HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
NINETY-FOURTH CONGRESS
SECOND SESSION
ON
THE NOMINATION OF DAVID M. LILLY TO BE A MEMBER
OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE
SYSTEM

MAY 17, 1976

Printed for the use of the
Committee on Banking, Housing and Urban Affairs
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, Chairman

JOHN SPARKMAN, Alabama
HARRISON A. WILLIAMS, Jr., New Jersey
THOMAS J. McINTYRE, New Hampshire
ALAN CRANSTON, California
ADLAI E. STEVENSON, Illinois
JOSEPH R. BIDEN, Jr., Delaware
ROBERT MORGAN, North Carolina

JOHN TOWER, Texas
EDWARD W. BROOVE, Massachusetts
BOB PACKWOOD, Oregon
JESSE HELMS, North Carolina
JAKE GARN, Utah

KENNETH A. McLEAN, Staff Director

ANTHONY T. CLUFF, Minority Staff Director
NOMINATION OF DAVID M. LILLY

MONDAY, MAY 17, 1976

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) presiding.

Present: Senators Proxmire and Sparkman.

The CHAIRMAN. The committee will come to order.

We are delighted to see the senior Senator from Minnesota, Mr. Mondale, here.

The nominee, Mr. Lilly, is here.

Mr. Mondale, you may go right ahead, sir.

STATEMENT OF WALTER F. MONDALE, U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator Mondale. It is a great pleasure to be here to introduce a friend of mine, and one of the outstanding citizens of our State, David Lilly, who has been nominated to fill the unexpired term on the Federal Reserve Board of Robert C. Holland.

I wish to say that Senator Humphrey could not be here. He is returning from Minnesota. But he asked that I express his support for this nominee.

Mr. Lilly has had a distinguished career in the Twin Cities and in my State, and he is a much respected member of the community.

After graduating from the St. Paul Academy, he attended Dartmouth and graduated with a degree in economics. After his graduation, he was associated with the First National Bank of Minneapolis from 1940 to 1941, prior to serving as Assistant Under Secretary of the U.S. Treasury.

He served in the U.S. Army from 1942 to 1945, where he attained the rank of major and was awarded the Bronze Star for his military service.

In 1945, he joined Toro as the vice president and general manager. He became the president in 1950 and the chairman of the board in 1968.

At the present time, he is a director of the Dayton-Hudson Corp., General Mills, Inc., the First Bank System, the First National Bank of St. Paul, and the St. Paul Companies, Inc.

He is also the chairman of the board of trustees of Carleton College and a member of the Visiting Committee to the Graduate School of Education of Harvard University, in addition to being a member at large of the Council of the Alumni of Dartmouth.
That doesn't tell the whole story.
I consider Dave Lilly one of our outstanding business statesmen in Minnesota.
There are all kinds of people. Some just read their association journals, and that is their position. David Lilly is one of a band of remarkable leaders in our State who read and learn and make up their own minds and have insisted that businessmen be more than profitmakers.
They must be that, but they also should be community leaders deeply concerned about the future of their communities, their States, and this country.
The President could not have picked a finer nominee than David Lilly, and I am delighted to be here today to strongly urge his confirmation.
The CHAIRMAN. Mr. Lilly, we swear in our nominees who appear before this committee.
[David M. Lilly was sworn by the chairman.]
Senator MONDALE. I might say, Mr. Chairman, that I speak for all Minnesotans. This is a remarkable person. And I think the President should be warmly commended.
The CHAIRMAN. Senator Mondale was a member of this committee for years. We wish he still were here. But we lost him.
I would like to tell you that the other Senator, Senator Humphrey, has also told the committee directly that he very enthusiastically supports your nomination. And there are no two Senators who are held in higher regard than the two Senators from Minnesota.
I have a series of questions for you on a number of things I would like to ask about, Mr. Lilly. I will start off with the fact that you have had extensive business experience and, of course, anybody who has been successful in business is likely to acquire property and that property may represent a conflict of interest. And I would like to make sure that we clarify that.
You stated in your correspondence to the committee that you will dispose of your holdings and bank stock prior to your taking office; is that correct?
Mr. LILLY. That's correct.
The CHAIRMAN. Two family trusts were attained but neither you nor your children have a direct interest in these trusts and you will abstain from any decision involving the main holding, the First Bank System, Inc., while you are a member of the Board; is that correct?
Mr. LILLY. Yes, sir.
The CHAIRMAN. Others will be placed in a blind trust. Can you assure the committee that this will be truly blind and that you will not discuss these matters with the trustee?
Mr. LILLY. It is going to be so blind, Senator, that the trustee and my accountant are going to prepare the income tax and sign it with my power of attorney authority so I won't even see my income tax statement, and I will have no way of knowing what they have bought and sold.
The CHAIRMAN. Your leave of absence status with the company is solely to secure a vested interest in the pension and insurance plans; is that right?
Mr. Lilly. That’s correct. More accurately, it is to secure my interest in the insurance plan and in the profit sharing plan which is used for pension purposes.

The Chairman. That brings me to another question that concerns me very much.

I don’t mean to visit this unfortunate development upon you.

One of the provisions in the law is that Governors of the Federal Reserve Board can serve 14 years, and the President can appoint people who serve for less than 7 years and they can fill out that term and then they can serve another 14 years. So they can serve for a maximum of 21 years.

In your case you could serve—you are serving out the term of Governor Holland. So your service would be for about 12 years or so.

Mr. Lilly. No; there are 21 months left in this term.

The Chairman. All right.

Now, I raise that point because I am very concerned with what has happened in the Federal Reserve Board in recent years. We now have a situation where it is a revolving door. It is almost a joke. There is nobody who has served on that Board except for Arthur Burns for much more than 2 years.

One of the ideas of having the 14-year term is so that people can learn their job, develop experience, develop the confidence and the understanding of our very complicated monetary system and economic system and then act on the basis of that substantial experience.

We now have a situation where Dr. Burns has served for 6 years. He came in in January of 1970. After that, however, look at this: Gardner was appointed February 13, 1976—So he has served 3 months—Coldwell was appointed October 29, 1974; Jackson, appointed July 14, 1975; Henry Wallich appointed March 8, 1974; and Partee has served since January of 1976—5 months.

That means we have a Board of—I can’t say rookies exactly, but that is almost what it amounts to.

That does several things. No. 1, it gives the Chairman of the Board an extraordinary kind of influence because he is with a group of people who have relatively little experience on the Board and, No. 2, it means that you just don’t have the kind of experienced management of our monetary policy which I think this country should expect and in view of the 14-year term, that 14-year term that is specified in the law that we contemplated in passing this legislation.

There have been proposals that we shorten the term, we make it a 7-year term. Some people even say a 4-year term. I have resisted this on the grounds that we think the Board ought to be independent and this would interfere with the independence.

It seems to me that something should be done about this.

You have got a 21-month term ahead of you, as you pointed out, and then whether or not you serve will depend in part upon whether you are reappointed and also in part whether you are interested in serving any longer time.

Do you have any reaction in view of that record here?

Can you help us with this?

What would be your attitude!
Would you be interested perhaps in serving for the rest of your active career on the Federal Reserve Board?

Mr. Lilly. Well, I have no idea what I want to do 21 months from now, Senator. I know that I really want to serve this term out. And there are several things that I got started on when I was the Chairman of the board of directors of the Minneapolis Federal Reserve Bank and I would like to see those things through to conclusion.

But what it is going to be like in 1978 as far as my own personal destiny is concerned, I just wouldn't want to make any commitment.

I certainly have a high regard for the Fed. And I share very much with you the concern about the turnover.

There is not a Governor left that I knew when I left the Federal Reserve Bank's board of directors in Minneapolis in 1973 except for Arthur Burns.

The Chairman. What is the reason for this? Is it because the salary isn't adequate?

I know one Governor had to leave because he wasn't able to take care of his obligations.

Mr. Lilly. Bob Holland's statement speaks for itself. With three children in college, he can't afford to be a Governor of the Fed.

I think there is the salary consideration that should be looked at, and there is also the age and career stage of the appointee. I think that several of the appointees that have left were younger men. I suspect that perhaps if the recruiting were from an older bracket, after children were out of college, you might have more success in finding people who could afford to stay for the 14 years.

The Chairman. Do you think if we take men with a little more maturity and appoint them they would be more likely to stay?

Mr. Lilly. That would be my opinion, yes, sir.

The Chairman. It is very difficult to provide for changes in salaries. A lot of it is geared to the congressional salary, and that is a difficult thing to change for obvious reasons.

But if you have any further thoughts on this and when you submit your remarks for the record, we would be happy to have you elaborate on it to any extent you can.

Mr. Lilly. All right, sir.

The Chairman. Now, what do you see as the difference between managing a corporation, which you did with great success with the Toro Corp., and managing the Federal Reserve Board, and thereby the American banking system?

Obviously, in the first case, one of your principal obligations is to make a profit. That is kind of the bottom line, at least with stockholders and many others. Obviously, that isn't the principal motivation, or even a very important motivation in the Federal Reserve Board.

So what, in your view, is the Federal Reserve Board trying to do? How do you see your obligations?

Mr. Lilly. Well, the Federal Reserve Board has, as I see it, the monetary policy aspect side which it deals with both as a Board and as part of the Open Market Committee. And then it has the bank regulatory side, where it is dealing with regulation of banks. And there is also the responsibility of running the Federal Reserve System
itself. The 12 banks of the System are very important parts of our money transfer system.

And in managing the System, there is a bottom line concept, I am happy to say, in both the banks, and at the Board. They are run with that kind of a discipline.

The Chairman. I am still not clear in my mind what, in your view, is what the Federal Reserve Board should do. What should be their objective in relationship to the economy?

Mr. Lilly. Well, it should be trying to keep the economy expanding on a basis that is supportable. It should not be attempting to expand the economy in such a way that we get into further inflationary problems.

On the other hand, it shouldn't be so restrictive that the economy does not expand as rapidly as it safely can.

The Chairman. How do you achieve that balance? What do you look for?

Right now, for instance, take the present situation where we have heavy unemployment, a declining unemployment, and we have an inflationary situation that has been very bad. What kind of monetary policy should we follow?

Mr. Lilly. I think the monetary policy which we are following is right on course.

Certainly the last several months would indicate that the Fed is on course. And I think that the projected growth in aggregates that they are talking about would seem to be the appropriate answer at this time.

However, I think that there has to be a constant feedback to see if your assumptions are proved or disproved. And presently I think that they are not doing badly.

The Chairman. I agree. It has been a good year for the Federal Reserve. We have had growth in the economy. We have had a reduction in unemployment. We have had interest rates falling for most of the year.

We have had prices moderated. And that is a good result.

I just wonder if that is the result of the Federal Reserve policy.

After all, almost everybody has said that if you are going to get interest rates to be leveled and if you are going to get growth in the economy, you have to have a greater money supply.

And the money supply actually did not grow very much.

I wonder if this recovery has much to do with action by the Federal Reserve.

Mr. Lilly. Well, Senator, I am not an expert on the matter, I hasten to say that.

I gather that the velocity factor is of larger importance in the beginning of the recovery cycle, and that is the main contributor to the fact that there has not been an interest rate bulge here, even though there has been substantial expansion in business activity without large increases in the aggregates.

The Chairman. I have some other questions.

But, Senator Sparkman, you may question the witness.

Senator Sparkman. Thank you, sir.

What is the salary, as you understand it?
Mr. Lilly, $42,000.
Senator Sparkman. The reason I ask that is because ours has been $42,500. And—
The Chairman. It was increased last year.
Senator Sparkman. Yes.
The Chairman. Five percent.
Senator Sparkman. I have been looking over your biographical data. You have certainly had an active life in the world of finance, it seems to me.
And other activities, too. Including chairman of the Republican Finance Committee. I am impressed with your activities. Some of the companies you have been with.
I talked with Mr. Lilly a few days ago about this hearing, and I was impressed with his views and his experience. And I am satisfied with the testimony, with the data here. I think he will be a very able member of a very able body.
And sometimes I think that perhaps we do not keep in mind sufficiently the important part that this Board plays in our economy.
It can have a tremendous influence up or down.
And I hope it will continue to be up.
The Chairman. Let me ask just a few more questions.
How do you think your service on the board of the Minneapolis Bank will be of use to you on the Board of the Federal Reserve?
Mr. Lilly. In a variety of ways. In the Minneapolis Board, we have worked very hard to install some new concepts in the Fed. We worked on objectives setting, and programs to accomplish those objectives, and on matching the budgets up with those programs and measuring performance at the end of the year, as to what they did with their budgets, and whether they did achieve their objectives or not.
We tried to relate salary actions to that performance. We worked with the Federal Reserve Board itself with the same idea—that if in the System we could have similar objectives and budgets matched against the programs to accomplish those objectives, then we would have a much better controlling device and much better discipline and a sense of bottom line performance. So I have been very much involved in the management of the Reserve banks.
I am also very much concerned with the representation on the district board of directors. I think that we had a very good representation in our class B and class C directors. And I would like to see that kind of representation throughout the country.
Of course, we worked every month on our analysis of the economic condition of the country, and we worked very hard on making our position known to the Board of Governors as to what we thought ought to be done with the discount rate, and what we thought ought to be done with reserves and so on.
The Chairman. How did the Board react to that kind of advice?
Mr. Lilly. It is difficult to tell, exactly, because you were talking to a group of 7 men. And where your opinion came out, we couldn’t always follow. Sometimes we were in agreement as to the course to follow and sometimes we weren’t.
The Chairman. Was there any kind of response to your suggestions, when they wanted to follow a different course?
Mr. Lilly. With respect to our analysis of economic conditions and actions of the Open Market Committee, at that time, as you will remember, we were under the 90-day requirement, and we could not find out what had happened until 90 days after the event.

But at that time our president would brief our board of directors as to what the Board of Governors and the Open Market Committee had done and why they had done it, and how they had varied with our opinions.

The Chairman. Would you suggest that we could improve that by shortening that 90-day period?

Mr. Lilly. Yes, sir, I do.

The Chairman. How brief should it be?

Mr. Lilly. Ideally, it should be simultaneous with the action.

But—

The Chairman. Why not make it simultaneous?

Mr. Lilly. There are all kinds of operating problems, getting the signature of all of the people involved to certify that this is actually what they decided, and this is actually what they said and so on.

But as I understand it, the time period has been reduced to 45 days, and they are working very hard to get below that 45 days. And I think everybody is in the spirit that that time period ought to be shortened as much as possible, and they are working towards that, and they have been trying to get rid of these difficulties.

The Chairman. Mr. Francis from the St. Louis Federal Reserve Board, which has had a lot of imagination, agrees with your notion that it ought to be simultaneous, and he felt it was practical to make it simultaneous.

Why should there be such difficulty?

You say you have to get the signatures of the various people. Why does that take so long? We can do that here in the Senate in a couple hours or less.

Even if people were not at the meeting, they should know what is going on, and they should be in a position to know whether they want to sign it or not.

Mr. Lilly. Well, Senator, you and I are advocating the same thing. But I am not privy at this point to all of the problems, to be able to answer you specifically. I really would like to get into this and see if the time can't be shortened.

The Chairman. Now everybody agrees that monetary policy can have a profound effect on the economy. However, there is serious disagreement among economists over just how monetary policy affects the economy.

Some say it is through interest rates. Others say it is through the supply of money. Still others say it is through other policies.

What are your views on that? Can you tell us exactly how you think monetary policy influences the economy?

Mr. Lilly. Well, I am one that believes that it is the amount of money and credit that is available, that is the large influence of how the economy is going to go. If there is too much available, we tend to outrun our capacity because there are too many dollars out there chasing too few goods. Then monetary policy is on the side of extravagance.

On the other hand, if there is not sufficient credit available for the
economy to expand as consumer confidence increases, then monetary policy is too restrictive.

The rate, to me, is a useful indicator of when you have too much or too little. If the rate—well, I would say I come down more on the side of the rate of growth of the aggregates, than I do on the rate side.

The CHAIRMAN. You see, we have kind of an interesting arithmetic problem here. It looks very simple. It looks as if the present policy is too restrictive. It depends on what happens to the velocity.

The Chairman of the Federal Reserve Board testified before this committee a couple of weeks ago. He testified that he expects a growth in the economy of about 7 percent and inflation of about 6 percent. You add that up, we will take an additional 13 percent of money and credit to finance that with a zero velocity.

However, there is only going to be about a 6-percent increase in the supply of money; according to the recommendations he made, it would be between 4½ and 7.

Say 6 percent is the midpoint. And that leaves the requirement of a tremendous increase in velocity. In the past, a rapid increase in velocity has been characteristic of a recovery period.

In the last year we had an enormous increase in velocity. It broke all records, nothing like it in 25 years.

So it seems unrealistic to expect we would have anything like that.

If we don’t get that, it would look as if we were going to have a tight money policy resulting in either higher interest rates or an aborted recovery.

How do you feel about that?

Mr. LILLY. I think you can be too expansionary at this time. I think the economy is moving along very well. I think if you allow the aggregates to grow too fast, you might get an inflationary rate in excess of the 6½ percent that Chairman Burns talked about.

And I would suspect that there is probably going to have to be a higher rate, in order that we do not have that kind of expansion.

The CHAIRMAN. A higher rate of interest?

Mr. LILLY. Yes, sir.

The CHAIRMAN. So that you don’t expand too rapidly?

Mr. LILLY. Yes, sir.

The CHAIRMAN. But interest rates are already high and long-term interest rates are extremely high.

Mortgage rates are running around 9 percent.

And bond rate maturities of 10 years or more will be around 8 percent. They are high.

Mr. LILLY. I am speaking of the short term.

The CHAIRMAN. The shorter rates are turning up.

Your advice is the same as Dr. Burns.

He thought that interest rates would be higher. That was the view of most of the experts who testified before us.

I don’t see how we can justify that in an economy in which we have 7 million people out of work, an economy in which we are operating far below capacity.

Why shouldn’t we be able to continue to grow rapidly and how can we, if we don’t get an absolutely unprecedented increase in the velocity of money?
Why shouldn’t we be able to maintain interest rates at about their present level?

Mr. Lilly. I think the trade-off is with inflation. I don’t think you can have a continually high expansion of the money supply without having inflation.

The Chairman. But the inflation we have just had, has had very little relationship to too much money chasing too few goods.

It has been based on the terrific increase in food prices.

There has been no situation where we have had a strained economy, strained resources.

Mr. Lilly. Except with regard to energy.

The Chairman. Can you name any area where capacity is short or skilled labor is short?

Mr. Lilly. Not at the moment, no.

The Chairman. You say we have—and I would like to ask you about it. We have a Humphrey-Hawkins bill coming up. We have hearings before this committee in the next few days. That bill was introduced by your Senator. And the purpose of that bill would be to put people to work with a colossal amount of Federal spending. The program is highly controversial.

In my view it would be better if we could do it by traditional methods, where you don’t have big Federal spending, but you make credit more available to the economy, so the economy can move ahead in the private sector, rather than move in with a colossal Federal spending program.

How do you feel about Humphrey-Hawkins?

Mr. Lilly. I think its objectives are fine. I think that we should be trying to get to a lower unemployment rate than we have now. But I am not sure we can get to the kind of unemployment rate that the bill has as its objective. I think that it has to be done over a much longer period of time. To attempt to do it in that short period of time is an inflationary exercise.

The Chairman. I agree with you on the objective. I think it is so important in our society to provide jobs for those who want to work.

But there is one part of Humphrey-Hawkins that has me very concerned and that is the section 402 and so forth, the last part of the bill. It deals with prevailing wage and provides that the wages paid are going to have to be higher than the minimum wage or the prevailing wage for similar work.

I don’t know how Toro would be able to hire people if you are going to expand without paying much higher wages under that kind of a system and, how that can mean anything but higher prices.

Mr. Lilly. I agree with you, Senator.

The Chairman. So, it seems to me that the answer is to do something about that prevailing wage. If you could have that kind of situation we had in the thirties, where you pay much less for the public employment, then it seems to me, it is feasible. Maybe not as low as Dr. Burns suggests but some compromise. That way you provide a work opportunity for the unemployed, and at the same time an incentive for leaving public employment to go to work in the private sector without having to pay a premium wage, which would translate itself into higher prices. What do you see as the most serious problem facing the country, unemployment or inflation?
Mr. Lilly. I guess I would like to answer that question in another way. I think the most important problem facing this country today is the whole energy question and the fact that we do not have an energy policy in this country. It is an almost impossible situation for somebody trying to run a manufacturing business not to know what his energy future is.

The Chairman. How does the Fed deal with energy?

Mr. Lilly. It doesn't.

The Chairman. Then, let's confine ourselves to the area where it does.

I didn't frame that question very well. Which is the more important policy then, the more important problem, unemployment or inflation?

Mr. Lilly. Inflation in my opinion, sir.

The Chairman. But inflation has moderated, rather sharply and unemployment is still very high.

Mr. Lilly. But I think unemployment is coming down. And it will continue to come down. As the confidence level increases, there will be more capital investment and more employment. As long as you have that inflationary expectation, your long-term rates are going to stay high and you are not going to have the kind of capital investments that are needed to furnish new jobs. So if you take care of inflation, I believe declining unemployment will follow.

The Chairman. Do you think there is a tradeoff between inflation and unemployment?

Mr. Lilly. There is over the short term. But over the long term, I don't think so.

The Chairman. Don't you think the Phillips curve is still a viable concept?

Mr. Lilly. I very definitely do. And that is why I am concerned about the Humphrey-Hawkins bill for that reason, that the level of unemployment we are talking about there brings you right into the Phillips curve area and I think you are going to have a substantial inflationary rate until you get the capital investment necessary to furnish those jobs. But this is a long-term thing.

The Chairman. How can you have an attitude of confidence in the business community if they feel that the Fed is going to slam on the brakes because of their fear of inflation, particularly in housing, home construction? This committee is responsible for housing and housing had a very bleak year last year, a little better this year. Many other industries are very sensitive to the level of interest rates and the monetary policy. How can you expect the economy to grow?

Mr. Lilly. I think the level of businessmen's confidence is related to how effective they think the Fed is going to be in controlling inflation. If they feel that the Fed is not going to control inflation or do everything it can to control inflation they are not going to have the confidence they would otherwise. They are not going to be willing to make long-term commitments. As far as the housing side of it is concerned. I don't suppose there is anybody in this room that is more interested in new housing starts than I have been for the last 30 years, particularly those detached housing units with large lawns.

[Laughter.]

I just can't see any way that monetary policy can do anything to help housing starts in the short run. And the best answer is taking
the inflationary expectation out of the long-term rate, which would have a large impact on the cost of housing.

The CHAIRMAN. But the record is just overwhelming that with every credit crunch, every time the Fed tightens up the supply of money, housing goes into a nosedive. It has happened again and again. About every 3 or 4 years there will be a tightening of the money supply and interest rates go up and housing goes into a depression.

Now, you say that that tight money policy is the Fed's way of fighting inflation and that that is better in the long run. But it couldn't be much worse for the housing industry.

Mr. Lilly. In the short range, that is correct.

The CHAIRMAN. Can you discuss the effectiveness of the three instruments of monetary policy and the circumstances under which you would prefer one against the other two?

Mr. Lilly. You mean the reserve requirements and open market operations and the discount rate?

The CHAIRMAN. Yes, sir.

Mr. Lilly. Well, it is more fashionable today, I guess to use the open market transaction method than the other two because of the relative ease of using it. As for the use of bank reserve requirements, I don't remember that reserve requirements were changed more than once or twice in the five years I was intimately connected with the Federal Reserve. The use of the discount rate was always an interesting exercise because we were never sure whether we should signal the market or follow the market. It was very difficult to use the discount rate as a device because of that. You had to make it clear that you were signalling the market or following the market. So, I guess from the point of view of my observation of the practitioners, the open market operations seem to be the ones that are easiest to handle and work with.

The CHAIRMAN. Suppose the Fed is faced with the choice of increasing bank reserves through open market operations or through an equivalent reduction in reserve requirements. Do you see any difference on the impact of the U.S. Treasury between those two methods?

Mr. Lilly. Well, if you increase bank reserves then more Government bonds will be bought by the Federal Reserve and by banks.

The CHAIRMAN. There is a difference. Open market operations, what is the effect of that on the Treasury?

If the Federal Reserve Board engages in expanding the money supply by buying securities, what effect does that have?

Mr. Lilly. Well, I guess I wouldn't want to see the bank reserves expanded too rapidly because of the problem of keeping member banks—

The CHAIRMAN. Now, wait a minute.

I am not discussing that. I see—let's assume that you are going to, for whatever reason you are going to expand the money supply and it is a matter of which device you use. No. 1, you do it by buying securities. If you do that obviously the income of the Federal Reserve System increases. Doesn't it?

Mr. Lilly. Yes.

The CHAIRMAN. What happens to that? Where does it go?

It goes to the Treasury.
Now, supposing you do it by the reserve requirement route or reducing the reserve requirements. Then, what happens to it, who gets the profit there?

Mr. Lilly. Well, if you reduce reserve requirements, you then have more reserves in the banking system, which can be used to increase credit.

The Chairman. Right. It has the same effect as buying securities. But the big difference as far as Uncle Sam is concerned or the taxpayer is concerned is that the open market operations result in the taxpayer getting a little break. The reserve requirements result in the banker getting the break.

Now, because the Federal Reserve is oriented toward the banks and works with the banks closely and meets with the banks and talks with the banks and people go back and forth between the Federal Reserve and the banking system there is some suspicion that the Fed has a temptation at least to think in terms of reducing reserve requirements. They haven't done it. The record doesn't establish that. But it is something that we are always a little suspicious about.

Mr. Lilly. I guess I have not heard this particular argument. And I guess, as I say, in all the time I was involved in the Fed, it was so seldom that we took any action on bank reserves, I never really thought about the matter.

The Chairman. I hope it remains that way.

Mr. Lilly, I agree with Senator Sparkman, that you have a fine background. I have always felt that we ought to have people on the Federal Reserve Board who have had a really profound training in monetary economics. That is a minority position. It is not the law. But I think it is a very complicated economy we have and we are better served with that kind of expertise. If we are going to have people from outside of that area, I think you certainly qualify. You have had good experience in the Minneapolis bank. Great success in business, and I think you bring a good view to it. I hope you can stay there long enough so that you can develop the kind of understanding you need and then use it. And I hope you will be independent, one who doesn't hesitate to disagree with the Chairman in spite of his great record and fine personality. He tends to dominate that board.

Let me ask you a final question. Will you be able to come up and testify when you are asked to do so by this committee or other appropriate committees?

Mr. Lilly. Yes, sir, I will, Senator.

The Chairman. I just had a note put before me by my administrative assistant, saying you obviously are one of the best qualified men we have ever had because you are a rose grower. You belong to the American Rose Society. Is that true?

Mr. Lilly. Yes, sir. And I guess that gives you some feeling of the depth of your questionnaire. That fact was discovered among everything else there is to know about me by the depth of the questionnaire. I remarked to somebody that I felt as if I had run through the Halls of the Senate naked, filling out that questionnaire.

The Chairman. I must say that people who are devoted to roses are just remarkable people.

It is good to have you as a nominee.
Senator Sparkman. I notice that you are a graduate of Dartmouth College. My grandson is graduating just now from Dartmouth.

Mr. Lilly. Wonderful. It is a great institution.

The Chairman. Thank you very much.

The committee will stand in recess.

[Whereupon, at 11:15 a.m. the hearing was adjourned.]

[Biographical material on Mr. Lilly follows:]

Name: David M. Lilly.
Date of birth: June 14, 1917. Place of birth: St. Paul, Minn.
Marital status: Married. Full name of spouse: Perrin Brown Lilly.
Name and ages of children: David M. Lilly, Jr., 28; Bruce A. Lilly, 24; Susanne B. Lilly, 20.

Education:

Honors and awards: Decorated Bronze Star.

Memberships:
- Education:
  - 1936–72: Trustee-V.P., St. Paul Academy, St. Paul, Minn.
  - 1964–73: Member/Chairman 1970–72, Board of Overseers of Thayer School of Engineering, Dartmouth College, Hanover, N.H.
  - 1972–: Trustee/Chairman of the Board of Trustees 1975—Carleton College, Northfield, Minn.
  - 1974—: Member, Visiting Committee to the Graduate School of Education, Harvard University, Cambridge, Mass.
  - 1975—: Member-at-Large, Council of the Alumni, Dartmouth College, Hanover, N.H.
  - 1973—: Member of the U of M College of Business Admin. Consultative Council (3-year term).

- Business directorships:
  - 1964—: Director, General Mills, Inc.
  - 1966—: Director, St. Paul Companies, Inc., St. Paul, Minn.
  - 1967—: Director, Dayton Hudson Corp., Minneapolis, Minn.
  - 1974—: Director, First National Bank of St. Paul, Minn.
  - 1974—: Director, First Bank System, Inc., Minneapolis, Minn.
  - 1957–68: Director, First National Bank of Minneapolis, Minn.
  - 1961–64: Director, First Bancstock Equity Corp., Minneapolis, Minn.
  - 1963–67: Director, North Star Research & Development Institute, Minneapolis, Minn.
  - 1955–57: Vice President of Outdoor Power Equipment Institute.
  - 1957–58: President of Outdoor Power Equipment Institute.
  - During this timeframe was a member of various committees of Outdoor Power Equipment Institute, i.e., Nominating Committee, Convention Committee, Safety Committee, etc.

Civic/Charitable/Miscellaneous
- 1956–67: Trustee, Children’s Hospital, St. Paul, Minn.
- 1960–66: Member, Advisory Council of the U of M Industrial Relations Center.
- 1961—: Trustee & President, Richard Coyle Lilly Foundation, St. Paul, Minn.

Various societies and associations such as American Rose Society; Mn. Horticultural Society; American Management Association; Western Golf Association-Director 1955–60; U.S. Golf Association, etc.

1 These positions, if continued, will not involve any fund raising activities or participation in investment policy or decisions.

2 Prior to entry on duty as a Board member, I will resign these positions.
Employment record:
- 1940–41: Clerk, First National Bank of Minneapolis.
- 1941–42: Clerk, Bureau of Industry Advisory Committee; Assistant to Assistant to Secretary of Treasury; Assistant to Undersecretary, U.S. Treasury Department, Washington, D.C.
- 1942–45: U.S. Army, General Staff Corps, AUS, second lieutenant to major.
- 1945–50: Vice President and Director, Toro Manufacturing Corp.
- October 1968 to December 30, 1969: Chairman of the Board, Toro Manufacturing Corp.
- December 31, 1969 to June 1, 1970: President and Chairman, Toro Manufacturing Corp.
- June 1, 1970—: Chairman of the Board, The Toro Company (company name change October 26, 1971).

Government experience:
- 1952: Member, Minnesota Governor's Industrial Development Committee.
- 1953: Member, Advisory Commission for Minnesota State Department of Business Development.
- 1953–59: Chairman, Advisory Commission for Minnesota State Department of Business Development.
- 1957 (January to July): Member, Advisory Committee on Flood Indemnity of the Federal Flood Indemnity Administration.
- 1969–70: Deputy Chairman, Federal Reserve Bank of Minneapolis.


Political affiliations and activities:
- June 1963 to November 1966: Treasurer, Minnesota Republican State Central Committee.
- December 1966 to December 1968: Chairman, Minnesota Republican Finance Committee.
- 1952–68: Various ward, county, district and State committees.