the preferred level of capacity. It makes sense that putting idle machinery and idle people back to work is not inflationary. It could get inflationary at some point, but there seems to be no danger of inflation in the near future at least for the next year or two.

When we press the Federal Reserve Board to expand the money supply at rates sufficiently high for a moderate recovery they raise the specter of future inflation. I agree that that is a specter that is somewhat in the future and is very real, but it is in the distant future in my view.

Why shouldn't we be engaging in a more expansive monetary policy than we have had or than Governor Burns is projecting in view of the great idleness of machinery and equipment and men.

Mr. JACKSON. We are continuing to have a relatively high rate of inflation even with the idle capacity today. That has got to be part of the equation on which any judgment is based.

The CHAIRMAN. What concerns me about that judgment is that the inflation is not related, however, to the demand situation. We have prices going up for obvious reasons. One is the jump of price in the oil in the world. The other is the fact that we have had—in 1973 and 1974 we had the food price problem which was serious. We had two devaluations of the dollar that increased the price of imported goods and some that we exported to some areas. Those are the factors rather than shortages.

There is no area now that I can think of where we have any shortages. Steel is operating at a far lower level than it was a few months or a year ago. Oil, we have plenty available and so forth. So that where is there the pressure on resources, on too much demand? Where is there a situation where a lesser demand would ease up the anti-inflation problems? Where is there the prospect that greater demand would cause inflation?

Mr. JACKSON. I think then the question, as I understand it, is, if we have this situation based on the present monetary policy should there not be ways to expand the monetary policy?

The CHAIRMAN. Exactly. That is right. For the time being. I'm not saying doing it for years, but for 3 or 4 or 5 months.

Mr. JACKSON. Based on what I can read, from the reports of various people testifying before this committee, and others, there are some who feel we are in a turning position in the economy and the rate of capacity utilization may go up.

The CHAIRMAN. Won't an expansive monetary policy do exactly that?

Mr. JACKSON. I think the question, sir, is whether or not we are getting the turn in the economy that we all hope for today based on the present monetary policy or whether it would take additional monetary ease to sustain the turn that people expect to be happening.

The CHAIRMAN. The rate of unemployment increased recently. All the projections—the government's own projection is 8.7 percent for this year and 7.9 percent for next year. Then they don't expect it to go be below 7.3 percent for 3 years.

And even this assumes we would have the fastest growth we have had since World War II, which seems super optimistic. If we were operating at 5 percent unemployment instead of 9 percent, we would be producing \$200 billion more.

Monetary policy, it seems, would be a good way to get there. In your opinion, is there any substantial danger of inflation taking off again in the near future, can we count on, in the future, deceleration of the rate of inflation this year and next year?

Mr. JACKSON. I would hope it would not take place. The answer is, I don't know, Senator.

The CHAIRMAN. If we do get inflation and it is possible, because nobody knows the answer but if we do get inflation it is unlikely to come from pressure on scarce resources. It is more likely to come from unpredictable food shortage or war in the Middle East.

That won't be the result of a tighter monetary policy. What will happen to the interest rates in the next few years?

Mr. JACKSON. One thing I have admired was something Peter Drucker said in his books. There are only two things you know about the future. No. 1, it will be different from the past, and No. 2, it will be different than what you think it will be.

The CHAIRMAN. There is no way to have economic policy, monetary or fiscal policy unless you make some assumptions on the future. If you assume that the future is completely unknown there is no way to take policy positions at all. The policy positions you take will have effect next month or next year. Therefore, you must make the assumption as to what interest rates and what employment and what prices are likely to be.

Mr. JACKSON. I believe you asked me what I felt today. I'm not in a position to influence that judgment. I'm not a member of the Board of Governors.

The CHAIRMAN. You are about to be though. We are considering you for it.

Mr. JACKSON. Yes, sir.

The CHAIRMAN. If you do become a member of the Board, won't you have to make these judgments?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. How will you go about making them?

Mr. JACKSON. I will use the best information I have available from all staff resources and then use the best judgment I have to do what is best for the country.

The CHAIRMAN. Well, this is one area where you have had a good background. As a mortgage banker you had to have opinions about interest rates. I think, therefore, it is a fair question and a question where you would be competent to give us an answer. The question is what do you expect interest rates to do. Not what you predict or forecast or know, but what do you expect interest rates to do.

Mr. JACKSON. Based on my mortgage banking experience, I think interest rates will tend to be level or turn slightly downward.

The CHAIRMAN. What do you assume about the money supply growth?

Mr. JACKSON. I assume it will continue to grow, particularly the larger definition of it that has to do with savings accounts.

The CHAIRMAN. I don't think you can find a quarter year where M-2 hasn't grown. I'm talking about M-1. Do you expect it to grow at more than a 6-percent rate?

Mr. JACKSON. I think Chairman Burns testified that it would be the present objective to grow between 5 and 7½ percent.

The CHAIRMAN. What do you expect?

Mr. JACKSON. If the Fed expects it to grow at that rate, its judgment would be better than mine.

The CHAIRMAN. What would happen if the money supply increased in a somewhat more rapid way? What would happen instead of increasing at 5 to 7½ it would increase at 8 percent?

Mr. JACKSON. No. 1, you could find short-term interest rates coming down. The investor reaction in the longer term market might make longer term rates go up.

The CHAIRMAN. What is the best bet?

Mr. JACKSON. Probably different from either of those results.

The CHAIRMAN. How would it cause longer term interest rates to go up. You say cyclical effect?

Mr. JACKSON. I think there are many people investing in the long-term market who feel that ultimately over a short number of years, if we have substantially lower short-term rates, this will produce inflation that will in turn reduce the value of their long-term investments. So they want a rate high enough to make their long-term investments compensate for such a reduction.

The CHAIRMAN. They want it. What do you do with your money? You are sitting there with half a million dollars as you are, or a little more. You are sitting there with that kind of money, what do you do with it?

Mr. JACKSON. For the present, many of the people that might ordinarily be making long-term investments are now making short and intermediate investments because of this concern.

The CHAIRMAN. How long can the thrift institutions hold on?

Mr. JACKSON. I would personally hope not much longer. That hope is based on the feeling that sooner or later the managers of these thrift institutions will be convinced that the rate of inflation will go down and stay down and they would be safe in making long-term investments.

The CHAIRMAN. What do you think now, what do you think the Fed can do to stimulate housing?

Mr. JACKSON. Aside from anything else, the fundamental task is to generate an attitude in this country that the Government is committed to the control of inflation and that its resources will be used to control inflation.

The CHAIRMAN. How does the Fed do it?

Mr. JACKSON. By its policies and by its actions.

The CHAIRMAN. What policies do they follow?

Mr. JACKSON. It continues to take proper concern for inflation as a part of its monetary policy for the country.

The CHAIRMAN. How do they do that? I don't want to be unfair, but you're giving me an answer, which is a good answer, but I want to see where it leads.

You say they should follow a policy that is noninflationary and has concern. What does that mean? What do they do about the money supply?

Mr. JACKSON. I think they do the job that the Congress assigned them to do as best they can.

The CHAIRMAN. Well, are you telling me, or are you not, if they follow the policy of Dr. Burn's outline with a 5 to 7½ increase in the money supply that that will best serve the interests of housing and the mortgage market?

Mr. JACKSON. I can't tell you that any specific rate of growth will have directly a specific impact on the housing market. I think the two best cures of our problems in the housing industry are a sound monetary and fiscal policy.

Senator ALLEN. Excuse me, Mr. Chairman, I need to be on the floor. Will you excuse me?

The CHAIRMAN. Your Senator is conscientious. He is on the floor as much or more than any Member of the Senate.

Mr. JACKSON. Thank you, and I wish to publicly express my appreciation to him for joining us today.

Senator ALLEN. Thank you.

The CHAIRMAN. What is your opinion about variable rates mortgages?

Mr. JACKSON. I think they deal with a fundamental problem that probably is going to be difficult to solve. The problem is how to provide the lender an increased rate of return without costing the borrower too much.

The CHAIRMAN. I felt the same way. That is a tough problem. But how do we proceed? Do we permit experimentation with it of a limited extent?

We have instructed the Home Loan Bank Board not to permit variable rate mortgages, but certain States like California have permitted their State S. & L. to proceed with it. Do you think this is a logical way to see how these work out, or do you think we should not take that chance?

Mr. JACKSON. Any type of experiment that we can do that will better enable the thrift institutions to respond to pressures that are placed on them and particularly, their earning capacity, is an effort in the right direction. Whether it proves to be a right answer, nobody knows.

It is certainly appropriate that we continue to explore these issues such as the consideration recently given by your committee and in the financial institutions bill. We have to do something.

The CHAIRMAN. I take it from your answer, you do not think it wise to simply go ahead with the variable rate mortgages and permit them to be used whenever the national institutions wish to use them. The degree of constraint seems to be about right.

Mr. JACKSON. I have no objection to the congressional approach in this matter.

Senator GARN. I was interested in the chairman's line of questioning about additional staff. We will find out soon what his attitude is in giving junior Senators additional staff.

The CHAIRMAN. All Senators have at least 20 staff members. There is no Senator that has less than 18 or 20, if he wants to use the staff.

Senator GARN. The proof of the pudding will be in the vote; do we have specialists or use the clerk here? I don't intend to pursue it further, but I couldn't resist making the observation.

One of the things I think is important, you talk about attitudes. I don't think it makes very much difference how much stimulus Congress tries to put in with various pump-priming programs or how much the Federal Reserve decides whether it is 5, 7½ or 10 percent increase in the money supply as long as businessmen, consumer credit mortgage lenders, etc. are out there trying to outguess what the Fed and Congress are trying to do and they are afraid of what Congress or the Fed might do or not do to them, then we're not going to see the kind of recovery that the chairman and I would like to see.

What I'm saying and I think you agree is that until we get confidence built in this country, confidence that the economy will be more stable and that they are not afraid of political whim of the Congress, or possible temporary decisions of the Federal Reserve, that all the money in the world, increase in money supply, pump-priming will not get us out of the problem.

Would you agree that part of the problem of the Federal Reserve and Congress is to build confidence in the economy, that people can trust us, that we will make reasonable, sensible, commonsense decisions and that is at least as much a factor in this recovery as the amount of money we pump into it?

Mr. JACKSON. I don't think there is any doubt that the American consumer has had his confidence shaken in certain aspects. Along with business investment, we have to convince the consumer that here, again, he can continue to go forward.

Senator GARN. On the Federal Reserve, you have banking where you will be coming in with housing expertise and background in that area, would you feel that the single most important thing we can do in the housing market is to establish some stability in the longer term projects, so that the confidence does exist, builders will dare to go out, lenders will dare to make long-term commitments.

Don't you think that is a large part of solving the housing problem?

Mr. JACKSON. Yes, sir.

Senator GARN. I certainly agree with that. If we stay on the ups and downs of the roller coaster—if I were in the private sector, I would be scared to death with what Congress is doing with those ups and downs. I hope as a member of the Federal Reserve, you can instill some of that confidence.

I have nothing further, Mr. Chairman.

The CHAIRMAN. What is your opinion about regulation Q?

Mr. JACKSON. I am not sure when you say, "What is your opinion about regulation Q?" what you mean.

The CHAIRMAN. Do you favor having a limitation on the rate of interest that can be paid by banks and S. & L's.?

Mr. JACKSON. I don't think there is any question that such a regulation is necessary now. I think the question is should we ever eliminate it, and if so, over what period and if so, how.

The CHAIRMAN. How about that?

Mr. JACKSON. I think in the long-term, we should move toward the elimination of regulation Q.

The CHAIRMAN. How a long a term?

Mr. JACKSON. I can't give you an answer in years or months. The answer lies more in whenever we are able to adjust the earning ability of thrift institutions so they can more effectively compete.

The CHAIRMAN. Would it take more than 2 years?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. More than 5 years?

Mr. JACKSON. It would depend on the action the Congress takes to make the thrift institutions more——

The CHAIRMAN. What action can we take?

Mr. JACKSON. To broaden the prospect of their ability to invest in other things which would in turn improve their earnings.

The CHAIRMAN. When you say "other things," you mean things other than mortgages?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. When they do it, what happens to the housing industry?

Mr. JACKSON. Simultaneously, it is necessary for the Congress to take action to encourage other people to invest in mortgages. For instance, the Department of Housing and Urban Development has the power to insure mortgages and the Veterans' Administration to guarantee home mortgages. The Government has given the Department of Housing and Urban Development the right to give its full faith and credit to the mortgage-backed debentures. Recently the Chicago Board of Trade has opened a futures market in such debentures through which fluctuations in rate can be hedged like commodities. I would like to hope that this in turn offers substantial opportunity to cut down on a problem that has existed in the thrift institutions for a long time.

The thrift institution has a substantial short-term liability with long-term assets. In addition to that, in order to finance construction, a thrift institution is called on to give a builder or developer a long-term commitment of maybe 2 years before the actual mortgages are made. In the meantime, the thrift institution is absorbing that time-price risk during that period and in turn, its savers are having to help pay for the cost of that risk in one way or another. If the time-price risk can be reduced, it will benefit the people who are ultimate users of the money.

If this development in the Chicago Board of Trade will enable builders of housing to hedge this future risk in a way similar to the way other people hedge commodity prices, it will be of significant assistance toward helping the thrift institutions and people in the housing market to get loans on a more favorable basis, because there are less people absorbing less risk.

The CHAIRMAN. To what extent is this device for mortgage holders being used?

Mr. JACKSON. Not at all now, because it was opened in the last few weeks.

The CHAIRMAN. Last few what?

Mr. JACKSON. It is in the process of being opened and the details are just now being completed. It will be available in the next few weeks.



The CHAIRMAN. This is a very interesting operation. It sounds like it may be promising. I wonder if it is, or a pipedream. You are the first witness that brought it up and I am glad you have. We should know about it. It sounds like something to explore.

You say it is not being used at all now?

Mr. JACKSON. Perhaps Mr. Coan could answer the question. My understanding is that it will be available in a matter of weeks or days, that trading will actually begin.

The CHAIRMAN. I understand it is being worked on now and it will be 6 months to a year or 2 years to get going and then there is some question as to whether it will work.

How big a differential do you think is appropriate now in regulation Q? As you know now, it was a quarter. It went from half to a quarter; funds flowed out of the savings and loan institutions in a considerable amount.

Mr. JACKSON. I don't believe any arbitrary decision should be made about what is a proper relationship. It is whatever relationship works. It is the result you intend to produce, not the actual spread between a half or quarter, that produces the result.

The CHAIRMAN. The charts we have seen indicate that when you have a one-half differential that the savers are more inclined to go into the savings and loan institutions, much more. Since we have the one-quarter differential, there has been a great flow in favor of the banks.

Mr. JACKSON. I have not seen that chart.

The CHAIRMAN. Let me ask you now—not on future policy, but do you think the Fed, on balance, is fighting or contributing to inflation in 1972?

Mr. JACKSON. I don't honestly have an opinion.

The CHAIRMAN. That was the year—and election year—results of the year when the Fed increased the money supply by about 8 percent. It was also a year of great prosperity compared to what we have now, year of relatively low unemployment.

You don't have an opinion as to whether that contributed to inflation. You seem to have an opinion now that anything higher than 7½ percent may be inflationary; increase in money supply this year. At that time it was 8 percent, unemployment was 5 percent and you don't have an opinion as to whether it is inflationary.

This year unemployment is 9.2 percent, industry is operating at a far lower rate of capacity and you say if we go above 7½ percent, it would be inflationary.

Mr. JACKSON. If I conveyed that opinion, I was mistaken. I do not have a firm impression of whether the 5 to 7½ percent would be inflationary or not today.

The CHAIRMAN. In June of 1974, until March of 1975, we had a relatively small increase in the money supply, about 2½ to 3 percent. Was monetary policy contributing to the present recession then, fighting inflation or showing a neutral force of some kind?

Mr. JACKSON. The strong feeling among most people in the country, including the President, was that inflation was the primary enemy in the country. On that basis, the Federal Reserve policy coincided with the feeling of the administration and Congress.

The CHAIRMAN. Do you think that feeling, on the basis of hindsight, was wrong?

Mr. JACKSON. Hindsight is wonderful. It may well have been a mistake at that time.

The CHAIRMAN. Was it a mistake or not?

Mr. JACKSON. It looks like, based on the rate of change, that it probably was.

The CHAIRMAN. It seems to me to be a conspicuous and emphatic and tragic mistake; 2½ percent increase in money supply when unemployment was increasing steadily and sharply, going from 6½ percent to 9 percent and the last quarter of 1974 and first quarter of 1975, real drop in the production and yet we have that tight monetary policy.

What is the difference in using monetary policy to fine tune the economy and using the fiscal policy for that purpose?

Mr. JACKSON. I think the basic problem is the experience in this country is that fiscal policy is more difficult to handle on a fine-tune basis.

The CHAIRMAN. Monetary policy is easier?

Mr. JACKSON. Monetary policy has to be used in filling in the gap.

The CHAIRMAN. I hesitate to ask you this question based on your previous answers.

Do you believe in your own ability to fine tune the economy?

Mr. JACKSON. As an individual, I am one of 270 million consumers. Therefore, my individual judgments in a free economy like ours do count.

The CHAIRMAN. My question is do you believe in your own ability to fine tune the economy? I take it from everything you said, your answer is no. Because you can't foresee the future. If you can't foresee the future, there is no way to fine tune the economy.

Mr. JACKSON. Based on my personal independent judgment, based on what I know now, I couldn't do it.

The CHAIRMAN. What about Arthur Burns' ability to do it?

Mr. JACKSON. His judgment and ability would be substantially better at this point than mine.

The CHAIRMAN. Do you think he should try to fine tune the economy?

Mr. JACKSON. I think he is in a position to help lean against the wind or with it as the case may be.

The CHAIRMAN. Would you be inclined to go along with Dr. Burns' judgment until you have more experience in monetary policy.

Mr. JACKSON. I would think his judgment should be considered with a lot of others. As far as my parroting his own conclusions, I would not. From the oath of office, I'm the person responsible for my vote. Therefore, I have to serve my own conscience and ability and vote the way I think it's proper to vote.

The CHAIRMAN. You have told me that Dr. Burns has more ability in this area than you have at the present time. How would you reconcile that discrepancy with the oath of office you are talking about?

Mr. JACKSON. I would say his judgment along with other members of the staff and the Board should be considered in trying to make a judgment. I would say while he has great ability and has earned a great deal of respect, he is not the only person with ability or stature on the staff of the Board of Governors or on the Board itself.

The CHAIRMAN. Does it make any sense to have three, and counting the SEC, four regulatory agencies? Should we consolidate it?

Mr. JACKSON. I think that is one issue the Congress should address itself to simultaneously with the financial institutions question. To a large measure, what the Congress decided to do with the financial institutions—

The CHAIRMAN. As a Member of Congress, I'm asking you your advice on this.

Mr. JACKSON. I personally think some modification of the supervisory functions should be made.

The CHAIRMAN. Would you favor having a single bank regulatory agency so you can standardize the regulations and so you won't have regulations by laxity or competition by laxity?

Mr. JACKSON. I tend to favor more uniformity, but given diversity of responsibility through the funnel concept of supervision.

There tends to be a tendency to use that supervisor that is most lax.

The CHAIRMAN. If that is true, why won't it be wise to consolidate the regulatory bodies as Dr. Robertson has proposed? Would you favor that?

Mr. JACKSON. I would favor that as a broad principle; yes, sir.

The CHAIRMAN. Inside the Federal Reserve Board, would the Fed be the regulatory body or should it be another?

Mr. JACKSON. I don't have a judgment as to which would be the best body. It would depend on the financial institutions to be supervised.

The CHAIRMAN. The Federal Reserve Board has the responsibility and power of being a monetary policy organization.

Mr. JACKSON. The two functions complement each other.

The CHAIRMAN. Do you have a view on so-called liability management? Should we restrict the banks in raising funds? Should we limit the extent of total liability that can be comprised of Federal funds?

Mr. JACKSON. I have difficulty in hearing the question.

The CHAIRMAN. I asked whether you favored the so-called liability management? Should we restrict the way that banks raise funds? For example, I asked should we limit the percent of total liability that can be comprised by Federal funds?

Mr. JACKSON. I would think purely statutory constraints might in the long term prove to be a mistake. I think the circumstances under which these constraints might—

The CHAIRMAN. How can regulatory constraints operate?

Mr. JACKSON. I beg your pardon, Mr. Chairman.

I have difficulty in hearing.

Having the Fed or Comptroller, whoever the regulator is, determine the constraints. That might well be wise.

The CHAIRMAN. Would you urge that as a Member of the Board?

Mr. JACKSON. I don't have sufficient background or judgment to speak finally and unconditionally on that question. I do see the dangers of certain types of liability structures in the banking system that will produce problems for the Federal system and the banks and public.

The CHAIRMAN. How long is your appointment for?

Mr. JACKSON. January 31, 1982.

The CHAIRMAN. Do you think you will be any less independent and act any less independently as if you had been appointed for a full 14-year term?

Mr. JACKSON. No, sir.

The CHAIRMAN. Why are 14-year terms necessary. Would you favor reducing terms to 5 years, 7, or 10 years?

Mr. JACKSON. I don't have a judgment. I think the main point that needs to be taken into account in any consideration of the term of service of any member of the Federal Reserve is that it be sufficiently long for him to have independent judgment.

The CHAIRMAN. You feel that 1982, that is 7 years, would serve as far as you are concerned?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. Now, the Chairman is appointed for a 14-year term as a Governor, but his appointment as chairman is only 4 years. His appointment of chairman is not confirmed by the Senate. This could make him more the President's man than the Congress' man. You said the Fed should be the creature of the Congress and independent of the President.

Would you favor requiring Senate confirmation of the President's chairman designee?

Mr. JACKSON. I have no objection to that. As you know, the Federal Reserve acts as a creature of the Congress and the provision for the appointment of the chairman is part of the act. If the Congress wishes to change it, why shouldn't it?

The CHAIRMAN. Wouldn't that be logical? Wouldn't it follow from the congressional assertion that this is a congressional power?

Mr. JACKSON. I have no objection to that personally.

The CHAIRMAN. As a Governor, one of your duties will be to supervise the affairs of the 12 Federal Reserve banks. Would you tell us briefly what this will involve, supervising affairs of the 12 Reserve banks?

Mr. JACKSON. As you know, the Federal Reserve Act establishes in definitive terms the extent to which the Board of Governors does supervise the Reserve banks. The Congress established that relationship between the Board of Governors and the Reserve banks and gave them certain powers over the appointment of Directors, salaries, and so on.

The CHAIRMAN. Will this power you have as Governor involve selection of the presidents of Reserve banks in any way?

Mr. JACKSON. You are asking me a technical question, and I don't know the answer to it.

The CHAIRMAN. As I understand the Board must approve the selection and the nominations are made by the Directors of the banks; is that correct?

Mr. JACKSON. I hesitate to answer, because I'm not positive of the proper requirements.

The CHAIRMAN. Will supervising the Reserve banks involve you in setting and approving the Reserve bank budgets?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. Will it involve you in auditing expenditures of Reserve banks and evaluating the effectiveness of their managements?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. Congress has entrusted responsibility for supervising the Reserve banks to the Board of Governors and establishes a Federal-local committee, Congress gave the five Federal Reserve banks' presidents equal responsibility for the conduct of open market policy with the other governors. How can the presidents play an

independent role in forming monetary policy as they are supposed to do when the governors with whom they serve and vote on the FOMC are their supervisors. You supervise their selection, and the job they do and yet, they are supposed to be independent of you and serving on the Open Market Committee. How can it be?

Mr. JACKSON. I think here again, if the selection process is proper by the directors of the Federal Reserve Bank, then these people should be capable of independent judgment and should be in turn required to exercise it.

The CHAIRMAN. Isn't that like letting the staff of this committee vote with the members?

Senator GARN. Actually, that isn't far off.

Mr. JACKSON. If you properly select the staff they will be honest enough about the question about which you ask them. That is the way with the Federal Reserve System. If you ask them to and require that they exercise independent judgment, they should be capable of doing so.

The CHAIRMAN. We shouldn't rely on men but law. Why should we provide for Presidential appointment for 6 years for the nomination of the office of Reserve bank president with confirmation by the Senate, so they do have that degree of independence. They would be selected by the President and confirmed by the Senate.

Mr. JACKSON. I never thought about the specific question enough to give you an informed judgment.

The CHAIRMAN. It's a great power they have.

Mr. JACKSON. I have no informed judgment to give you.

The CHAIRMAN. Why shouldn't we require that all Federal Reserve bank income regardless of source be sent to the Treasury. It is a creature of the Congress, therefore, shouldn't we appropriate the funds they use and be in a position to pass on their actions as we do not now, because they are able to fund themselves.

Mr. JACKSON. Having not been involved in the detailed operation of the Federal Reserve, I can't answer that question directly. However, I can give you an answer in another context. It has been my experience as a person who deals with the Department of Housing and Urban Development.

The CHAIRMAN. Do you know how much the Fed spent last year?

Mr. JACKSON. Around \$500 million.

The CHAIRMAN. I understand it is \$550 million. They have doubled their expenditures in the last 5 years and their rate of increase is more rapid than the Federal spending. Why shouldn't we provide for the GAO to audit them. That is in the operation of the Reserve Bank and Board. GAO should audit the efficiency of the Board. That would keep GAO out of monetary policy because they do not have the technical expertise. With respect to the efficiency and legality, why shouldn't they audit them?

Mr. JACKSON. It's my experience in private relationships—and I recognize the different value systems that exist between the Federal Reserve and private relationships—that all too often that audits, in the context in which I believe your question is framed, produce a few isolated instances of improper action and expenditure. In private relationships the audited organization then usually overreacts to that condition, so they end up spending more money rather than less. Whether it would be true with the Federal Reserve, I can't say.

The CHAIRMAN. I think it is an interesting observation. The Defense Department and HEW might give a similar response. Most people would argue that the GAO serves a tremendously useful purpose by being available to investigate these enormous agencies that spend this colossal amount of money. They have 2,000 or 3,000 auditors and experts there. Why should the Fed be singled out as the only one on which we can't check to see if there are improprieties or mistakes or inefficiencies.

Mr JACKSON. I don't have an answer to your question.

The CHAIRMAN. When you fellows get on that Board, like all of us, you don't like to give up anything you have. Having GAO pry into your operations would maybe be giving up something.

I have a couple more questions. I apologize for taking as long as I have. Business Week reports in its latest issue that the heart of the disclosure battles are going on between the banks and Fed on the one hand and the SEC on the other in which the Securities and Exchange Commission is requiring the bank holding companies to disclose information about their loans and about the soundness of their loans and are trying to require them to do it and the Fed is resisting it and so are the banks, one answer given by a stock analyst is this:

If all banks upgraded disclosures at the same time, told about the difficulty they are having with their loans, if the comptroller published a list grading everyone's loans there would be no bruhaha. But Chemical and Manufacturers Hanover don't want to be the guinea pigs. Why won't it be appropriate and logical to provide that kind of disclosure?

Are you familiar with what I am talking about?

Mr JACKSON. I'm generally familiar, but not in adequate detail to respond accurately to the thrust of your question. One of the things that concerns everybody is the fact if we get into a psychological situation where there may be some question about the viability of a specific banking institution, the exposure of all of its problems may in turn create a problem in and of itself.

The CHAIRMAN. You can say that about any firm, Lockheed. You can say it about United States Steel, General Motors, or whatever. But we have had a policy now since the early 1930's of disclosure so the investor is told before he invests in the security of a company. It seems to me logical we should tell them the same things about our banks.

Eric Lindmann yesterday reported in the New York Times that the Fed has refused up until now to publish any meaningful data on the aggregate level of loans in the banking system that have been criticized by bank examiners. Suppressing aggregate data of this sort will not be helpful to the longer range problem of calming public attitudes toward the banking industry.

Now, does it seem to you logical under those circumstances that the Fed which should be willing to publish data on the aggregate level of loans criticized by bankers, refuses to do so? Shouldn't this be published?

Mr. JACKSON. In the context you explained it, it may be.

The CHAIRMAN. Why shouldn't it be?

Mr. JACKSON. I don't know enough about the other side of the coin to respond to your question or statement, Senator.

The CHAIRMAN. It has been suggested a good hypothetical. An investor is being requested to invest a million dollars in the bank because they need more capital. At that time the Fed knows that certain loans at the bank are not good or may not be good. But they don't tell the investor. He is asked as a public service to provide for capital and it is a public interest action. Is that fair or is that proper? Would it not seem to you to be logical to give any investor all of the facts?

Mr. JACKSON. I think that is an issue going on not only with regard to banks, but all corporations in this country.

The CHAIRMAN. In all other corporations the SEC has not doubt. You have to make disclosure. Now they are saying it with respect to the banks, but the regulatory bodies won't let them do.

Mr. JACKSON. The question is what is pertinent. I recognize this is a decision in which one investor's case may be pertinent, but in another investor's case it may not be pertinent.

The CHAIRMAN. Give the public the facts. Let them know. There may be a large certificate of deposit involving a million dollars or several million dollars not insured. It could mean a devastating blow for an investor. Mr. Jackson, I'm, as I said earlier, impressed by your experience in mortgage banking. It's good to have a housing expert nominated for the Board. But I'm disappointed in your feeling that you couldn't answer many of these questions.

That is the whole purpose of these confirmation hearings and confirmation by the Senate. Particularly with respect to the Federal Reserve Board, because this is an agency that is a creature of the Congress. I feel, except for the fact you are from Alabama, which is certainly in your favor—

Mr. JACKSON. Thank you, sir.

The CHAIRMAN. And that you are in housing, which is in your favor, you are flying blind. It's hard to know what your advice or your actions are likely to be. Let me ask finally in light of that, in view of the answers you have given expressing no opinion on the policy questions you will face if you are confirmed, do you feel personally you are qualified to be a member of the Federal Reserve Board and if so, why?

Mr. JACKSON. I believe I am. I believe that the Federal Reserve Board, in directing monetary affairs, needs the outside viewpoint, the experience of people who have had to deal in the real world of the economy, that is in turn reflected in the attitude of the people of this country toward events, as well as in the absolute financial statistical numbers that can be gathered.

As Senator Garn said, sometimes it is not what is, but what we think is, that produces a given result. Therefore, that type of insight into day-to-day activities would have value to the Federal Reserve, particularly when it comes to the field of housing about which you have correctly expressed such concern.

The CHAIRMAN. That's a reasonable answer, but I would feel better about it as a practical man with practical business experience if you had strong convictions and feelings and you communicated those. I have a feeling if you have those convictions they haven't been disclosed.

We are proceeding on the basis of not having a clear or understandable record as to what you intend to do or are likely to do as a member of the Board.

Frankly, I would feel better if all the answers you have given had contradicted my position. I would feel better if you had a strong position with respect to them and told us how you felt.

Thank you very much, and I wish you well.

The committee will stand in recess, subject to the call of the chairman.

[Whereupon, at 11:37 a.m., the hearing was adjourned, subject to the call of the Chair.]

[The biographical summary of Mr. Jackson and additional information follow:]

#### BIOGRAPHICAL SUMMARY OF PHILIP C. JACKSON, JR.

##### *Personal background*

Born October 27, 1928, in Birmingham Ala.

Son of Philip C. Jackson and Margaret Ellen Maddox.

Married—Barbara Ellis Ritch, June 26, 1954.

Children—Virginia Ellen, Philip C. III, and Florence Jean.

##### *Education*

Mountain Brook Grade School, Birmingham.

Phillips High School, Birmingham.

Birmingham Southern College, Birmingham.

University of Alabama, Tuscaloosa; B.S. in Commerce and Business Administration.

School of Mortgage Banking, Northwestern University, Chicago.

##### *Business experience*

Perfection Bedding Co., 1945-47 (summer job).

Robert Decker Insurance Agency, 1949 (part-time school job).

Jackson Company, Birmingham, since 1949; now vice president in charge of mortgage loan department and director.

##### *Business organizations*

Director, Alabama Power Co. Birmingham.

Director, Perfection Bedding Co. Birmingham.

Member, advisory board, First National Bank of Birmingham.

Chairman, advisory committee, Federal National Mortgage Association, Washington.

Board of Governors, Mortgage Bankers Association of America.

##### *Civic affairs*

Trustee, Huntingdon College, Montgomery, Ala.

Director, Metropolitan Birmingham YMCA.

Executive Board Member, Boy Scouts Council, Birmingham.

Director, Metropolitan Development Board, Birmingham.

Trustee, Archaeological Research Association of Alabama.

##### *Religious affiliation*

Member, official board, First United Methodist Church, Birmingham.

##### *Politics*

Democrat.

##### *Past service*

Mortgage Bankers Association of America: President 1971-72; vice president, 1969-71; received Distinguished Service Award 1965.

Contributing author of textbook "Mortgage Banking."

Lecturer, Schools of Mortgage Banking at Stanford University, Michigan State University, University of Miami, and Northwestern University.

Mortgage Bankers Association of Alabama, past president.

Birmingham Board of Realtors, past president.

Methodist Home for the Aging, past vice chairman of trustees.

Birmingham Festival of Arts, vice president.

Metropolitan Birmingham YMCA, past president.



FEDERAL NATIONAL MORTGAGE ASSOCIATION,  
*Washington, D.C., June 5, 1975.*

Hon. WILLIAM PROXMIRE,  
*Chairman, Committee on Banking, Housing and Urban Affairs,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The purpose of this letter is to recommend most strongly to your Committee and to the Senate, the confirmation of Mr. Philip C. Jackson, Jr. as a member of the Board of Governors of the Federal Reserve System.

I first met Mr. Jackson shortly after I came to FNMA in 1970. Mr. Jackson played a key role in the development of the Jackson Company of Birmingham, Alabama into one of the most respected mortgage banking companies in the nation. Elected the 1972 President of the Mortgage Bankers Association of America, Mr. Jackson is, to my personal knowledge, one of the mortgage banking industry's most articulate and able spokesmen and leaders.

Until more recently, Mr. Jackson was the Chairman of the FNMA Advisory Committee and as such, and in an earlier tenure on the Committee, I have found his **counsel and advice to be most helpful.**

I believe his wide experience in business, in financial matters and his knowledge of the housing industry clearly qualify him for the high level of public service to which he has been nominated.

I am pleased to endorse Mr. Jackson's nomination and hope that he will be speedily confirmed.

I would appreciate it, Mr. Chairman, if this letter could be made a part of the hearing on Mr. Jackson's nomination.

Sincerely,

OAKLEY HUNTER,  
*Chairman of the Board and President.*



## NOMINATION OF PHILIP C. JACKSON, JR.

FRIDAY, JUNE 20, 1975

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

The committee met at 9:05 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire, chairman of the committee, presiding.

Present: Senators Proxmire, Sparkman, and Garn.

[Senator Packwood was unavoidably absent because of a meeting with a number of other Senators.]

The CHAIRMAN. The committee will come to order.

The committee has been reconvened to hear again the nominee for the Federal Reserve Board, Philip C. Jackson, Jr. Mr. Jackson appeared before this committee a couple of weeks ago and at that time he was questioned primarily by Senator Garn and myself. It was my feeling at that time and it would seem to be shared that Mr. Jackson's responses were not adequate. He was not as responsive as I feel we have a duty to require of a witness to be in your position.

The difficulty, Mr. Jackson, is that as you know the Federal Reserve Board, and as you told us frankly when you appeared last time, is a creature of Congress, and independent of the executive branch. I think that gives us a particular responsibility to make sure those who serve on the Board have disclosed to the Congress what their opinions are, what their position is, what their attitudes are and so forth.

This committee is the only agency of the Congress and of the public that will have an opportunity to question you and in view of the fact that as a Governor of the Federal Reserve Board you will have very considerable power, there are a few people in the economy that have anything like the power the Federal Reserve Board has to affect credit, interest rates, inflation, employment.

For this reason, and because you're not being appointed simply for a year when you will come back again for another go around, but for 7 years in this case, I think it's very important that we elicit from you your views in greater detail than we succeeded in doing last time.

I'm not saying that we should demand a technical understanding of all the problems because it is a highly technical job, and almost everybody appointed has to learn to some extent after their appointment, but I think as an intelligent—and you are undoubtedly an intelligent and able businessman and banker—you must have developed some views on many of these things and we're going to try to see if we can elicit some responses and, of course, this committee is honored by the fact that the former chairman of the committee, the present chairman of the Foreign Relations Committee, is here this morning. He wanted very much to be here last time but was

unable to, and we are delighted to start off by turning this over to Senator Sparkman to ask some questions.

Senator SPARKMAN. As you stated, Mr. Chairman, I did not have an opportunity to be present at the prior hearing of Mr. Jackson. I returned to Washington on the 10th instead of the 9th. You might be interested to know why I was late in returning after the recess. We always travel between Washington and Birmingham by train. We have excellent train service, the Southern Railway, which I think is perhaps the best railway system in the country. We intended to leave Alabama on a Sunday which would have put us back here on Monday morning and in time for Mr. Jackson's first hearing. However, at that time Southern Railway changed the schedule of the run to Birmingham to 3 days a week instead of 7 days a week, and Sunday was omitted. We had to wait until Monday to catch the train to come back. I am sorry I missed the first hearing.

I have known Phil Jackson for many years and his father before him. I have not been able to read all of the transcript of the first hearing. It seems to me that perhaps some of the questions propounded him he could not answer because—well, I'll ask him this question. Before I do ask him any questions let me say that I did not nominate Phil Jackson. I would have been happy to do so, but Chairman Burns telephoned me one day and asked me if I would approve of Phil's selection. Chairman Burns had selected him. I was very happy to endorse Phil and I am very glad that Chairman Burns recommended him to the President for this position.

Phil, how long have you been engaged in the home mortgage, real estate, and mortgage banking business?

Mr. JACKSON. I started work for Jackson Co. on October 1, 1949, on a full-time basis. I worked two summers before that during my college days, and I have been in it since that day.

Senator SPARKMAN. When you commenced work who was the head of the Jackson Co.?

Mr. JACKSON. Well, my father was president up until the day before yesterday when the firm was sold to a local commercial bank. My job during those years was to head the mortgage banking department.

Senator SPARKMAN. How long was your father connected with that business?

Mr. JACKSON. I think my father started in that business just in time to see the collapse of 1929. His father, in turn, started the company about 1904.

Senator SPARKMAN. In other words, you're the third generation?

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. You have had a great deal of experience during that time, I take it, on money matters, interest rates, availability of mortgage credit and so on?

Mr. JACKSON. The family has been in that business for a good while.

Senator SPARKMAN. After being nominated or selected by Chairman Burns, did you have any briefing by the Federal Reserve?

Mr. JACKSON. No, sir.

Senator SPARKMAN. In other words, you came here without any briefing and you simply responded to the questions as best you could with the limited knowledge you had of the working of the Federal Reserve Board; is my assumption correct?

Mr. JACKSON. Yes, sir. The Federal Reserve supplied me with copies of the Federal Reserve Act, with brief pamphlets concerning the operation of the system and some of the testimony made by members of the Board before the various committees recently. I believe those were the principal pieces of information that I got from them.

Senator SPARKMAN. Of course, the Federal Reserve, as the chairman of the committee has stated, is a creature of Congress and is supposedly separate from the executive branch of the Government. The Board determines the policy so far as money supply is concerned and things of that kind. Do you have any particular knowledge as to how the Federal Reserve Board worked, its policy on expanding and contracting the money supply and so forth?

Mr. JACKSON. If I understand your question, the Federal Reserve Board operates through the Federal Open Market Committee in the purchase and sale of Government securities of various types to supply additional reserves to the banking system, and then it also operates through the establishment of various rates of reserves on various types of deposits in the banking system either to expand or contract the supply of reserves that are available in our banking system today.

Senator SPARKMAN. Certainly you are correct. But more precisely I am asking about the policy as to the need of the country at any particular time to have the money supply expanded or contracted.

Mr. JACKSON. It's my understanding that the goal of the Federal Reserve is to produce sufficient money and credit in the banking system to enable the country to have sustained growth without inflation. That's the fundamental policy.

Senator SPARKMAN. Then in your opinion, that is, that the best way to control interest rates, to hold them at a steady level or at least to have moderate increases and decreases instead of a sudden break increase in the money or a sudden decrease?

Mr. JACKSON. Yes, sir. My recollection is one of the reasons the Federal Reserve was established was to eliminate the money panics that existed prior to the time the system was established.

Senator SPARKMAN. I think that's right, to stabilize the money supply.

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. And you recognize that as being the "real" function of the Federal Reserve Board, to stabilize money conditions?

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. Earlier this year Congress passed legislation, which was worked out with Chairman Burns, that the Board would supply this committee with information, I believe, 6 months ahead of time on the increase or decrease——

The CHAIRMAN. Based on his goal for the next year, but updated every quarter as to how they might modify it. We wanted 6 months. He proposed a year.

Senator SPARKMAN. You are right. We asked for 6 months and we worked it out more or less in agreement here in the committee on the basis that the chairman has just described.

Phil, do you feel that's a good policy?

Mr. JACKSON. Sir, as long as the Federal Reserve is a creature of the Congress, I think the Congress has the right to ask anything it thinks the Federal Reserve should supply.

Senator SPARKMAN. However, you would expect Congress to ask only what was reasonable, though, wouldn't you?

Mr. JACKSON. I'm sure there are going to always be differences about what might be reasonable under a given set of circumstances, but I happen to believe that if the Federal Reserve is a creature of Congress and the Congress wants the Federal Reserve to do something, the Federal Reserve should do it whether the Federal Reserve thinks it's reasonable or not.

Senator SPARKMAN. I'm not talking about the power of Congress to do that. I'm talking about our working out a program with the Federal Reserve whereby Congress is kept informed as to the Board's projection for the future.

Mr. JACKSON. I personally think that's the reason we were formed.

Senator SPARKMAN. This committee thought so, and Chairman Burns, as I say, worked it out with the committee, and I think that it does make a definite contribution to the stability of the money situation and, in turn, of the stability of interest rates.

Most of your past experience has been in mortgages and mortgage financing, has it not?

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. And real estate transactions?

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. You recognize the importance of, shall I say, a fairly steady rate of interest on home mortgages?

Mr. JACKSON. Relatively stable rates are ways to produce a more stable home mortgage market or a market of any type. That's not to say they should be stable at rates which are too high for people to do business, but wild fluctuations produce abnormal profits and abnormal rates and abnormal concerns and makes people hesitant to do business, both consumers and lenders.

Senator SPARKMAN. For a long time we have, I don't like to use the word trouble, but I guess that is the best word, we had trouble with the Federal Reserve with reference to housing. I can remember when—who was the Chairman of the Board from Utah——

The CHAIRMAN. Eccles.

Senator SPARKMAN. Yes, and then, of course, Bill Martin. They were always afraid of inflation, inflation, inflation; but I can remember the time when the Federal Reserve took practically no interest in housing. To the credit of Dr. Burns, he has been most helpful in moving along a good mortgage market and home building program. Dr. Burns has had interest in housing.

Mr. Chairman, if I remember correctly, Dr. Burns was instrumental in getting the GNMA established and the tandem plan working, which has been most helpful to subsidizing housing primarily.

Mr. JACKSON. My recollection is Chairman Burns did have some voice in the administration at the time, the tandem plan was established and GNMA was created.

Senator SPARKMAN. As I recall, Dr. Burns was one of the key authors of these two matters. Nevertheless, I think the Federal Reserve Board in the last few years, even though to begin with was not much interested—has become interested in housing and mortgage credit. I

recall testimony from the Federal Reserve Board—perhaps 25 years ago—to the effect that 800,000 housing units a year was as much as the country ought to have. We couldn't get along very well on that number of units today, could we?

Mr. JACKSON. No, sir.

Senator SPARKMAN. But the point I wish to make is the Federal Reserve has been helpful in the housing field.

I don't have any more questions, Mr. Chairman. I do have a statement that I'd like to put in the record.

The CHAIRMAN. Fine.

[Statement of Senator Sparkman follows as though read:]

#### STATEMENT OF SENATOR SPARKMAN

Senator SPARKMAN. I am pleased to support the nomination of Mr. Philip C. Jackson as a member of the Board of Governors of the Federal Reserve System. I believe that his long experience as a businessman in mortgage banking and housing will make him a valuable member of the Board of Governors.

As everyone knows, the policies of the Federal Reserve Board are probably the single most important factor affecting mortgage credit and housing construction in our economy. We need a man on the Board who understands housing and the necessity for a national policy that can be effective in maintaining the flow of mortgage credit to meet the Nation's housing needs. I believe that Mr. Jackson is such a man. His experience, not only in running a mortgage banking business, but as a past president of the Mortgage Bankers Association of America, provided him with a background that can be most useful to the Board and, I believe, most effective as an advocate for the housing industry in formulating Federal Reserve Board policy.

I have known Mr. Jackson for many years, first as a mortgage banker in Birmingham, Ala., and later as president of the MBA. As president of the mortgage bankers, he often testified before our Subcommittee on Housing and Urban Affairs. I always found his testimony and thoughts on legislation before us both sound and constructive. He was an outstanding witness and responded to questions in a superior manner. He was, and is, a strong advocate of mortgage credit policies helpful to the housing industry, and I would expect that he can be depended on to carry this advocacy to the Board meetings of the Fed. We do not now have anyone on the Board who knows housing, and I can think of no one better qualified to fill this position than Mr. Jackson.

I think it important to note that Mr. Jackson has not spent his time only at his mortgage banking business. His record will show a broad interest in civic matters and other business organizations where he is active on boards or advisory committees representing the public interest. He has assisted in writing a book on mortgage banking and has lectured extensively at universities on mortgage banking subjects.

I strongly support the President's choice and recommend that the committee vote favorably for his confirmation.

The CHAIRMAN. Mr. Jackson, could you tell us how many times you have talked with Dr. Burns before you appeared before the committee last time over the years?

Mr. JACKSON. I first talked to Dr. Burns concerning the potential position on the Federal Reserve Board in the summer of 1974. At that time he asked me to visit him in his office and discuss the interest of the Federal Reserve in getting someone on the Board that had experience in housing and mortgage finance. He then mentioned the problems that the banking system was having, particularly some credit problems. I told him at that time that I had a full-time job. I would be glad to consider it, if I was nominated for the Federal Reserve, but did not want to give him any commitment at that time about my wanting to serve.

The CHAIRMAN. That was in August of 1974. What other times did you meet with him?

Mr. JACKSON. I next saw Dr. Burns in September of 1974 at a business trade association meeting and at that time he commented that it looked like the needs of the Board were stronger in other areas than in housing at that particular moment; therefore, Governor Coldwell had been nominated and I believe was serving at that time, and I told him, fine, I felt that was a wise choice.

Then about, I would think, around the 1st of May, Mr. Chairman, or maybe a little earlier than that, a series of peculiar circumstances happened to me personally.

The CHAIRMAN. That was May 1975?

Mr. JACKSON. Yes, sir. A series of peculiar circumstances happened. About 10:30 one morning the senior members of my family decided to sell our family firm to the Birmingham Trust National Bank and informed me of that decision. That afternoon I got a call from Dr. Burns' secretary asking if I would come up to talk to him about potential service on the Federal Reserve Board. I did, and I met with him, I believe, that Friday afternoon.

Since then, I may have had two more personal visits of a relatively brief nature with Dr. Burns.

The CHAIRMAN. Now, Mr. Jackson, you told me, and I apologize for not having explained at the beginning, that you do have trouble hearing and that's one of the problems that you had last time, and I will be as clear as I can be and don't hesitate at all to ask me to state what I have said again if you don't hear me clearly.

Mr. JACKSON. Thank you, Mr. Chairman.

The CHAIRMAN. Today we are in an economic mess. There are some modest indications we may be pulling out of it; especially in the last few weeks there have been some encouraging signs, but we still have enormously heavy unemployment; we still have very high inflation based on any kind of historical experience; we have housing that's just a basket case. There have been few times in our history when housing has been as bad. As a matter of fact, in May, although it was a resurgence over the very low levels we had last November, it was the poorest May in 26 years in view of the number of starts, in view of the fact that the country has increased in size, and so forth. It's a very discouraging kind of situation.

So we are concerned that we—at least I am concerned and I think many other Members of Congress are concerned that we take action to try to correct the situation, provide more jobs, without aggravating inflation.

How do we meet the problem of getting out of the recession without rekindling inflation?



Mr. JACKSON. Well, first, let me state that it's my personal view that housing starts should be looked at in two separate components, while interrelated, they are distinctly different.

First, the single-family component that all too often we emotionally think of as being the housing market. I really think the problem there lies in two areas. No. 1, inflation. There's no question in my mind that inflation has been the No. 1 enemy for housing considered in the single-family context. It's driven up the price of houses.

For instance, last year, if I understood the figures properly, we had a 10-percent increase in the price of single-family housing. In probably one of the worst depression years we have had in the last 10, the price still went up 10 percent.

Second, of course, inflation is producing higher interest rates which have, in turn, made it more difficult for people to buy even at the existing price levels.

The multifamily market is hurt for the same reasons but in different ways. Inflation has hurt the multifamily market. In fact, I don't think the public generally understands how much inflation has confiscated values in commercial real estate and multifamily real estate, and I mean confiscated values which existed before but no longer exist.

For instance, if you own an apartment project as an individual and that apartment is producing \$100,000 in net rents—after you collected all the rents and after you paid all the expenses and interest—and levels of return on capital are 5 percent, that apartment project, theoretically at least, would be worth \$5 million, and probably was at one stage in our economy. But today, that same apartment project, even if it's continuing to produce the \$100,000 in net rents, because rates of return on capital have gone up in the 10-percent range, is now only worth \$1 million, and the difference in values has effectively been confiscated.

Now, in addition to that, the multifamily market is going to be difficult to restore. First, because the net rents produced by the ownership of new multifamily apartments are not sufficient to pay for the costs of capital of these units; second, unfortunately, in this country there is a subtle but nonetheless distinct change in the attitude of our laws concerning the rights of owners of the building versus the rights of the tenant; and while I'm sure all of us can mention many cases in which the rights of the tenant have been improperly ignored by the owner, at the same time, the trend of increasing rights of the renters or the tenants in a building in precedence to the rights of the owners is not going to encourage new apartment development.

The CHAIRMAN. Let me just interrupt, Mr. Jackson, to say that I want to be as helpful as I can to you. I think what you are saying is very interesting and indicates a fine knowledge of housing; but that's not the question I asked.

The question I asked is how do we solve the problem of getting out of the recession without rekindling inflation? Now housing may be a part of this. If it is, tell us how and what else we can do.

Mr. JACKSON. I think we need to be patient. We will not get out of the recession quickly and easily. I think the fear of inflation is one of the reasons we will not do so. The fear is still there and the risks are still there. I personally feel that the 90 percent who are employed

should share some of the benefits of that employment with those unemployed and, believe me, Senator, having become unemployed in the last 30 days, I'm more sympathetic to that point of view. I may be one of the people that are creating that statistic. I don't mean to be facetious about that situation, but I do feel that if we try to expand the money supply at a very rapid rate we run the risk of rekindling inflation and in the long term producing even greater unemployment than we have now.

The CHAIRMAN. Then what does the Fed do? I don't want to—

Mr. JACKSON. In my opinion the Federal Reserve should continue to increase the money supply at a rate that some people would call moderate and some people would call too rapid.

The CHAIRMAN. Roughly, what is that rate?

Mr. JACKSON. I think the rate outlined by Dr. Burns before this committee was in the 5 to 7½ range over the next year, which in my mind looks reasonable. I personally think that we're talking too much about the wrong measure of the money supply.

The CHAIRMAN. What is the right measure?

Mr. JACKSON. I personally think  $M_3$ , which includes not only demand deposits, currency, and time deposits of commercial banks, but also the savings deposits in our thrift institutions is a better measure. I personally think we're seeing a dramatic change in the attitude of the American public toward how they maintain their money.

The CHAIRMAN. What rates should  $M_3$  be increased?

Mr. JACKSON. Dr. Burns suggested that the target of the Federal Reserve was 10 to 12 percent over the next year. I personally don't see any objection to that. In fact, I would probably think that would be a reasonable rate of expansion. Various components I would expand at different rates.

The CHAIRMAN. You feel if we get the increase between 10 and 12 in  $M_3$  and 5 to 7½ in  $M_1$ , this will provide the credit we need, a gradual moderation of interest rates, and move us up out of the recession?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. What views do you have on the present adequacy of financial institutions with respect to solvency? We know we have had a very serious problem with the Franklin Bank and the San Diego Bank, and many people feel that our banks have been overloaned.

Mr. JACKSON. After thinking about that question since our last session, I'd like to respond as frankly as I can and as directly as I can based primarily on my opinions and not a detailed study, as you know.

First, I think our financial system is solvent as a whole, but at the same time, I feel that if we're going to get expansion in credit, particularly in the commercial banking system, we are going to need to expand that capital base in order to make the expansion possible.

The CHAIRMAN. How do you do that?

Mr. JACKSON. Several ways. No. 1, recognize that commercial banks should not dispense scarce capital and the even scarcer qualified people into nonbanking activities. For instance, I personally feel that while the Federal Reserve has authority to control bank holding companies' expansion into other fields, one of the primary things that

should be looked at is, "do they have adequate capital to go into this new area?"

The CHAIRMAN. How about banks getting into mortgage banking?

Mr. JACKSON. I personally think many banks would give anything if they had not gotten into mortgage banking because as far as I can see, it's been the biggest loser and the biggest eater up of capital of any part of the banking system in the last year. In fact, here again, I suspect that that might be one of the reasons Chairman Burns was interested in my service on the Federal Reserve Board, to do what I could to try to extricate some of the—

The CHAIRMAN. Would you be inclined to take a skeptical view of applications to require banks under the Holding Company Act not to engage in mortgage banking?

Mr. JACKSON. I wouldn't say not to engage in mortgage banking per se. I would want them to very carefully show me where they have the ability and the personnel and the money to put up to do it properly without putting strains on their capital to sustain their normal regular banking function.

The CHAIRMAN. Because that's so hard to administer on a case by case basis without charges of favoritism and without feeling confusion on the part of the industry, why not simply cleanly provide that the banks wouldn't get into mortgage banking?

Mr. JACKSON. Because, among other reasons, they could do it within the bank itself. There's no prohibition about the bank making mortgages and then, in turn, selling them. In fact, probably one of the largest is the Bank of America which has been doing it for years.

The CHAIRMAN. Let's get back to the original question. What are you going to do about the inadequate capital which you and I agree is a problem for the banks and you said you would prevent banks from getting into the nonbanking activities. How will you do that?

Mr. JACKSON. Don't allow them to get in unless they can demonstrate they have adequate capital and personnel to do their banking functions first and only to the extent they have more than adequate personnel to do that should they be permitted to engage in any other activities. That's the preservation of capital. I recognize that.

No. 2, I personally feel that—here again I'm speaking of real estate loans because that's the thing I know most about—the Federal Reserve is going to need to work very carefully with banks that have high risk real estate loans, many of which are in default, to try to help extricate these banks from the potential impairment of their capital abilities that these defaulted loans represent on their balance sheets. And I think the proper question is "that's fine, but how are you going to do it?"

First, it's extremely important that we recognize the difference between a nonearning asset—I mean an asset on which you're no longer accruing interest versus an asset that represents total loss. Now the accounting profession is proposing some very interesting rules that will assure that a bank, or any other corporation for that matter, properly represents the cost of carrying these dead assets by using an imputed interest concept. I think that, in turn, will fairly state these assets on the books of the banks. But it's quite another thing to force banks, who normally think of short term assets and liquid assets, to sell these real estate properties that they may have

foreclosed, or to quickly demand repayment of debt from their real estate development borrowers.

For instance, we were talking about the family's experience back in the previous decades. Our firm in the city of Birmingham had a severe real estate depression. We represented a large number of insurance companies. The insurance companies that forced the real estate to be sold quickly suffered severe losses. The insurance companies that moved with patience to rehabilitate the properties and then to orderly market those properties ended up making a profit. I personally feel with that kind of posture among the banks' real estate assets will be profitable. The Federal Reserve at the same time should stand by with a supply of additional temporary credit, or whatever it takes to get them over this hump, until these properties can be marketed.

The CHAIRMAN. My time is about up. Before I yield to Senator Garn, let me just ask if you'd like to round out your question by indicating what the banks can do positively to increase their capital. As I understood it, you have given us some very interesting suggestions on how they can preserve the capital they have and use it more effectively. Do you have any ideas on how they can increase their capital?

Mr. JACKSON. Well, of course, internal earnings are one way. If we can get them out of some of these high-risk loan situations that have produced high losses they will in turn produce internal earnings. One follows the other.

The CHAIRMAN. How about going into the capital market?

Mr. JACKSON. In the capital markets? I think that the banks are going to have to seek additional capital in the capital markets certainly. I would personally hope that it would not be through some forms of debt, as they are apparently tempted to do. I personally would hope it would be in the form of old-fashioned common stock.

The CHAIRMAN. Senator Garn.

Senator GARN. I have no additional questions, Mr. Chairman.

The CHAIRMAN. Some big banks have had problems, the Franklin Bank and the San Diego Bank, for example. Do you have a judgment about this situation? Do you have any judgment about that specific kind of problem?

Mr. JACKSON. It strikes me that from what I can read in the newspapers, and that's my only basis of information, that those bank failures resulted from banks investing too largely in highly speculative assets which dropped in value substantially. Those represented situations where the banks did not use prudence in the type of investments and loans that they made, whether it be speculation in foreign currency or improper loans or loans that proved to be a mistake. For instance—again talking about real estate because that's the thing I know most about—it's my understanding that there was a forced merger in South Carolina which, while it might not have involved quite as many dollars as the size of the banks you mentioned, may have had just as much impact in the community. That was because of poor real estate investment.

The CHAIRMAN. One of the problems this committee is getting increasingly interested in is that the Fed and the Securities Exchange Commission, both of whom are under this committee's legislative jurisdiction, seem to be clashing on disclosure. Some people believe

that failure of the banks to disclose problem loans as soon as they are discovered encourage banks to take imprudent risks and invite managers of liquid funds to put them in risky banks by purchases of large CD's and sales of Federal funds.

Now, as you know, those large CD's are insured only in minor parts, \$40,000, therefore the regulatory agencies—the bank regulatory agencies, including the Fed, seem to feel a compulsion to keep shaky banks solvent long enough to get claimants of uninsured CD's and Federal funds out, and this can lead to unwise policies.

Do you have a feeling about that? First, let me put it this way to make it direct. How do you feel about the requirement that the SEC has been urging that banks disclose fully to investors the quality and character of their loans?

Mr. JACKSON. I personally feel it's a very appropriate requirement. I think the crux of that discussion is the problem of defining where the problems lie. For instance, I mentioned the term "nonearning asset." An asset that is not accruing interest is what I'm really talking about, and that is the thing that the SEC has required be part of the disclosure.

Well, the unsophisticated investor, the average consumer that might buy stock in a bank under those circumstances normally would suspect that, if it is no longer accruing interest the asset may be worthless and should be deducted from the net worth of the bank in determining what true value would be. You and I know that the fact that you're not accruing interest on a loan does not mean that you're going to write it off totally.

The CHAIRMAN. To put this in perspective, Chairman Burns has indicated that if the banks are required to make the kind of full disclosure of their loan account it would make it hard for them to get the capital they need and would impede economic recovery. Do you have any fears on those grounds?

Mr. JACKSON. I think your statements are fundamentally correct, but at the same time may have gone beyond the necessity for disclosure. In other words, I personally feel that no disclosure is a mistake. I think the problem is to try and define what type of disclosure is appropriate under these circumstances.

For instance, I personally feel that if a bank were to state we have  $x$  dollars worth of loans on our books that are not earning interest and this represents  $x$  dollars per share of our capital and we expect that the recovery on these loans would be 100 cents on the dollar after imputed interest is deducted at so much, then I could at least look and say that looks reasonable.

However, the problem is, as I understand it, difficult to describe in a prospectus. Not only to describe what exists, but it is difficult to define. For example, if I'm making a loan and the borrower is 30 days past due, I may decide as a prudent banker to classify that loan as a noninterest accruing loan. On the other hand, you say, well, I know that borrower and he's got temporary problems and he will pay up in 90 days. We are not going to put it on nonaccrual until he's 90 days past due. If I'm under some pressure with my capital, it would be tempting for me to say, well, until that borrower gets 6 months past due I'm not going to touch him.

The CHAIRMAN. I see the dilemma, but doesn't it seem logical that the agency to determine how to resolve it is the agency that has the responsibility to require all people who sell securities to state the truth? They have had vast experience for many years, the Securities and Exchange Commission. Why not simply require the banks to conform with what they require in disclosure?

Mr. JACKSON. If the SEC will be careful enough to set up a set of rules so that everybody would operate under the same rules, I personally see no objection to that.

The CHAIRMAN. Well, are you saying that the SEC has got different rules discriminating more against the banks?

Mr. JACKSON. I don't know whether they are or not, Mr. Chairman, but the danger is that all too often people who are not skilled in a particular specialized line of endeavor may require accounting procedures, for instance, that may distort rather than clarify the position of the shares being offered.

So I personally think if SEC will be very careful to work with the Fed and the Controller in setting up a set of rules—for instance, during the previous hearing the question was asked why no figures were disclosed for the entire country. I personally don't see any reason why the nationwide experience wouldn't be appropriate so that people——

The CHAIRMAN. Wouldn't it be very beneficial on the part of the banking system on the whole if there were this disclosure? It seems to me it would restore investor confidence.

Mr. JACKSON. If you start with a common definition, yes. But if you start with a diversity of definitions the final results aren't going to be worthwhile. If you start with a common definition, I personally feel that nationwide disclosure would help the whole situation and clarify it.

The CHAIRMAN. That's very helpful. Now many Members of Congress have urged the Board through its open market account to buy housing agency paper. Confining its purchases exclusively, as they do now, to Treasury securities, the Board resisted this idea but recently has made some progress. As of April 30, the Board's portfolio of Treasury securities was \$87.8 billion, while agency paper held only \$5.2 billion.

If you were confirmed, will you press for greater purchasing of housing agency paper by the Board?

Mr. JACKSON. Yes, sir. And let me give you a specific example. Many people in the Congress, and agencies, and the Federal Reserve, and in the country as a whole, don't understand what powerful tool, obtained through this committee, that the Department of Housing and Urban Development has to obtain funds in preference to most sectors of the money market through the issuance of GNMA mortgage-backed securities. There are over \$18 billion of these outstanding now and I understand that the figure may go as high as \$24 billion relatively soon. These securities enjoy the full faith and credit of the United States and I personally think one of the things the Federal Reserve should do to make a more orderly market in those securities would be to buy and sell the GNMA mortgage securities through the open market.

The CHAIRMAN. So you would argue the 6 or 7 percent they hold in the housing securities is inadequate. You would press for a higher proportion?

Mr. JACKSON. I don't have the factual information to know whether the holdings of housing securities represent a higher total holdings of all housing securities issues versus the holding of Government Treasury issues. I think it should be proportionate. I don't think the Fed should go in and buy all housing securities per se until they reach an abnormal percentage of all housing securities outstanding, but I do think that they should buy housing securities. As I said, personally I think GNMA represents an outstanding opportunity. It's my understanding for instance, right now those securities are traded on a market spread or commission of about one-half of 1 percent. It strikes me that the Fed could improve that spread and in turn make housing less costly to the public at large.

The CHAIRMAN. One of the problems for housing and for the recovery of the economy in general is the feeling that the Federal Government has gotten so very deeply in debt it's going to have to borrow so much money that it's borrowing is going to crowd out other borrowing and is going to drive interest rates up.

Now if in the next year we recover, as we all hope we will, and interest rates rise, as we hope they will not, and they do begin to rise and private investors are crowded out of the money and capital markets, what should the Federal Reserve Board do?

Mr. JACKSON. If the Treasury crowds out other borrowers in the money market, the Congress and the administration effectively will be putting the Fed on a very difficult spot because you charge the Federal Reserve with control of inflation. But if the Federal Reserve must expand the money supply purely to accommodate the needs of the Treasury, it's my personal opinion that they would in fact be producing inflation. However, the alternative will be severe a dampening of our economic recovery which will hurt us.

I personally feel that the crowding out theory is valid as a theory, although I personally don't feel that crowding out will occur in 1975. I think many of us may feel that. For one reason, many lenders and investors have lost a lot of money and there have been some bad loans and bad investments in the last year. As a result, our investors are becoming highly selective about where they put their money. As a consequence of that, people with relatively low grades of credit or marginal credit can't get it at any price. So I wouldn't be surprised that we wouldn't suspect the Treasury crowded out many of these borrowers when in fact the Treasury would not have crowded them out. They simply couldn't get the money because the investors weren't willing to take those types of risks again.

The CHAIRMAN. You have indicated there wouldn't be any danger of that this year.

Mr. JACKSON. No, sir.

The CHAIRMAN. How about next year?

Mr. JACKSON. I personally feel the key to the crowding out question is the ability of Congress to live under the budgetary limitations which it's imposed on itself. If the Congress lives up to the \$68.9 billion—I'm not sure of the exact figure—budget deficit that the Congress has established, then the country in turn will be confident that not only



the Federal Reserve—but the Congress, the administration and the entire economy will put deficit spending in a proper perspective and can rely on the Congress to do so. As a result, I think that will probably do as much toward improving the money market and the long-term recovery as anything that could happen, certainly more than anything the Federal Reserve could do.

The CHAIRMAN. Do you now have an opinion as to whether you and the public would be better served by having a professional staff appointed for helping you in addition to your administrative aid, to have as a Governor of the Federal Reserve Board? I'm talking about four or five or six people responsible directly to you. As you know, there are several hundred staff people at the Federal Reserve Board. There are over a thousand, I understand, and some—I'm not asking for more people to be appointed. What I'm saying is using the staff there and if you had a small group of five or six of those thousand and so would the other six members of the Board, would you think it would be desirable? Would that mean in your view that you would probably be able to arrive at wiser decisions and so forth, or do you think this is not necessary?

Mr. JACKSON. I don't think it's necessary. That's one question previously asked me that I went and got some answers to before I came back today, Senator. I asked very directly not only some other members of the Board of Governors but to the staff—could I get independent counsel and would I have access directly to anybody that works there for personal advice, information of any sort without fear, threat or constraint on the part of any other member of the Board? I was assured that that was unconditionally true and for that reason I think fragmenting the staff up into little pockets would be a mistake, from an operational point of view as well as an overall point of view.

The CHAIRMAN. I don't necessarily agree with that. I don't know enough about it myself. It just seems to me to be wise to consider the possibility and I suggest you might want to reconsider that possibility and discuss it with former members of the Board and with others, but if you have gone into it in that detail and feel that one aid is all you'd want or need, I certainly understand your position and that's the kind of answer that would be helpful to the committee.

Do you have an opinion on whether inflation will accelerate or decelerate the second half of this year or next year?

Mr. JACKSON. I think inflation will continue to decelerate.

The CHAIRMAN. Why?

Mr. JACKSON. Why? I think that our businesses and our industries have not recognized, among other things, one of the fundamental causes of inflation. We have concentrated so much on inventory adjustment, changes in raw materials, expectations of rises and so forth, changes in purchases, that I don't think we have recognized that the American consumer has changed his attitude about what he wants and the shape he wants it in and the price he's willing to pay for it; I think it's going to take through the second half of this year to make some of those adjustments.

For instance, there are two industries that most people think are likely to lead us out of the depression—housing and automobiles. There's been publicity that builders are having to rethink the type



of houses they're building for the American consumer. As I mentioned, I don't think multifamily housing will lead housing upward. I think the American public is taking a different attitude about what kind of car they're going to buy and it's going to take the automobile companies a good while to adjust their production means and sales techniques and other things, in order to produce the type of cars the American people want, and until they do that—

The CHAIRMAN. But here you have the situation you pointed out yourself, that in spite of the fact the demand for housing has gone up the price has gone up; the demand for automobiles has gone through the floor and yet the price has gone up. The demand for steel has plummeted in the last several months and the price hasn't dropped one bit. The demand for chemicals has gone down and the price has gone up. There's a series of articles in the Wall Street Journal on this phenomenon and depending on how you look at it the heroic efforts by these industries to maintain their prices when all the laws of classical economics should have their prices falling when they're operating far below capacity, and yet they are maintaining their price in the face of this. This is what is discouraging to me, combined with the fact that we do have the likelihood of increased energy prices which, of course, has an inflationary effect on the economy.

Mr. JACKSON. I share your concern. This is one reason that I remain concerned about the future prospect of inflation. I see too many businesses in this country that price their product not on what it should be bought for or will be bought for by the consumer, but rather on what it costs them to produce it. I don't see the market-place demand/supply relationship working in too many instances. I don't see the demand/supply working in too many labor relationships as well. People still expect inflation will be here. Until we can reorient their thinking and regalanize the risk of loss that these industries have, I think we've got built-in attitudes toward inflation that will make it much more difficult to contend with.

The CHAIRMAN. The Fed, in addition to telling us what their goals are this year, the Chairman has said 5 to 7½ percent would be his goal for the coming year from now to a year from now roughly, should they indicate the results they expect? That is, what the Fed expects to happen to prices and what it expects to happen to growth and employment, so that we can have some basis for evaluating the goals, some basis for facing them? I realize this is difficult and I realize this would be only an estimate, that it would be very strongly qualified.

Mr. JACKSON. First, let me quickly say I think it's within your powers to ask them to produce it whether they want to or not. In other words, there might be a lot of intense discussion about the wisdom of it, but ultimately the power rests with the Congress to make the Fed do what it wishes. Fundamentally, I can see why the Congress would want them to do so, simply because they could then understand the monetary reports in better context. However, if you get off into that briar patch, if I can use that expression, I suspect that it's going to create more second-guessing and demonstrate more vividly to the public and to the Congress that monetary policy or monetary action or whatever the action of the Fed might be is at best an imperfect tool.

The CHAIRMAN. Why wouldn't that be healthy and wholesome? Can't we learn from our mistakes? We see what we tried to do and what happens. If it's a good performance, fine. If it's a bad performance, then it would inform us that we need some new policy, some change.

Mr. JACKSON. Unfortunately, as you know, the public tends to concentrate on the mistakes and not on the right guesses, and I suspect——

The CHAIRMAN. That's not a bad idea. That's the way we learn, isn't it?

Mr. JACKSON. Well, I think we learn by our mistakes, but sometimes we distort the mistakes when we concentrate on them rather than the things we do right.

The CHAIRMAN. At any rate, your answer is that if the Congress wants to do it, all right, and the Fed ought to conform, but they ought to do it with their eyes open, recognizing it might——

Mr. JACKSON. Certainly, the more detailed instructions the Congress gives the Federal Reserve, to a certain extent, the less sleepless nights the members of the Federal Reserve have to spend on whether their decisions were proper.

The CHAIRMAN. What do you think is likely to happen to short-term and long-term interest rates if  $M_1$  does follow the guidelines that the chairman has indicated?

Mr. JACKSON. I personally feel the short-term rates will continue downward, but at a reduced pace than we have seen recently. I think long-term interest rates will come down more dramatically.

The CHAIRMAN. Really?

Mr. JACKSON. Yes, sir; due to two reasons. No. 1, as I mentioned, I don't think we're going to get the economic recovery and the demands that we would like to have. No. 2, I think the expectation of future inflation will diminish, the longer we have reduced economic activity. The memories of 1974 are still extremely vivid in the minds of people with funds for investment or for saving.

The CHAIRMAN. I don't want to be unfair, but you seem to be saying as we continue in a recession, the high level of unemployment, that the expectation of inflation will diminish and that this will tend to bring long-term interest rates down. Is that right?

Mr. JACKSON. Yes, sir. Don't misunderstand me. I'm not saying the reasons for which it occurred are desirable, but that doesn't change my attitude about the results that I expect to happen.

The CHAIRMAN. It sounds like you expect we will be in recession for some time, at least with a high level of unemployment and a lower level of production, than we would have if we had 5 percent.

Mr. JACKSON. I personally would.

The CHAIRMAN. Do you think Fed actions have importance and lasting effects on interest rates?

Mr. JACKSON. I think Fed actions have immediate importance, but I personally don't think the Fed can lean against the tide, so to speak. Its actions produce reactions on the part of the market, but I personally feel that the Fed cannot control interest rates per se over the long term.

The CHAIRMAN. Do you now have an opinion whether monetary policy was inflationary in 1972 when  $M_1$  increased to 9 percent in the

second year of recovery, when unemployment was so much lower than it is now?

Mr. JACKSON. This is one of the reasons I hesitate to answer that question, because if I serve this Board I'm going to have to live with those people; and making public statements may not endear me to their hearts; but it's my personal opinion, in hindsight, that anything we failed to do for the last 4 years prior to 1974 that wasn't intentionally leaning against inflation was a mistake. We should have paid the price earlier and longer and continuously.

The CHAIRMAN. But that was the year when you had the most conspicuous increase in the money supply and the year of substantial recovery and a year of relatively low unemployment compared to the situation now.

Mr. JACKSON. That may have been the biggest of the series of mistakes on the part of us all.

The CHAIRMAN. What dangers do you see in banks buying large amounts of Federal funds and selling large amounts or volumes of CD's.

Mr. JACKSON. I personally think that it's time that the banks quit being hot money shops to the extent that they are leveraging both assets and liabilities to an extent that exceeds their capital base and exposes them to risk of the money market, both as to maturities and rates. Unfortunately, though, this runs contrary to one of our other desires, and that's to expand the monetary base on which banks can operate. But I think it's highly risky. If we're going to have a capital-short banking system, we've got to be careful about how much of that we allow.

The CHAIRMAN. There's been some complaint that the regulatory agencies, three of them, have been permitting a kind of competition of laxity, that they get banks to become subject to their regulation by being easier in their regulations and not really serving the public interest and not preserving the soundness of banking and so forth.

Do you think the banking regulatory system is working well; and if it's not, what do you think can be done about it?

Mr. JACKSON. I think it has some imperfections and particularly in regard to this competition of laxity that you described. I think it's time the Congress concentrated some of those responsibilities in one place so we've got one set of criteria that everybody can follow.

The CHAIRMAN. That's very helpful. Would it be desirable to require some confirmation of Reserve bank presidents?

Mr. JACKSON. I personally don't think so. Among other reasons, it would mean they probably would all have to take a cut in salary and therefore it would—

The CHAIRMAN. Why would they take a cut in salary?

Mr. JACKSON. I would guess that, if confirmed, they would as a result be subject to the executive pay schedule, and I would suspect that most of them make more than \$40,000 today.

The CHAIRMAN. Some of them make \$90,000.

Mr. JACKSON. I don't have any idea what they make, but I would suspect it's more than \$40,000.

The CHAIRMAN. What's wrong with these poor fellows maybe making only \$60,000 instead of \$90,000 in view of the fact they are appointed by the Government, in view of the fact that they have a public responsibility and their power derives, to a great extent, from

the Government? Why shouldn't their salary be subject to debate and discussion? And maybe it ought to be higher. Why shouldn't it be subject to——

Mr. JACKSON. I think we're talking about two different things. No. 1, whether the salary is subject to congressional confirmation.

The CHAIRMAN. Why say "their salaries?" I just jumped a step here and assumed what you're talking about is that the Senate is going to confirm them. Then we might start looking into their salaries. Recently we had legislation on the floor to limit the salary of the Chairman of Amtrak, for example, and I voted against it. I wanted the high salaries. I think you get what you pay for and I feel the same way about a Reserve bank president, and I was outvoted then and I assume I might be again; but I don't see anything wrong with that procedure.

If the House and Senate decide they should get less, what's the matter with that?

Mr. JACKSON. I would personally think it might be more appropriate for the Senate to confirm those people who serve on the Federal Open Market Committee rather than the Senate having confirmation directly over the presidents.

The CHAIRMAN. That's why I asked the question, because they do serve on the Open Market Committee.

Mr. JACKSON. If I serve as Governor of the Federal Reserve Board, yes, I would, and these people do, too, under the present rule. I understand the thrust of your question, but I would think it's more important to confirm those people that serve on that committee rather than all Federal Reserve bank presidents per se, simply because these people have a vast amount of administrative responsibility in running the individual banks that is not directly pertinent to the Open Market Committee's considerations.

The CHAIRMAN. How do you feel about the President's designation every 4 years of one of the Governors as Chairman?

Mr. JACKSON. I personally see that that's reasonable. I can see the wisdom, and yet the dangers of consideration to have that concurrent with the President's term. If that's concurrent with the President's term, it's not in——

The CHAIRMAN. It wouldn't be concurrent. I agree with you that it shouldn't be concurrent.

Mr. JACKSON. I personally see that seems like a reasonable term for any member, yes, sir.

The CHAIRMAN. It seemed to many of us, especially to some people in the House but in the Senate too, that it's strange to have an important public agency deciding its own expenditures and without audits by the Government, which is true of the Federal Reserve Board. You don't have a GAO audit in the Federal Reserve Board, as you know.

Do you have an opinion on proposals to require the Federal Reserve Board to go through the normal appropriations procedure or GAO audits?

Mr. JACKSON. I think there are two parts to your question. First, whether the Federal Reserve should be audited by the GAO; and next, whether all of its expenditures should be subject to appropriations procedure; and they should be separated.

Personally, I do not—I would like to hope that the Congress would not put the Federal Reserve Board under the appropriations procedure. My experience in dealing with the other departments of the Federal Government is when the need is greatest they always seem to be the shortest on funds with which to hire the people to get the job done, and I think particularly of HUD over which I have had direct experience. For this reason I personally would hope that the Congress would not put the Federal Reserve under that type of constraint so that it could better respond in its primary function of operating the reserve part of the banking system.

The CHAIRMAN. How about a compromise? How about a limitation instead of annual appropriations? I'm inclined to agree with you on annual appropriations. So there would be some direct review. After all, it's a creature of the Congress. The Federal Reserve Board not to have any congressional discipline as to where it spends its money and not auditing by the GAO so we don't have a comprehensive notion of where the money is spent—I'm not suggesting this in any criticism of Dr. Burns or Martin or any of the fine people that serve. It's just as a matter of procedure, we don't know what's going to happen in the future. Wouldn't we be better served in having more knowledge? This is the purpose of this.

Mr. JACKSON. I think you answered your own question. We don't know what's going to happen in the future. If the Congress could tell the Federal Reserve how many banks are going to get into difficulty, how many food stamps that the Congress is going to ask them to administer, then perhaps it might be more reasonable. But I believe the history of our country is any time the Congress establishes ceilings they, in effect, become absolute expenditures.

The CHAIRMAN. You Governors of the Federal Reserve don't give the banks under your jurisdiction a blank check.

Mr. JACKSON. No, sir.

The CHAIRMAN. You audit them very carefully. Why shouldn't we the Congress, do the same thing of you?

Mr. JACKSON. The difference is that our control over budgets, I hope—and I'm not sure of my facts here—is entirely flexible to recognize quickly changing conditions. The appropriations procedure of the Congress, in my experience, is relatively inflexible.

The CHAIRMAN. Well, the Defense Department has an annual budget far more complicated than the Federal Reserve and far bigger than the Federal Reserve. Well, at any rate, I think I understand your position on this and I think it is responsive.

Finally—and I have gone into quite a length here but I will ask just one other question. Can the economy be fine-tuned? Does anybody have enough knowledge and expertise to fine-tune it or should we, as Milton Friedman suggests, resign and stick to a longrun policy consistent with achieving maximum employment without inflation as a longrun matter?

Mr. JACKSON. I personally don't think any one person or any one group can fine-tune the economy *per se*. I think they can try. I think they can do the best they know how. But insofar as producing assured results, I don't think they can.

The CHAIRMAN. Should they try? You see what I'm getting at is whether or not we should follow a policy of having a steady increase

in the money supply commensurate with the long-term goal for the economy.

Mr. JACKSON. Our economy, Mr. Chairman, in my view, is not a mathematical model that produces results in mathematical formulas, but it's a social creature that produces results entirely different from anything any of us expect based on the original concept. Therefore any mathematical proposal made in advance, no matter by whom, is bound to be wrong; and it takes some creature—in the history of most Western nations, a central bank—to try to lean against the wind and moderate changes produced by changing expectations and changing occurrences.

Senator SPARKMAN. Mr. Chairman, I have some pro forma questions to put to him regarding conflict of interest and appearance before a congressional committee.

The CHAIRMAN. Yes. The nominee has indicated that clearly he has no conflict of interest. He's indicated he will appear before this committee and other committees when requested to do so.

Mr. JACKSON. Yes, sir.

Senator SPARKMAN. Then I have no further questions.

The CHAIRMAN. Mr. Jackson, I want to say that I think you have been far more responsive this time. I think your coming back has been most helpful to us and has given us a much better picture of what your position is.

I happen to disagree with you on some of your positions. I agreed with you heartily on others, but I think you have given us a better understanding of your attitude and your competence too, so we are in a much better position now to evaluate your qualifications for the Board. Thank you very much.

Mr. JACKSON. Thank you, Mr. Chairman. If the committee would like, in connection with my previous hearing, I would like to submit a personal statement outlining—

The CHAIRMAN. If you would like to make any statement now, that would be fine. Why don't you go ahead now?

Mr. JACKSON. To illustrate the reasons I was reticent to answer before, I will try to summarize this, although if the committee would like, I will include it in toto.

First, I feel extremely strongly that anyone that takes on the position for which I have been nominated has got to approach it with no bias, no personal prejudice, anything of that sort; relying on the best facts available to them on making decisions and approaching any of these major policy issues with a very open mind.

As a result, prior to my hearing before, I intentionally did not try to come to any foregone conclusions about some of these policies.

Next, as I have taken these policy positions today, I recognize quickly that because I have not had the depth of experience or information that should be available to officers of the Federal Reserve, that it's entirely possible that after I have had that information I may have a change of attitude and I was concerned that the committee might properly question the candor of my original remarks if I answered the question one way today and find that proper and better facts produce a better conclusion later.

Finally, as the committee knows, the Federal Open Market Committee is a committee of 12 people and any member of the Federal Reserve Board has only one vote. If I am to have influence on that

committee beyond the 8½ percent vote that I'd have, those members of that committee have got to feel confident that I don't take positions unless I have done my homework and done the job in the manner that they think appropriate before arriving at conclusions.

I think I'm running the risk today of taking public positions that may be contrary to what I conclude the proper position should be later, and I may be properly questioned about why did I have such a change of heart. However, as the committee knows, despite all these personal reservations, I do recognize the need of this committee to make proper inquiry with regard to my views so they in turn can reflect them to the Senate and the Senate can in turn make the decision on the appropriateness of my nomination.

The CHAIRMAN. Well, Mr. Jackson, let me just quickly respond to that because I think what you have said this morning can have a bearing on other nominees for the Federal Reserve Board and other officers and the attitude they take before they come before the committee.

I think it's fine that you have an open mind and it's very welcome that you indicated that you wanted to maintain that. At the same time, as you also indicated, I think we have a right and duty to elicit from nominees what their attitude is and what their position is on the critical issues they are going to face so we can be as well informed as possible. I don't see how we can do that if people say, "My mind is completely open on every issue, on every subject, and I'm not going to take a position."

I think you have handled that very well this morning by indicating the positions that you have are tentative, should be tentative. I think the worst thing we can do in our society is to be frozen in concrete. We all grow and learn as time goes on and I think it's perfectly proper to change and I wouldn't expect to hold you to anything or anybody would expect to hold you to anything you have indicated this morning if you find as time goes on that that position was in error.

Mr. JACKSON. Thank you, Mr. Chairman.

The CHAIRMAN. As far as your relations with others, I can tell you from having served in the Senate for a number of years, that very few people are going to hold against you the fact that you may disagree with them. If you have a personal animosity against them, if you're unfair to them in some way they will resent it and maybe retaliate, but I think if you disagree because you sincerely believe one view and them another I can't imagine that that would weaken your influence in any way. You would be respected as a man of strong views. But I don't see why that should affect your relationship or your effectiveness with your colleagues. We all have the same problem.

Senator GARN and I agree wholeheartedly on some things and disagree on others, but we're good friends and we get along well and I don't resent any position he's taken and I don't think he resents any position I've taken, and the same is true of Senator Sparkman, and I think that undoubtedly will be true with your relations with your fellow members on the Board of Governors.

Senator GARN. Mr. Chairman, I'd just like to say that I have been much more pleased with the testimony today, too. I shared some of the chairman's feelings in the first interview, that you were not being

as responsive as I thought you should be, and I think we recognize that as people gain more information, I certainly have changed some opinions, after 5 months in the Senate, that I had a year ago being on the outside.

I think the Chairman, Senator Sparkman, and I would all be surprised if you didn't have some change of opinion as you get into the Board and learn more about it. I'm sure that these more senior Senators have changed their minds a few times over the years. As a matter of fact, I wouldn't worry about changing it. Some Congressmen and Senators change their mind daily two or three times on the same issue.

So I appreciate your testimony today.

Mr. JACKSON. Thank you, Senator Garn.

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

The committee stands in recess.

[Whereupon, at 10:20 a.m., the hearing was adjourned.]

