

NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.

HEARINGS BEFORE THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE EIGHTY-FOURTH CONGRESS SECOND SESSION

COMMITTEE ON BANKING AND CURRENCY
ON
THE NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.,
TO BE A MEMBER OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

JANUARY 20 AND 27, 1956

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UNITED STATES SENATE
EIGHTY-FOURTH CONGRESS
SECOND SESSION

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NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.

FRIDAY, JANUARY 20, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, in room 301, Senate Office Building, at 11:30 a. m., Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Robertson, Sparkman, Frear, Douglas, Lehman, Morse, Capehart, and Bennett.

The CHAIRMAN. The next nomination is that of Mr. William McChesney Martin, Jr., for membership on the Federal Reserve Board for a full term of 14 years. Mr. Martin, we have had you here before. You are a familiar face. We are very glad to have you. I do not know that there is a great deal we will have to ask. Before we proceed we will insert this biographical sketch in the record.

(The biographical sketch referred to follows:)

BIOGRAPHICAL SKETCH OF WILLIAM McCHESNEY MARTIN, JR.

Born in St. Louis, Mo., December 17, 1906, the son of William McChesney and Rebecca (Woods) Martin.

Married Cynthia Davis, April 3, 1942. Children, Cynthia, Diana, and William III. Home: 2861 Woodland Drive NW., Washington, D. C.

Bachelor of arts. Yale University, 1928. Student, Benton College of Law, St. Louis, 1931. Graduate student (part time), Columbia University, 1931-37.

Honorary degree of doctor of laws: Temple University, Philadelphia, Pa., February 1951; Tulane University, New Orleans, La., May 11, 1953; Amherst College, Amherst, Mass., June 13, 1954.

Served in bank-examination department of Federal Reserve Bank of St. Louis, 1928-29.

Head of statistics department, A. G. Edwards & Sons, St. Louis, 1929-31; partner, May 1931-July 1938.

Member, New York Stock Exchange, June 1931-July 1938; Governor, 1935-38; chairman, committee on constitution, 1937-38; secretary of Conway committee to reorganize the exchange, 1937-38; chairman of the board and president pro tempore, May-June 1938; president, July 1938-April 1941.

Served as assistant to the executive of the Munitions Assignments Board in Washington, D. C., and as assistant to the executive of the President's Soviet Protocol Committee.

Appointed member of the Board of Directors of the Export-Import Bank, November 26, 1945; chairman and president, 1946-48. As chairman, served on National Advisory Council on International Monetary and Financial Problems.

Assistant Secretary of the Treasury, February 1949-March 1951.

United States Executive Director of the International Bank for Reconstruction and Development, December 1949 to February 1952.

Appointed member and designated chairman, Board of Governors of the Federal Reserve System, April 1951; redesignated chairman, April 1955.

Trustee: Foreign Service Educational Foundation, Washington, D. C.; Berry Schools, Atlanta, Ga.; chairman of the board, Potomac School, McLean, Va.

World War II: Drafted under Selective Service Act as private, United States Army, April 16, 1941. Commissioned first lieutenant, Infantry, February 4, 1942; captain, August 10, 1942; major, February 12, 1943; lieutenant colonel, February 1, 1944; colonel, August 4, 1945. Legion of Merit, October 1945.

The CHAIRMAN. Senator Douglas is occupied with a little matter on the floor. It is his request that he be permitted to submit a few questions out of order in the beginning. I will recognize the Senator from Illinois.

Senator SPARKMAN. Mr. Chairman, before we start, let me say that I have an appointment at 11:30, so I am going to have to leave. It is almost that time. I do not have any questions to ask. I just want to explain my having to leave, and I want to say that I am in favor of the confirmation of both Mr. Martin and Mr. Waugh.

Senator DOUGLAS. Mr. Chairman, lest my position be misunderstood, may I say I have not made any request that I be permitted to ask questions in advance of or before my position so far as seniority on the committee is concerned. I do appreciate the courtesy of the Chairman. I would like to ask some questions of Mr. Martin. But I do not wish to supersede my seniors on the committee at all.

The CHAIRMAN. Well, I am so interested in your having every opportunity to present facts on the gas bill, that I am certainly willing—

Senator DOUGLAS. I would like to say this off the record.

(Discussion off the record.)

The CHAIRMAN. You may proceed.

Senator DOUGLAS. If we may turn from gas to credit, Mr. Martin, may I say before I start that I have not the slightest doubt of your intellectual competence or your fundamental devotion to what you regard as the best interests of our country. So you will know that in any questioning that I carry out I am not impugning either your intellectual ability or your patriotism or your devotion to duty as you see it. I regard that as important to establish a basis of at least spiritual rapport before we start on these other matters.

There are, however, certain actions of the Federal Reserve Board which somewhat puzzle me. One thing that puzzles me is this. During this last period, approximately a year, you have apparently followed the policy of restraint in credit. As you know, I had the privilege of visiting the trading room of the Open Market Committee in New York and sitting there, watching operations, in October, and I think the password was "restraint." That was evidenced by the way in which the rediscount rate has been steadily stepped up from 1½ percent to, I believe, the present figure of 2½ percent.

Mr. MARTIN. Yes, sir.

Senator DOUGLAS. This has been done in four stages.

Mr. MARTIN. Four stages.

Senator DOUGLAS. The obvious purpose of this policy was to restrain the amount of credit being issued. On the other hand, during this period the Board lowered the reserve requirements of the banks, thus permitting the banks to lend a larger amount of credit upon the same amount of deposits which they had in the Federal Reserve System.

Mr. MARTIN. No, sir; there was no lowering of reserve requirements during this period.

Senator DOUGLAS. Well, when did this lowering of the reserve requirements occur?

Mr. MARTIN. It occurred the last time in the summer of 1954.

Senator DOUGLAS. In other words, you did not raise these requirements back over the past year. That is, you reversed the policy so far as the interest rate on rediscount was concerned, but you continued the policy of lowered reserves.

Mr. MARTIN. Well, the reason for that was obvious. Reserve requirements got extremely high during the war period, and we rather welcomed an opportunity to lower the reserve requirements.

Senator DOUGLAS. But is not the effect of lowering the reserve rate to make it possible for the banks to lend more credit?

Mr. MARTIN. In accord with the policy that was being followed at that time.

Senator DOUGLAS. The policy which you followed during the recession of 1954.

Mr. MARTIN. During the inventory recession.

Senator DOUGLAS. At that time you also lowered the rediscount rate.

Mr. MARTIN. We did.

Senator DOUGLAS. But during the revival of 1955, while you raised the rediscount rate, you did not raise the reserve ratios.

Mr. MARTIN. We didn't feel it was necessary.

Senator DOUGLAS. Well, now, Mr. Martin, you realize that this action of the Board might subject you to this criticism. First, that the lowering of the reserve ratios, and this was fully taken advantage of by the banks, enables them to lend more credit and make more money upon a given amount of reserves in the Federal Reserve System. And second, that the raising of the rediscount rate raises the interest rate and thus gives them a higher rate of earnings upon each dollar of credit. So that the policies of the Board in this respect, whatever their relationship to general economic stabilization, both of them worked together to increase the earnings of the banking system.

Mr. MARTIN. Well, I have stated many times, Senator, and I welcome another chance to state that our policies are not directed toward rewarding the banks or punishing the banks.

Senator DOUGLAS. I understand.

Mr. MARTIN. They are directed toward stability in the economy.

Senator DOUGLAS. It had the effect, however, of increasing bank earnings in both respects: (a) in the amount of credit loaned, and (b) in the rate of interest upon the credit which was loaned. So that the result has obviously been greatly increased bank earnings during the latter part of 1955.

Mr. MARTIN. I have no comment to make on that, other than it is true that the banks did better. They also lost money on security sales when they had to make that choice.

Senator DOUGLAS. I think that should be noted.

Mr. MARTIN. Our purpose is never to reward or punish anybody. The banks merely happen to be instrumentalities by which credit is created.

Senator DOUGLAS. Well, the Federal Reserve banks have representation on the Open Market Committee, do they not?

Mr. MARTIN. They have no direct representatives.

Senator DOUGLAS. But the Federal Reserve banks have representatives on the Open Market Committee.

Mr. MARTIN. Five of the presidents of the Federal Reserve banks serve on the Open Market Committee.

Senator DOUGLAS. That is right. And the presidents of the Open Market Committee are chosen by the boards of directors of the Federal Reserve banks.

Mr. MARTIN. Subject to the approval of the Federal Reserve Board.

Senator DOUGLAS. But they are chosen by the directors of the Federal Reserve banks; are they not?

Mr. MARTIN. The directors of the Federal Reserve banks select the men and present them to the Board.

Senator DOUGLAS. Right. And two-thirds of the directors of the Federal Reserve banks are chosen by the member banks of those districts.

Mr. MARTIN. The member banks of the district have a chance to vote.

Senator DOUGLAS. They choose two-thirds of the boards of directors of the several Federal Reserve banks; do they not?

Mr. MARTIN. They do.

Senator DOUGLAS. So that I do not think anyone can deny the influence of the private banks of the country upon the Open Market Committee. What I want to say is I think the Open—

Mr. MARTIN. I would like to deny the influence of the private banks on the Open Market Committee in the sense that these men are not representatives of the private banks—they do not vote as representatives of the private banks.

Senator DOUGLAS. They are chosen by boards of directors of their respective Federal Reserve banks, and two-thirds of these directors are elected by the member private banks.

Mr. MARTIN. That is correct. They are elected by the member private banks. One-third of the directors are appointed by the Board of Governors.

Senator DOUGLAS. That is right.

Mr. MARTIN. The Board of Governors can veto any appointment.

Senator DOUGLAS. I understand.

Mr. MARTIN. And they serve equally with the Board of Directors as individuals. So what you are relying on is the individual integrity of these individuals.

Senator DOUGLAS. Now, look, Mr. Martin. I was very careful to say when I began that I do not question your integrity nor do I question the integrity of the various presidents of the Federal Reserve banks. I merely say that the origin of power has an influence upon the decisions of those who are chosen. You, as an experienced man of the world, know that perfectly well.

Senator CAPEHART. Senator, how would you change it?

Senator DOUGLAS. I am not proposing to change it at this time. I am merely saying that here are two policies which the Board adopted, both of which operate to increase the earnings of the private banks.

Senator CAPEHART. Is that good or bad?

Senator DOUGLAS. It may well be that the reserve requirements should have been reduced in 1954 when we had a recession. It may well be that the rediscount rate should have been reduced in a recession. But the point I am trying to make is that in 1955 the method used was a one-way method. It was to increase the rediscount rate, but not to raise the reserve ratio. So that the policies in each case were not parallel. In 1954 you had a dual policy of both reducing the

reserve requirements and increasing the rediscount rate. In 1955 you had a policy only of reducing the rediscount rate.

The CHAIRMAN. Why did you not increase the reserves in 1955? What was the reason?

Mr. MARTIN. We did not think there was any need for it. We have to have an expanding money supply generally with a growing country.

Senator DOUGLAS. Then why were you trying to restrain it with the rediscount rate?

Mr. MARTIN. We were keeping a modest supply of reserves in the market in accord with supply-and-demand forces, and we were letting the price of money go up as the demand for money increased. One of the ways of getting additional reserves is to borrow from the Federal.

Senator DOUGLAS. In other words, not to ration credit, but to let the price be determined in the market and depend on the higher interest rate to restrain the demand for loans at banks; is that correct?

Mr. MARTIN. That is right. Our purpose is to lean against the winds of deflation or inflation, whichever way they are blowing, but we do not make those winds.

Senator DOUGLAS. Do you think that raising the rediscount rate had the effect of restraining the amount of bank credit loaned by the banks to commercial and industrial borrowers?

Mr. MARTIN. I think it had the effect of making them more cautious in the loans they were making. It was one of the factors.

Senator DOUGLAS. Is it not a fact that during this period loans increased very greatly?

Mr. MARTIN. And we wanted them to increase greatly. We wanted to supply the needs of the country for credit.

Senator DOUGLAS. In other words, this policy of restraint did not really operate.

Mr. MARTIN. The increases in the discount rate were not signs of bad business. They were signs of good business. In a normal business situation, when demand increases there are usually price adjustments. And in the case of the use of credit, it was because business was so good that we could raise the discount rate. I am glad that we were able to raise the discount rate and did not have to reduce it.

Senator DOUGLAS. My motto is "Forward," but your motto during 1955 was "Restraint."

Mr. MARTIN. Both our mottoes are "Forward."

Senator DOUGLAS. But instead of restraining, your policy led to an expansion of loans, a very great expansion of loans, and to inflation of prices, except in the field of agriculture.

Mr. MARTIN. You would not have wanted us to restrain lending in such a way that credit would not have been available at any price to the people who needed it.

Senator DOUGLAS. Oh, no. But I would say that your policy of restraint had not been very heroic.

Senator CAPEHART. Well, is it not a fact that it is the result of your policies that we have full employment and that the country is in a prosperous condition.

Mr. MARTIN. I cannot claim that for our policies, but that has been the object of our policies.

Senator CAPEHART. Is not the end result of credit, expansion of business, more jobs, and more prosperity? Is that not what we want, rather than the opposite, that the Senator is talking about?

Mr. MARTIN. That certainly has been our purpose.

Senator DOUGLAS. Now, Mr. Chairman, there is another very peculiar contradiction of policy in the Reserve that I would like to mention. I hold here in my hand, and I will submit this document to the Chairman of the Reserve so he can identify it, the Annual Report of the Board of Governors of the Federal Reserve System for 1953. On page 99 it has a report of the action of the Board on September 24, 1953. It reads as follows:

Mr. Mills moved that the Federal Open Market Committee take the position that operations for the system account in the open market be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange, and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

After discussion, Mr. Mills' motion was put by the chair and carried. Votes for the motion: Messrs. Martin, Chairman, Erickson, Evans, Fulton, Jones, Mills, Robertson, Szymczak, and Vardaman. Votes against the motion: Messrs. Sproul, Vice Chairman, and Powell.

Mr. MARTIN. I accept your reading of that, Senator.

Senator DOUGLAS. Is it not true in December the Board or the Open Market Committee, at a time when the Treasury was floating an issue, purchased \$167 million of Treasury certificates?

Mr. MARTIN. That is correct.

Senator DOUGLAS. Now, was not this a reversal of the policy which you laid down in September 1953?

Mr. MARTIN. A reversal can only be determined by a subsequent action, because a policy lasts longer than one particular time. But the words that you read there said until superseded by action of the Open Market Committee, and when the next annual report of the Federal Reserve Board comes out, there will be a full discussion of this meeting.

Senator DOUGLAS. Was it superseded?

Mr. MARTIN. In this particular instance, it obviously was.

Senator DOUGLAS. Did the Board as a whole meet?

Mr. MARTIN. The Open Market Committee as a whole met—not the Board. The full Open Market Committee met.

Senator DOUGLAS. And not the executive committee.

Mr. MARTIN. The full Open Market Committee.

Senator DOUGLAS. What was the vote on that change of policy?

Mr. MARTIN. Well, I have no objection to giving it to you in advance of the report. It was 9 to 3.

Senator DOUGLAS. Would you state who voted against it?

Mr. MARTIN. I would rather not state the names until the annual report. I am just one member of a Board. I am perfectly willing to say that I voted for the policy.

Senator DOUGLAS. You will, however, state for the record—

Mr. MARTIN. It will be in the record, and a full explanation.

Senator DOUGLAS. Why do you object to giving a statement now? After all, is not the Federal Reserve Board the creature of Congress?

Mr. MARTIN. But I am just one member of the Federal Reserve Board.

Senator DOUGLAS. You are the most important member.

Mr. MARTIN. Well, if you will read the Federal Reserve Act, you will see that the Chairman has very little power.

Senator DOUGLAS. Do I understand you refuse to give this information now?

Mr. MARTIN. I do not ever refuse to give information to the Congress. But I think you ought to have all of the participants, and we ought to have a collective point of view, because I do not think it is a one-man operation. I have stated what my position was on this.

Senator DOUGLAS. I am not asking for their position. I am merely asking for the vote.

Mr. MARTIN. Well, I still think it would be preferable to wait until the report comes out.

Senator DOUGLAS. When will that be out?

Mr. MARTIN. I should say within a couple of months. We are in the process of preparing it now.

Senator DOUGLAS. Can the chairman guarantee the report will be out in 2 months?

Mr. MARTIN. I would not guarantee a precise date, but I will guarantee we will get it out as quickly as we can.

Senator DOUGLAS. You see, one difficulty in all these matters, Mr. Chairman, is that the Senate is busy with many matters, and frequently we come up to the point of getting vital information, and it is requested that we postpone our requests. Then when the information comes, the incident has been forgotten. I have noticed that members of the Board tend to be in their most responsive frame of mind when they come up for confirmation or reconfirmation, Mr. Chairman. This is the one time in which they feel their responsibilities to the Senate and the Congress most acutely. Therefore, I am a little reluctant to have this period pass for a couple of months, when Mr. Martin will be reconfirmed for 14 years, which is quite a long period of time, and when, without reflecting upon him, his feeling of responsibility to the Congress may somewhat diminish at the prospect of 13 years and 10 months ahead of him. I wish him a long life, I may say.

Senator CAPEHART. Is there any significance to who voted one way—the three men?

Senator DOUGLAS. I think it is interesting.

Senator CAPEHART. What is the significance of the three men?

Senator DOUGLAS. Well, Mr. Chairman, I am not engaged in a fishing expedition, except to say I do not think this question is frivolous.

The CHAIRMAN. You asked for the vote.

Senator DOUGLAS. Yes. Who voted for this change of policy of supporting the Government bond market, when 2 years before there had been a decision that they would not do it, and who voted against it—the members of the Open Market Committee. The chairman is a very fairminded man, and at the moment he does not think on all fours with the Senator from Illinois on the gas issue, so I am sure he would not be unduly prejudiced at the moment in my favor. So I will trust to

his good sense as to whether he thinks the Mr. Martin should make a response.

Senator FREAR. Mr. Chairman, may I offer a suggestion—that the Chairman of the Board of Governors of the Federal Reserve System be permitted to contact each member of his Board and, depending upon their say-so, then, as Mr. Martin has stated his position, they do so if they are willing. I think it should be made available to the committee.

Senator CAPEHART. It will be a matter of record when the report comes out.

Mr. MARTIN. Let me go into this a little bit. Senator Douglas said this is a change of policy. That requires some clarification in itself. There are techniques and practices that are pursued at given times. The theory and practice upon which the Federal Reserve has acted has been that it is actions and not statements that determine policy—actions and not statements, Senator, that determine policy.

Now, one of the difficulties of exploring this type of thing is that I do not want to state, until it is fully developed, exactly whether a policy—exceptions prove rules. Let's put it that way. I personally think that there are techniques and practices that are not moral principles at all, and that steel which bends is stronger than iron which breaks.

Now, in each setting that is what has to be reviewed on the Federal Reserve Board. And I know you were not in any way challenging my integrity. But whether I am up for confirmation or not, I am at your service, day in and day out. And any committee of Congress can get me at any time, I assure you.

Senator DOUGLAS. We appreciate that. But we also know, with all your many manifold virtues, you are human, and after confirmation for a 14-year term, naturally you feel more independent of the Congress than you do when you are facing this committee for confirmation.

Mr. MARTIN. I know you do not impugn my integrity, and I do not impugn yours.

Senator DOUGLAS. No. But I think you are human.

The CHAIRMAN. Senator, did not Mr. Martin say how he voted, and he was perfectly willing to say why he voted that way. What he does not wish to do, is describe what the others did, is that right?

Mr. MARTIN. That is right—until we have had an opportunity to present the annual report in the normal process. There is no reason to isolate this incident any more than a lot of other incidents.

Senator MORSE. Mr. Chairman, I have a suggestion, for what it may be worth. I think as present policy here it is more important to the committee than Mr. Martin fully appreciates. At the same time, I appreciate Mr. Martin's position. He is testifying here today in behalf of his own confirmation, not wanting to seem to disclose on the public record the individual votes taken by colleagues on the Board.

On the other hand, I think any Senator is entitled to find out that fact. I think it should be submitted to the Senator from Illinois—not necessarily on the public record. But I think for whatever importance it is to the Senator from Illinois, he is entitled to know that fact.

I would like to suggest that the committee simply request that Mr. Martin submit that fact to the Senator from Illinois at the close of

the hearing this morning, after a reasonable time, in a written memorandum.

Senator CAPEHART. Will the Senator yield. Mr. Martin stated how he voted. Is there any significance to how the other three people voted?

Senator MORSE. That is for Senator Douglas to determine.

Senator CAPEHART. What is the significance?

Senator MORSE. That is his business, in my judgment, and he seems to want to know that fact. I think as a Senator he is entitled to find out that fact. I think he is entitled to a ruling from the committee that Mr. Martin obtain that information and transmit it to Senator Douglas for Senator Douglas' use. But I am not of the opinion that it should be made a part of the public record.

Senator CAPEHART. When did the Senator from Illinois get to the point where he is entitled to special privilege. We have given him special privilege this morning by permitting him to question when the rest of us sat here, which I was delighted to do. I do not know why he should get special privileges.

Senator DOUGLAS. If the Senator from Indiana will recall, I said that I did not wish to claim any privilege in questioning at all, and that I would be very glad to have the Senator from Indiana lead off. The record will bear that out. I said that only a little while ago. For the Senator from Indiana to imply that I have been trying to take special privileges from the others is a statement which I am sure upon mature reflection he will not wish to stick by.

Senator CAPEHART. I cannot for the life of me see what the names have to do with it.

Senator DOUGLAS. Do you withdraw your statement that I was trying to get special privilege for myself?

Senator CAPEHART. I did not say you were trying to get special privilege. I asked why you were entitled to special privilege.

Senator DOUGLAS. The answer is very clear. I am not.

Senator CAPEHART. Let's take a vote of the committee.

Senator DOUGLAS. I am perfectly willing to let this—

Senator CAPEHART. I cannot for the life of me see what difference it makes to have the names of the three people.

Senator DOUGLAS. I am perfectly willing to let the record stand where it is—that in response to the question as to whether Mr. Martin would state how the Open Market Committee voted, Mr. Martin stated he did not feel that he should reveal this. Let that stand in the record. I will pass to another question.

Mr. MARTIN. I would like to make a suggestion here. I honestly do not think this is a matter of any importance.

Senator CAPEHART. I do not either.

Mr. MARTIN. I would like to have permission of the committee to go back to the individuals concerned. If they do not object, I will be glad to submit their names to this committee. I merely want to make the point for the record that, generally speaking, I do not think we ought to call for votes through one man, particularly when he is up for confirmation, about controversial issues that occur in the actions of the Federal Reserve.

Senator DOUGLAS. I hope the report will be submitted to the committee as a whole and not any individual Senator.

Senator CAPEHART. That is the thing I objected to—that you were going to give it to Senator Douglas, as though he were a privileged character.

The CHAIRMAN. Let us go on. He has agreed to submit the information.

Senator MORSE. As a member of this committee, I am not willing to let this record stand the way it is at this point. I first want to make very clear to the Senator from Indiana that I apparently did not get it through his understanding that I was asking for committee action. I was not asking for any—

Senator CAPEHART. You said to give it to Senator Douglas after the meeting.

Senator MORSE. Hear me through. I was asking for the committee to rule that this information be obtained and made available to Senator Douglas, just as I would move if the Senator from Indiana—

Senator CAPEHART. You meant make it available to him and all other members?

Senator MORSE. It would be made available to all other members. But he is the man asking for it and he thinks it is important.

Senator CAPEHART. It should be made available to the chairman.

Senator MORSE. Any time the Senator from Indiana wants any information from the Federal Reserve Board, I think he ought to get it, as a Senator, for such senatorial uses as he wants to put it to.

Senator CAPEHART. You said give to Senator Douglas and not to the chairman to hand to the committee. I thought you meant give it to him for his personal, exclusive use.

Senator MORSE. Senator Douglas is asking for it. But I am not going to sit on this committee and not protest any record that would seem to indicate that when a member of this committee thinks there is some information down in the files of the Federal Reserve Board that he needs and wants to carry out what he considers his senatorial obligations, it is not going to be made available to him. At any time the Senator from Indiana wants that information, I will be happy to move that this committee instruct the Federal Reserve Board to make it available to him.

Senator CAPEHART. Of course—I see no significance to it.

Senator MORSE. But the Senator from Illinois does. It is not for the Senator from Indiana to judge the Senator from Illinois on the basis of the information he wants for what he thinks is necessary to carry out his duties.

Senator CAPEHART. Furthermore, when the report comes out, the report will show exactly how they voted.

The CHAIRMAN. May I ask the Senator from Oregon does it satisfy his view if Mr. Martin will make that available, as he says, in the very near future, which I assume would be the next few days, or does he feel it is necessary to have it today?

Senator MORSE. I have made my point in regard to the policy. Whatever is satisfactory to the Senator from Illinois in regard to the matter is satisfactory to me, because he is the one that asked for the information. I think he is entitled to it.

Senator DOUGLAS. I will be perfectly satisfied with a statement submitted to the committee.

The CHAIRMAN. At what time?

Senator DOUGLAS. I think within a reasonable period of time.

The CHAIRMAN. Next week sometime?

Senator DOUGLAS. Prior to the confirmation of Mr. Martin.

The CHAIRMAN. Is that agreeable to you?

Mr. MARTIN. That is perfectly agreeable to me—unless the individuals concerned object to it.

The CHAIRMAN. If they do object, we can have them up and find out why. You do not think they are going to object, do you? I am almost sure they are not going to object. I do not quite myself know what the significance is. However, I recognize the right of the Senator from Illinois to ask the question.

Senator DOUGLAS. The significance may become apparent as the matter unfolds.

Mr. Martin, I want to question the advisability of this change of policy. When previous—

The CHAIRMAN. Will the Senator yield. Is this the change of policy from the purchase of—

Senator DOUGLAS. First saying they would not support the Government bond market, and then their supporting it.

Senator MORSE. May I interrupt, Mr. Chairman. We are about to convene on the floor. I am needed on the floor. I wonder if you intend to continue this hearing beyond the time the Senate convenes.

The CHAIRMAN. I would hope that we could complete it. But if not, we can either recess it to a future date or go ahead. What does the Senator have in mind?

Senator DOUGLAS. I have the floor, and I must be prepared to take the floor. I have not finished my questioning of Mr. Martin.

Senator MORSE. Mr. Chairman, I should object to continuing the hearing beyond the time that the Senate convenes.

Senator DOUGLAS. May I start, or shall we recess?

The CHAIRMAN. Well, it is 12 o'clock. What does the Senator wish? He has the right to object.

Senator MORSE. I shall object.

The CHAIRMAN. In which case we will have to recess. We are not permitted to sit when the Senate is in session without special permission.

(Whereupon, at 12:05 o'clock p. m. the hearing recessed pursuant to the call of the chairman.)

NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.

FRIDAY, JANUARY 27, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, in room 301, Senate Office Building, at 10:05 a. m., Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Robertson, Sparkman, Frear, Douglas, Lehman, Morse, Bush, and Payne.

The CHAIRMAN. The committee will come to order.

We are resuming the hearing regarding the nomination of Mr. William McChesney Martin, to the Federal Reserve Board.

I believe the Senator from Illinois was in the process of questioning the nominee at the last meeting. Would you like to proceed, Senator Douglas?

Senator DOUGLAS. Yes.

Mr. Chairman, I hold in my hand a copy of the letter addressed on January 24 to the chairman of the committee, the Honorable J. William Fulbright, by Mr. Martin. I will ask the clerk of the committee to read it.

The CHAIRMAN. Shall I read it?

Senator DOUGLAS. Yes, if you will.

The CHAIRMAN. I have it before me:

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, January 24, 1956.

HON. J. WILLIAM FULBRIGHT,

Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: In the course of the questioning when I was before your committee last Friday, Senator Douglas requested the vote on an action of the Federal Open Market Committee last December and I stated that the vote was 9 to 3. Senator Douglas asked me to state who voted in the negative and I demurred that I thought it would be preferable to await the annual report since it would be out in a couple of months and would contain a full discussion of the matter.

I had in mind the fact that Congress, as you know, has established that procedure as the regular method for reporting to the Congress the actions and policies of the Federal Open Market Committee with the votes and reasons therefor. However, I said I was perfectly willing to say that I voted for the action but that I hesitated to give the names of my absent associates before I had had an opportunity to consult with them. I have now done so and since no objections have been raised, I wish to report that those voting against the action were Governors Mills, Robertson, and Vardaman. Those voting for the action were, besides myself, Messrs. Sproul, Balderston, Earhart, Fulton, Irons, Leach, Shepardson, and Szymczak.

I trust that this is the information Senator Douglas wishes to have.

Sincerely yours,

WM. McC. MARTIN, JR.

Senator DOUGLAS. Thank you, Mr. Chairman.

Mr. Martin, you say that this was an action of the Federal Open Market Committee last December. What was this action? It is not described in your letter.

Mr. MARTIN. The action was to make a change in a practice which had been followed since 1953—

Senator DOUGLAS. That is, to support—

Mr. MARTIN. To directly support one of the parts of a Treasury issue.

Senator DOUGLAS. This was the policy which the Reserve on the 24th of September 1953, had said it did not intend to follow?

Mr. MARTIN. That was the policy decision at that time. Yes, sir.

Senator DOUGLAS. When was this decision of the Board made? What was the date? When was the vote taken?

Mr. MARTIN. I believe it was November 30 of this year, that is, 1955.

Senator DOUGLAS. When were the purchases of the bonds and of the certificates made?

Mr. MARTIN. The certificate purchases were made mostly that day. This meeting was held in the early morning and I think most of them were made during that day. The authorization, Senator, was to purchase up to \$400 million of these 2½ percent certificates.

Senator DOUGLAS. The authorization was to purchase up to \$400 million?

Mr. MARTIN. And only \$167 million had to be bought.

Senator DOUGLAS. Were actually purchased. Will you explain the reasons for this reversal of policy on the part of the Federal Reserve Board?

Mr. MARTIN. Well, I think—

Senator DOUGLAS. Preparatory to that, let us identify the vote. Do I understand that all five presidents of the several Federal Reserve banks who were members of the Open Market Committee voted in the affirmative?

Mr. MARTIN. That is correct.

Senator DOUGLAS. And four of the members of the Federal Reserve Board, including yourself, voted in the affirmative?

Mr. MARTIN. That is correct, sir.

Senator DOUGLAS. But the three negative votes were cast by members of the Federal Reserve Board?

Mr. MARTIN. That is correct.

Senator DOUGLAS. So that the vote, if you isolate the presidents of those banks—the vote inside the Board was 4 to 3, this is, 4 members of the Federal Reserve Board voted in the affirmative?

Mr. MARTIN. That is right.

Senator DOUGLAS. And three in the negative?

Mr. MARTIN. That is right.

Senator DOUGLAS. Will you explain the reasons which caused you to feel that the policy should be changed?

Mr. MARTIN. Well, it is a matter of judgment that has to be considered. First I would like to say in arriving at the policy it took a long time to develop it. Going back to the March 1951 Treasury-Federal Reserve accord, at that time it was clearly understood that the Federal Reserve would continue to be an underwriter for Treasury securities.

Senator DOUGLAS. Would?

Mr. MARTIN. That is correct. Would continue to be an underwriter for Treasury securities during the time they were being offered. In other words, we supported Treasury issues to a limited extent and stood ready to support them all during the period of the Treasury-Federal Reserve accord, which was the last 9 nine months of 1951— from March 4, 1951, until January 1, 1952.

Senator DOUGLAS. Then you decided not to?

Mr. MARTIN. No.

Senator DOUGLAS. Or you did not do so?

Mr. MARTIN. No. We gradually worked in that direction. You see, it was an evolutionary process.

Senator DOUGLAS. And you made public affirmation on September 24, 1953, that you did not intend to?

Mr. MARTIN. We had arrived at the point where we hoped we did not have to ever again directly support Treasury securities.

Senator DOUGLAS. You remember that was the position the Senator from Illinois has taken consistently and which he put forward in his report in the fall of 1951 and again in his September—

Mr. MARTIN. For which I have always applauded the Senator from Illinois.

Senator DOUGLAS. That is right. What I am trying to get at is why you changed your policy.

Mr. MARTIN. The reason for the change—I want to amend the word “policy” to say practice or procedure.

Senator DOUGLAS. It sounded like a statement of policy as it was given in the report of the Board when you issued it on September 24, 1953.

Mr. MARTIN. When the annual report comes out—but all policies are subject to change.

Senator DOUGLAS. What I am trying to get at is, what made you change? Was it that you wanted to have ease in the money market?

Mr. MARTIN. No. It happened that this was not a policy change. It appeared to be a case which in my judgment permitted us to make an exception, in the sense that it is exceptions that make rules, and this was a group of circumstances which would make it wise to do this.

Let me try to explain this, as I see it. We raised the discount rate on November 18 from $2\frac{1}{4}$ to $2\frac{1}{2}$ percent.

Senator DOUGLAS. Just a minute. The raising of your discount rate is presumably intended to act as a restraining influence on the amount of credit issued by the banks. Is that not true?

Mr. MARTIN. That is correct.

Senator DOUGLAS. But on November 30 you authorized the purchase of up to \$400 million. In practice it turned out to be only \$167 million that you purchased. Did you purchase these certificates from the Treasury, or did you purchase them from traders who had previously purchased them from the Treasury?

Mr. MARTIN. We purchased them in the open market.

Senator DOUGLAS. You purchased them from traders who had previously purchased them from the Treasury?

Mr. MARTIN. Well, not from the Treasury. They were in the market. Not from the Treasury directly.

Senator DOUGLAS. The traders had purchased them from others who had purchased them from the Treasury?

Mr. MARTIN. Yes. Our purchases were on a when-issued basis.

Senator DOUGLAS. And you purchased from the traders?

Mr. MARTIN. Generally speaking. I could not trace every transaction.

Senator DOUGLAS. So the support you gave to the market was indirect, but nevertheless real, because this would enable the market in turn to buy \$167 million more than they otherwise would have purchased. Is that not true?

Mr. MARTIN. We purchased them directly.

Senator DOUGLAS. From traders?

Mr. MARTIN. That is right.

Senator DOUGLAS. That is right. This served to build up the reserves of member banks in the System, did it not?

Mr. MARTIN. It did.

Senator DOUGLAS. Yes. Therefore increasing their reserves by \$167 million. What is your expansion coefficient now? About $5\frac{1}{2}$?

Mr. MARTIN. To 1.

Senator DOUGLAS. One?

Mr. MARTIN. About $5\frac{1}{2}$ to 1.

Senator DOUGLAS. Yes. So this made it possible for them to loan approximately \$950 million more than they would have been able to loan had you not made the purchase?

Mr. MARTIN. That is theoretically correct.

Senator DOUGLAS. And the banks lent up to their ability to lend. Isn't that true?

Mr. MARTIN. That is right.

Senator DOUGLAS. So what you did was to expand the credit by \$950 million by this purchase at the same time that you were trying to restrict it by raising the rediscount rate. This reminds me of Stephen Leacock's man who rushed out of his house and mounted his horse and rode off in all directions. Here on the one hand you are trying to decrease the supply of credit by increasing the rediscount rate, and on the other hand you make this purchase which expands the circulating medium by almost \$1 billion.

You are a very intelligent man, Mr. Martin, and I would be very much interested in getting the rationale behind this.

Mr. MARTIN. Senator, this is a moving stream. At that time of year you have a normal increase in the demand for credit. The Christmas season was coming on and holiday currency needs were there.

Senator DOUGLAS. This was a purely seasonal affair?

Mr. MARTIN. It was in part seasonal. At that time in every year we supply funds to the money market.

Senator DOUGLAS. But just a few days before, on November 18, you increased the rediscount rate from $2\frac{1}{4}$ to $2\frac{1}{2}$ percent.

Mr. MARTIN. That is the price of credit, not the—

Senator DOUGLAS. The price of credit is supposed to have a restraining influence on the amount of credit.

Mr. MARTIN. The price and amount work together at different times. Our endeavor was to keep the money market on an even keel during the time of a Treasury financing.

Senator DOUGLAS. On an even keel during the time of Treasury financing. You mean it was to help the Treasury bring off this issue of certificates—the refunding of the certificates.

Mr. MARTIN. It was in order to see that the Treasury had a fair opportunity to gage the market during the time it was in the market.

Senator DOUGLAS. To gage the market?

Mr. MARTIN. To rely on the market. I used the word "gage." The problem of the Treasury and of every person who goes to the market is to judge what can be floated in the market.

Senator DOUGLAS. Is it possible the Treasury made a mistake in the terms of its refunding of the certificates?

Mr. MARTIN. In my judgment, no. If I had thought the Treasury made a mistake on that, and we were consulted on it, I would have had a different attitude toward it.

Senator DOUGLAS. If they had been correct, would not the market have absorbed these sums without the necessity of your coming in and making the purchase? If their interest terms had been correct would not the market have absorbed these without the necessity of your help?

Mr. MARTIN. Markets are very difficult, Senator. I have been connected with them for many years and I realize all the time how little I know about them. Let me just emphasize here that we had or were pursuing a restrictive monetary policy. We were not endeavoring to embarrass the needs of people who wanted credit; we were endeavoring to supply these needs, but we wanted the forces of supply and demand to operate and to be reflected in prices which—

Senator DOUGLAS. Again I want to insist that is what you say you were doing when you were raising the rediscount rate. But here you go and purchase \$167 million which you say in response to my question increases the lending capacity of the banks by nearly \$1 billion, and they take advantage of it. So you are expanding the circulating medium at the same time you are issuing statements saying you want to follow a policy of restraint. Again I submit you are riding east and west at the same time, and since you are a highly intelligent man I am sure you must have known what you were doing.

This raises a very real problem as to why nine members of the Open Market Committee should have voted in this manner.

I want to applaud the three members of the Board who had guts enough to be consistent on this and vote against it.

Mr. MARTIN. Senator, I wish it were as easy as you put it, going east and west. But we have to consider this flow I am talking about, this continuous flow in the money market. And regardless of whether we bought the \$167 million, we would have bought something during that period because the needs of the economy are—

Senator DOUGLAS. Would you have bought \$400 million?

Mr. MARTIN. We might have bought more than \$400 million. It was a question of putting in needed reserves. We have to make a projection of what the needs are and then supply reserves accordingly.

Senator DOUGLAS. You were ready to expand the circulating medium by \$2.5 billion or \$2.2 billion, although fortunately you had to expand it by only about \$950 million. Here you are charged with regulating the supply of money. Incidentally, I want to say I think you ought to have \$25,000 a year. I think the Federal Reserve Board is grossly underpaid. You have the very responsible duty of regulating the

the supply of money. But here you expand the supply of money at the same time you are talking about the need for restraint.

Mr. MARTIN. You would not want me to curtail the requirements of growth in the economy by diminishing the supply of money.

Senator DOUGLAS. I can't see the growth of the economy in the expansion of \$2.2 billion on the 30th of November. Why this sudden decision?

Mr. Martin, I am going to ask you a very direct question. Did Mr. Randolph Burgess, the Deputy Secretary of the Treasury, or Mr. George Humphrey, tell you at any time that they wanted the Reserve to support the market?

Mr. MARTIN. Both Mr. Burgess and Secretary Humphrey pointed out to the Federal Reserve they were having difficulty in the market.

Senator DOUGLAS. They were having difficulty in floating their certificates?

Mr. MARTIN. That is correct.

Senator DOUGLAS. That is right.

Mr. MARTIN. There is no reason why they should not.

Senator DOUGLAS. They would not have had difficulty if they had judged the market correctly so far as the interest rate is concerned. Is that not true? There is an abundance of credit in the market. Has the credit of the United States fallen so low or has it been degraded to such a point that the Federal Reserve System has to come in and bail out the Treasury?

Mr. MARTIN. The Federal Reserve, in my judgment—

Senator DOUGLAS. I do not accuse. I have a higher opinion of the credit of the United States than that. Had the market so lost confidence in the Government of the United States that they would not purchase the certificates under any conditions?

Mr. MARTIN. It was our considered judgment, Senator—

Senator DOUGLAS. Let us separate your judgments before the 29th of November from your judgments on the 30th of November. Let us start with Mr. Burgess. When did Mr. Burgess first approach you with the need of the Reserve coming in to support the issue?

Mr. MARTIN. I do not want to place any responsibility on Mr. Burgess as Under Secretary. I take full responsibility—

Senator DOUGLAS. I am not St. Peter and you are not St. Peter.

Mr. MARTIN. Right.

Senator DOUGLAS. But we are trying to get a chronicle of the events. When did Mr. Burgess first approach you with the desirability of the Reserve supporting this refinancing issue?

Mr. MARTIN. It was on Monday, November 28, he pointed out to me—

Senator DOUGLAS. What was your reply to that?

Mr. MARTIN. We would watch the matter carefully and study it. That is all. We keep in close touch on every issue.

Senator DOUGLAS. Did you give an assent? Did you say "yes"?

Mr. MARTIN. No.

Senator DOUGLAS. Did he renew his request on that day?

Mr. MARTIN. Later in the day he pointed out things were not going as well as he hoped they would go.

Senator DOUGLAS. In other words, he was not able to dispose of the certificates as he thought he would be able to. Was there not a com-

plaint he had misjudged the market and did not fix the interest rates sufficiently high?

Mr. MARTIN. Our desk people in New York participated in discussions and they were inclined to think that the rate was an appropriate rate and we had perhaps miscalculated the course of the market. It was not a fault of pricing but more a fault of psychological forces in the market.

Senator DOUGLAS. At any event, he was not able immediately to dispose of the certificates?

Mr. MARTIN. He was having trouble.

Senator DOUGLAS. That is right. So twice on November 28 he asked you to support the market. On the second telephone call—was this by telephone or in person?

Mr. MARTIN. This was by telephone.

Senator DOUGLAS. On the second telephone call, what did you reply to him?

Mr. MARTIN. That we would continue to study the matter.

Senator DOUGLAS. In other words, you held him at arm's length?

Mr. MARTIN. Exactly.

Senator DOUGLAS. Then did you bring in the big gun, the Secretary of the Treasury, Mr. Humphrey?

Mr. MARTIN. No, no, Senator. The meeting on November 20—

Senator DOUGLAS. Now we have November 28. When did Mr. Humphrey enter the picture?

Mr. MARTIN. Mr. Humphrey only entered the picture when I had a meeting on November 30—the meeting at which the vote was taken which we have now disclosed; and I made it very clear to Mr. Burgess that—Mr. Humphrey happened to be out of town at the time—

Senator DOUGLAS. He was down at Sea Island, Ga.

Mr. MARTIN. He was away. That I had to have it clear for my meeting that Secretary Humphrey had been fully apprised of this situation and he concurred in his—

Senator DOUGLAS. In Mr. Burgess'?

Mr. MARTIN. In Mr. Burgess' judgment that they would—

Senator DOUGLAS. In other words, Mr. Burgess said, "The Secretary of the Treasury wants this, too." Is that the substance of his comment?

Mr. MARTIN. There was no threat of any sort.

Senator DOUGLAS. I didn't say there was any threat. I simply said, Did Mr. Burgess say—

Mr. MARTIN. Secretary Humphrey concurred in Under Secretary Burgess' judgment that this was a very difficult situation.

Senator DOUGLAS. And asked to have that opinion transmitted to you?

Mr. MARTIN. And that was transmitted to me.

Senator DOUGLAS. When was that done?

Mr. MARTIN. That was the morning of November 30.

Senator DOUGLAS. In other words, on the morning of November 30 Under Secretary Burgess conveyed to you the statement that Secretary Humphrey concurred with him?

Mr. MARTIN. I just wanted to be certain of that since he was away at the time—I would normally have dealings with Secretary Humphrey, but because of his absence I dealt with Under Secretary Burgess.

Senator DOUGLAS. That is right. Then you went into the committee meeting. The committee meeting which you had was conducted on an interconnected telephone, was it not?

Mr. MARTIN. That is correct.

Senator DOUGLAS. In which 5 presidents sat in their respective offices and the 7 members of the Board sat in Washington, each with a telephone, so that they were at a Board meeting. Although they were separated by hundreds, by thousands, of miles, they nevertheless could hear each other's voices; is that true?

Mr. MARTIN. That is correct.

Senator DOUGLAS. This was the committee meeting. They were not physically present. Who voted first on this, Mr. Martin?

Mr. MARTIN. I am inclined to think that—

Senator DOUGLAS. Is it the custom for the chairman to vote first?

Mr. MARTIN. I do not know whether it is the custom or not. I think on this occasion I did vote first.

Senator DOUGLAS. Who voted second?

Mr. MARTIN. My impression is—I would have to check it to be absolutely certain, Senator.

Senator DOUGLAS. Does not the Vice Chairman generally vote second?

Mr. MARTIN. Not necessarily.

Senator DOUGLAS. Did the Vice Chairman vote second in this instance?

Mr. MARTIN. That I do not know.

Senator DOUGLAS. Who is the Vice Chairman?

Mr. MARTIN. Mr. Sproul.

Senator DOUGLAS. The president of the Federal Reserve Bank of New York?

Mr. MARTIN. That is correct.

Senator DOUGLAS. Did all five presidents of the various Federal Reserve banks vote as Mr. Sproul voted?

Mr. MARTIN. That is correct.

Senator DOUGLAS. It is sometimes said he is the bellwether for the presidents of the various Federal Reserve banks. As Sproul goes, so go the member banks.

Mr. MARTIN. Mr. Sproul is a very able and intelligent and competent man. He is a man, however, I have not always agreed with.

Senator DOUGLAS. I understand, but it is said that the presidents of the various banks go where Sproul goes.

Mr. MARTIN. The presidents have not always voted with Mr. Sproul.

Senator DOUGLAS. But in this instance they did?

Mr. MARTIN. In this instance they did.

Senator DOUGLAS. Mr. Martin, I have great respect for you, believe me.

Mr. MARTIN. It is mutual, Senator.

Senator DOUGLAS. I mean that. That is not put on. I have great respect for you.

Would you have voted as you did if Mr. Burgess and Mr. Humphrey would not have asked you to do this?

Mr. MARTIN. That is a very difficult question to answer categorically. I would have to say that that was one of the factors in it. My judgment of the market nevertheless was that it was a very difficult market to handle.

Senator DOUGLAS. That answer increases my respect for you, when you say it was one of the factors, because it is an honest answer.

Mr. MARTIN, when my party was in power and the Secretary of the Treasury was trying to compel the Federal Reserve Board to support the Government bond market and to buy Government issues, I took a great many political risks in opposing my party, because I thought that was a wrong position. I got in some disfavor at the White House and some disfavor at the Treasury. So I think I can make a statement on this without being accused of partisanship. If it was wrong to yield to Treasury dictation when President Truman was in power, why is it right to yield to Treasury dictation when the administration has changed and Mr. Humphrey is in the Treasury and President Eisenhower in the White House? What makes it wrong at one time and right at another time?

Mr. MARTIN. If it is Treasury dictation it is wrong both times.

Senator DOUGLAS. Dictation is a relative term, Mr. Martin. Things are done around here sometimes with the iron fist, but the velvet glove is generally put over the iron fist. I am quite certain that Mr. Burgess, being a very polished gentleman, and one whom I have known for 40 years—and I like him too and I have defended him on the floor of the Senate, as the Senator from Connecticut knows—would not be impolite at all in what he says. But it seems clear they were having trouble with this issue and called on the Federal Reserve to bail them out. You bailed them out despite the fact that you were trying to constrict credit in other respects, and expanded the circulating medium by \$900 million.

This is the type of—if I may launch into a statement of my own—coercion of the Federal Reserve System by the Executive which I regard as improper. The Treasury should determine the terms of its issues, and if they misjudge the market they should be punished accordingly. The responsibility should be determined and then that can be adjusted later. But they should not call on the Reserve to bail them out and inflate the money supply in order to cover up a mistake in the terms of yield.

Mr. MARTIN. Senator, I want just as good naturedly as I can to deny completely there was coercion in this instance.

Senator DOUGLAS. I am not saying there was coercion. I am saying there was pressure.

Mr. MARTIN. In Washington, as you know better than I, we live in pressures. It is a matter that is part of our democracy. We have to evaluate whether the pressures are just or unjust.

Senator DOUGLAS. Excuse me, Mr. Martin.

Senator MORSE. I would like to hear him. It is a pretty vital statement.

Senator DOUGLAS. Yes.

Mr. MARTIN. I think every day—if you want to put it by the fact that people are calling me, and one thing and another—there is a certain amount of pressure put on you. I do not think it is pressure if someone calls to your attention the fact that he thinks there is a shortage of credit. He is probably quite sincere about it. You have to evaluate whether that is right or wrong.

There was no threat of any sort made by the Treasury to me as an individual, or to the system, in this case. We work as partners and I am just as anxious to see the Treasury succeed as I am to see—

Senator DOUGLAS. Just a minute. Go ahead.

Mr. MARTIN. I think you have to recognize that the Treasury and the Federal Reserve are partners, each with a 50-percent interest, if you want to put it that way. Neither one of us is subservient, one to the other. It is our endeavor to see that the Treasury is successfully financed and neither the Treasury nor the Federal Reserve should ignore the dictates of the market; and neither the Treasury nor the Federal Reserve benefit by having the Treasury fail at any time.

Senator DOUGLAS. But, Mr. Martin, on the 24th of September you made a very explicit statement that it was not the function of the Federal Reserve to support the Government bond issue or financing issue, that it should proceed in terms of the amount of credit which the money market needed, rather than supporting the bond issue. That was the whole thing.

Mr. MARTIN. In this instance, Senator, the amount of money that the money market needed, and that provided by supporting this issue, fitted in. It just happened that both worked out in the same way. If we had not bought the \$167 million of these 2 $\frac{5}{8}$ certificates the payment of which came on December 8, we would have had to buy something else to supply the money that would be required.

Senator DOUGLAS. Why did you not decrease the rediscount rate then? Your purpose was to ease the market.

Mr. MARTIN. Because in accordance with our judgment of the credit situation we would rather have had the price of credit rising. The cost of credit was going up, because we were leaning against the wind and were not making the wind.

Senator DOUGLAS. I would like to point out on the 24th of September Governor Mills made a motion, the second portion of which reads:

During the period of Treasury financing there should be no purchases of maturing issues in which an exchange is being offered when issued securities, for outstanding issues of comparable securities to those being offered for exchange * * *

This is a reversal of the Mills motion.

I want to give credit to Governor Mills, who comes from Oregon, for sticking by his guns in November 1955, as he had in September 1953. I also want to give credit to Governor Robertson and Governor Vardaman for sticking by their guns.

Mr. MARTIN. I want to give credit to all of them too, Senator. I think their judgment was wrong, but it was not the law of the Medes and Persians that was enunciated, and the ad hoc subcommittee that worked on this problem was the one that developed this procedure. Mr. Mills worked on that committee.

Senator DOUGLAS. You were a member of that committee too?

Mr. MARTIN. I was a member of that committee.

Senator DOUGLAS. And you recommended this?

Mr. MARTIN. I recommended this, and I have not fundamentally changed my position.

Senator DOUGLAS. It was in line with the policies which I had advocated in my supplemental statement to the Patman report on the ground that good fences make good neighbors and you should delimit the activities of the Treasury and the Reserve.

Mr. MARTIN. And I responded to that very wise comment of yours that I thought it was a good one, but I thought you had to have a

revolving door in the fences by the nature of what you were dealing with.

Senator DOUGLAS. If I may introduce a light note in this exchange, as a boy I used to read the series of Washington Irving and I read the story of Rip Van Winkle, who was addicted to the bottle. From time to time Rip Van Winkle would say he had sworn off and was not going to drink any more. Then he would take a drink and say, "We won't count this time." So what you are saying is, "We won't count November 30. It is a wise policy, but Randolph Burgess and George Humphrey got in touch with me and we changed."

Mr. MARTIN. I want to assume complete responsibility on my part for this decision.

Senator DOUGLAS. The prompting came from Mr. Burgess and Mr. Humphrey. I am going to ask a question and I hope you will not take offense at it.

When does your term expire?

Mr. MARTIN. My term expires January 31 of this year, unless you gentlemen see fit—

Senator DOUGLAS. And you are up for renomination?

Mr. MARTIN. That is correct.

Senator DOUGLAS. If the President had not submitted your name you would not now be before us?

Mr. MARTIN. I would only say on that, Senator, I consider this the greatest honor that has ever been accorded me.

Senator DOUGLAS. It is a great honor.

Mr. MARTIN. It is a great honor indeed, and I have tried not to besmirch that honor in anyway at any time by temporizing with what I conceive to be moral principle. If moral principle as distinct from practice is concerned, I can assure you I will resign.

If you will recall the time when I was before your committee in March 1951, you questioned me at great length, and I think very much to your credit, because I can understand your apprehensions at my coming out of the Treasury and going into the Federal.

Senator DOUGLAS. I questioned as to whether you would be able to resist the blandishments of Secretary Snyder.

Mr. MARTIN. I do not take any offense at what you are saying now, but simply say I stand on my record, and I think my record has been good.

Senator DOUGLAS. I want to give you credit for resisting the blandishments of Secretary Snyder. You resisted those much more successfully than the blandishments of Secretary Humphrey.

Mr. MARTIN. No, Senator. That is an unjust allegation.

Senator DOUGLAS. No, no.

Mr. MARTIN. I really think if you studied the record you would find that is not the case. I have resisted Secretary Humphrey just as much as I have resisted Secretary Snyder. Now, by resistance—well, there are times when we are trying to work as partners. And I have worked just as conscientiously and faithfully with Secretary Humphrey as I did with Secretary Snyder, and there have been times when I have had to say no to both.

Senator DOUGLAS. Let me turn to a general question. Do you regard the Federal Reserve Board as the agent of the Executive or the agent of Congress?

Mr. MARTIN. I regard it as an independent agency of the Government.

Senator DOUGLAS. To whom is it responsible? To the Executive or the Congress?

Mr. MARTIN. It is responsible to Congress. I will give you my concept of it, as I see it.

Senator DOUGLAS. If you will just say you regard it as responsible to Congress, that is all I want. That is the concept of Carter Glass. Is that not true, Senator Robertson?

Senator MORSE. If the Senator will permit, I would like to hear his conception of what he means by being responsible to Congress.

Senator DOUGLAS. Yes. Very good.

Senator MORSE. I am not so sure but you are letting him off very lightly.

Mr. MARTIN. I welcome the opportunity, Senator.

Senator MORSE. We will give it to you.

Mr. MARTIN. I welcome the opportunity.

As I see it, the power over money resides in the Congress, and from the early days of this country our forefathers have been very jealous over that power because they had had experience with tyranny and despotism, and with permitting that power over money to get into a position where it would be subject either to private pressure or political pressure. Therefore they wrestled with this problem through our history, in the first Bank of the United States and Second Bank of the United States, as we discussed at the time of your committee's hearings, Senator, and in the Subtreasury system, right down to the time when they decided to embark on a managed-currency system—because they were not willing to accept money panics, the last one of which was in 1907, which persuaded President Wilson to come forward with the Federal Reserve System.

The bankers and businessmen at that time opposed the establishment of the Federal Reserve System. Superficially people say bankers and businessmen are always blind. I am not sure of that. I think the bankers and businessmen probably realized that this was a very great power that was being given into the hands of a body. I am certain that the Congress realized it was a great power. So they set that power up in the form of a trusteeship.

The indenture of this trusteeship was written by the Congress in the Federal Reserve Act, and can be altered at any time by the Congress. But the reason for having an indenture was that the Federal Reserve System, which stands at the bar of public opinion just the same as anyone else, ought to have in this field a reasonable opportunity to make its decisions, insulated from direct political pressures or private pressures.

It is in that framework we have been trying to work. They set up a regional system of 12 banks with 250 directors around the country that siphon in the grassroots views of the country to protect this currency. The Federal Reserve System is the only agency of the Government that is devoting itself full time under the Federal Reserve Act to the currency of this country.

Senator DOUGLAS. That is correct.

Mr. MARTIN. And I think, I sometimes feel, there is not enough public understanding or awareness that this is the primary bulwark we have for safeguarding our currency.

Senator DOUGLAS. But you inflate the money supply by almost \$1 billion on the one hand while you try to restrain it by raising the re-discount rate on the other.

Mr. MARTIN. I still think, Senator that our general position here is that the stability of the currency is what we are trying to achieve, and you and I have exactly the same objectives. We sometimes disagree on the way in which we get there, but there is no difference of opinion between you and me as to the place we are trying to go. Does that answer your question, Senator Morse?

Senator DOUGLAS. Mr. Martin, I have had typed out this little sentence which is a quotation from you:

The Federal Reserve Board is an agency of the Congress.

I will furnish you with scotch tape and ask you to place it on your mirror where you can see it as you shave each morning, so that it may remind you.

Mr. MARTIN. I will be glad to comply.

Senator DOUGLAS. And it is not an agency of the Executive.

Senator ROBERTSON. I have just a question or two I would like to ask him about a previous conflict of this character.

The CHAIRMAN. Will Senator Douglas yield and we will come back to him?

Senator DOUGLAS. Yes.

The CHAIRMAN. The Senator from Connecticut would like to ask a question also after the Senator from Virginia is through.

Senator ROBERTSON. Governor, was it in 1950 that the open breach came between your predecessor, Mr. McCabe, and Mr. Snyder over open market operations?

Mr. MARTIN. Yes; it was in the latter part of 1950.

Senator ROBERTSON. At that time you were in the Treasury; were you not?

Mr. MARTIN. That is correct.

Senator ROBERTSON. As I recall it, Secretary Snyder was trying to float some very large issues that Mr. McCabe thought were unrealistic from the market standpoint. Mr. Snyder claimed, as I recall it, that he had a promise from Mr. McCabe he would do it, and then the Board met and voted against doing it. Secretary Snyder claimed Mr. McCabe had run out on him, and Mr. McCabe claimed he had never made any unconditional promise. Was something like that involved at that time?

Mr. MARTIN. That is right. Yes, sir.

Senator ROBERTSON. Then some of us tried to work out a compromise plan and in that connection I had a number of conferences with you.

Mr. MARTIN. That is right.

Senator ROBERTSON. As I recall it, we had conferences with the distinguished Senator from Illinois on it, and Senator Maybank, the former chairman of our committee. I was chairman of the Subcommittee on Banking.

Mr. MARTIN. Yes, sir.

Senator ROBERTSON. As I recall it, the compromise was somewhat like this: The Federal Reserve Board was to be an independent agency and could not be pushed around and kicked around by the

Treasury and made to do anything. But that the Federal Reserve Board agreed to consult with the Treasury when it was having difficulty in sustaining a market, and whenever the Federal Reserve Board reached the conclusion that the best interests of the Nation would be served by supporting the market, it would do so. Was that the compromise we worked out?

Mr. MARTIN. That was exactly it.

Senator ROBERTSON. All right. It would appear you have been a little inconsistent in stating one year that you were not going to support the market and then voting to support the market. You told us when you made that vote, irrespective of the representations made to you by Treasury officials that they were in difficulty and needed help, it was your independent judgment that the best interests of the Nation would be served by supporting the market. Will you indicate to us why you thought that?

Mr. MARTIN. Yes, sir. I would like to, because as I indicated earlier, we had raised the rediscount rate a little bit later than I would like to have raised it, but this is a difficult economic situation to judge when you have something like the President's illness come into it. We might have raised the rediscount rate, if it had not been for that, several weeks earlier than we did, but when we raised the rediscount rate, the money market grew tighter than we had anticipated. In the evaluation of the financing the \$12 billion refunding I think our general feeling was that the attrition would run around \$350 million, and as it turned out against the backdrop of the needs of corporations for dividend payments and other conditions at the end of the year, they were going to need more cash from these certificates and were not as likely to refund as they normally would have been. We had been partially responsible for injecting this tight note into the market, since the psychological impact of the increase in the discount rate was a real factor there.

Under normal circumstances my personal approach—and I am not speaking for the other members at the moment—would have been that the Treasury should accept whatever attrition occurs and then should pick it up by a bill offering subsequently. That is the clean-cut way to do it. There was a reason—there were many views on this and people can have honest differences of opinion, but the fact remains that the money market banks were being squeezed at the end of the year. Normally I would have said, by all means, you take whatever attrition comes to you and you will have to pick it up in the next issue. But under the conditions which were developing—you will find different points of view on this, and if you will check students of the money market you will find there are a number that disagree.

Senator ROBERTSON. It was your honest conviction you were serving the best interests of the Nation?

Mr. MARTIN. It was my honest conviction that if the Treasury tried to put out a bill issue to cover this attrition loss they might not have gotten enough bids to cover it the next time.

Senator ROBERTSON. I have confidence in your integrity, but due to the fact that you and your wife can live comfortably if you never have another job, I know it is a little embarrassing to be reminded of the fact that you changed your position on the issue just before you came up for a new 15-year term. It does not bother me at all.

The CHAIRMAN. The Senator from Connecticut would like to ask a question.

Senator BUSH. Mr. Martin, when were you first designated as Chairman of the Board?

Mr. MARTIN. It was in March 1951.

Senator BUSH. Were you appointed by President Truman?

Mr. MARTIN. I was appointed by President Truman.

Senator BUSH. I would like to observe at this point I think that is one of the best appointments President Truman ever made.

Senator DOUGLAS. He made a great many good appointments.

Senator BUSH. Mr. Martin, I am sorry I was not here at the last meeting, but I have been very much interested in the Senator from Illinois' comments about this situation. What was the issue that the Treasury was planning to make at the end of December, and when did they make it? Was it Treasury bills?

Mr. MARTIN. No, it was a refunding of about \$12 billion.

Senator BUSH. \$12 billion?

Mr. MARTIN. \$12 billion. I have a note on that here and I will be glad to put it in the record.

Senator BUSH. I think it would be good to have it in.

Mr. MARTIN. 1 $\frac{1}{4}$ percent 1-year certificates. The total of the 2 issues was \$12,213 million. I will be glad to put it in the record.

The CHAIRMAN. The reporter will put it in the record at this point, without objection.

(The document referred to follows:)

Treasury refunding of Dec. 15 maturities

[In millions of dollars]

Maturing securities	Outstanding Sept. 30, 1955	Securities issued in exchange		Payable in cash
		2 $\frac{1}{2}$ -percent 1-year certificate	2 $\frac{1}{2}$ -percent 2 $\frac{1}{2}$ -year notes	
3 $\frac{1}{4}$ percent 1-year certificates.....	5,359	4,157	814	388
1 $\frac{3}{4}$ percent 5-year notes.....	6,854	4,925	1,469	460
Total.....	12,213	9,082	2,283	847

Federal Reserve holdings of U. S. Government securities

[In millions of dollars]

Type of security	Holdings		Change in December
	Nov. 30, 1955	Dec. 31, 1955	
Treasury bills.....	1,270	1,503	+233
Certificates.....	2,520	5,921	+3,401
Notes.....	17,400	14,166	-3,233
Bonds.....	2,802	2,802	-----
Total System account.....	23,991	24,391	+400
Repurchase agreements.....	265	394	+129
Total U. S. Government security.....	24,256	24,785	+528

The CHAIRMAN. I would like to have Mr. Martin tell us what it was for the benefit of the committee now.

Mr. MARTIN. The \$12 billion refunding was divided into an optional choice to the holders of the 2 previous issues where they could either take an 11½-month 2½-percent certificate, or a 2½-year 27⁄8-percent note.

Senator BUSH. Or cash?

Mr. MARTIN. Or cash. And we had estimated—and I am talking now about our own people—that the attrition would be in the neighborhood of \$350 million to \$500 million on that issue, and not more than that.

The actual attrition after our support came up to \$847 million.

Senator BUSH. So that the point stands out very clearly, I think, that what you are talking about was a \$12 billion issue of securities. There was an exchange offered in connection with them but the owners did not have to take the new securities, but could take cash if they chose. So with the \$12 billion refunding in process it certainly must have seemed to the Federal Reserve Board that it was pretty important; that that was absorbed in the whole national interest. Is that not so?

Mr. MARTIN. That is exactly right.

Senator BUSH. It is not surprising, I do not think, when the Treasury is faced with the responsibility of selling \$12 billion worth of securities that they should have felt some concern with the situation and should have been very sensitive to the condition of the market at that time. That is a tremendous operation even for the Treasury of the United States.

I am told, if I understand you correctly, that the Federal Reserve Board authorized the purchase of \$400 million worth of certificates in the open market?

Mr. MARTIN. Up to \$400 million of the 2½ percent when issued certificates.

Senator BUSH. Actually you bought only \$167 million?

Mr. MARTIN. That is correct.

Senator BUSH. Do you still hold those?

Mr. MARTIN. We still hold them. Yes, sir.

Senator BUSH. Mr. Chairman, it does not seem to me that with tremendous problems and responsibilities of selling \$12 billion worth of Government securities that it is improper for the Federal Reserve Board to feel some responsibility, as they are the guardian of the money market in the United States, both long and short term, and as they really control the money. That is the job the Congress gave them. It just does not seem strange to me that they should feel some responsibility and should be responsive to a suggestion from the Treasury in a matter of that very great importance.

Am I not correct that the Board regarded this purely as a temporary stabilization move? Would you classify it in that way?

Mr. MARTIN. My vote was predicated on it being an exception to a general rule.

Senator BUSH. An exception to the general rule, and purely to meet a temporary situation?

Mr. MARTIN. That is correct.

Senator BUSH. I would like to emphasize that, and I am sure the Senator from Illinois would agree, as he fought so valiantly against

the pegging of the Government bond market for so long a few years ago. I would like to say that a purely temporary move of this kind is not to be confused with the long-term pegging operations which the Senator from Illinois fought back in 1951, or thereabouts.

Mr. Chairman, the Senator from Illinois seems to feel some doubt about the propriety of the Federal Reserve open-market committee talking with each other on the telephone.

Senator DOUGLAS. No. Let the record show I do not offer any question.

Senator BUSH. You do not disapprove?

Senator DOUGLAS. No, no. I think it is a very convenient means of enabling people to be present. I simply showed I knew the technique by which they make decisions. That is all.

Senator BUSH. I will withhold what I intended to say in view of what the Senator just said, and will simply say that I see no impropriety in that whatsoever. It probably saves considerable money in bringing those men together, and there are times when the urgency of a decision such as that is such as to make it not only inconvenient but impossible to get those 12 men together. I would like the record to show that.

Senator DOUGLAS. Let the record show I think the American Telephone & Telegraph Co. has done a very excellent job in overcoming distance.

Senator BUSH. Mr. Chairman, in conclusion I would like to say this: I have known Mr. Martin a great many years and I have followed his record with a great deal of interest for a long time. I considered, as I said before, his appointment was one of the best President Truman ever made. The intention of the President at the moment to reappoint him and his willingness to be reappointed are both very fortunate occurrences. I certainly hope this committee will confirm him without opposition. I think his service has been so distinguished and so impartial and so courageous, and his judgment so good, that he deserves an unqualified endorsement by this committee.

Mr. MARTIN. Could I just put on the record, because I would like to have it there, that it was my definite, honest judgment, Senator, that the clean-cut way of doing this would have been to have the Treasury take the attrition and then issue bills to cover it. Also that I honestly believed, after weighing all of the market factors, that the Treasury would have difficulty under the circumstances of the year-end market, in getting sufficient coverage for the bill offering which might be required. No one knows what the attrition might have been if we had not stepped in, and that would have been a very unfortunate thing at this particular juncture.

Senator DOUGLAS. I do not want to monopolize the conversation. That was the point I was going to develop myself.

The CHAIRMAN. I wonder if the Senator would let us come back to him and then the Senator can have all the time he wishes.

Senator DOUGLAS. Certainly.

The CHAIRMAN. Does Senator Payne wish to ask any questions?

Senator PAYNE. The only question I want to ask is this. First I want to say I join very much with Senator Bush in his observations on Mr. Martin. I have had occasion to observe Mr. Martin in many instances and I consider him to be one of the outstanding, if not the outstanding public servant we have in the Federal Government at this

time or any other time. I just want to ask you one question, Mr. Martin.

Have you ever at any time exercised other than your own independent, free thoughts in connection with any decision that you personally have reached in connection with any of these matters?

Mr. MARTIN. Not at any time.

Senator PAYNE. In other words, without coercion, without pressure from Congress or anybody else, you acted in a way which you honestly and sincerely believed was in the best interests of the country at all times.

Mr. MARTIN. That has been my intention, sir.

Senator PAYNE. That is exactly as I have always evaluated you and I would hope, no matter whether I agreed with you or disagreed with you, I would respect you for exercising the type of independent action I think you would exercise as a great public servant. I want to commend you for it.

Mr. MARTIN. Thank you, sir.

The CHAIRMAN. The Senator from New York has been here quite a while. Did you have a question?

Senator LEHMAN. I have no questions, but I want to make an observation. I think I want to make it clear that I believe the questions asked by Senator Douglas are sound and useful, and that a service has been rendered in spreading on the record what the permanent policies of the Federal Reserve bank are. There undoubtedly were inconsistencies in the decisions made—inconsistencies between raising the rediscount rate at one time and shortly thereafter buying these bills. But after all, the Treasury was engaged in a refinancing operation amounting to \$12 billion. That is a lot of money. Any failure or partial failure of that operation I think would have seriously affected the credit of this country and the stability of our currency. I do not find anything unusual in a consultation between the Chairman of the Federal Reserve Board and the Secretary of the Treasury. It is very natural that such consultations should be, and that there should be consideration given to the views and the facts disclosed by the Secretary of the Treasury.

I do not believe from what Mr. Martin has said that any particular coercion was used in the consideration of this transaction. I think that I have no doubt that Mr. Martin acted in accordance with his best views—his views of what was of benefit to the country as a whole. After all, the Board's main responsibility is to assure the stability of our currency. I believe that conditions as they arise from day to day and from month to month should be, and properly so, taken into consideration by the Federal Reserve Board.

I again want to say that the facts that have been set forth in the record as to general policies by the Senator from Illinois are very valuable and he has rendered a service. But, in view of the fact that I have very great confidence in the Chairman of the Federal Reserve Board, and in the Board itself, I shall certainly vote to confirm him.

Mr. MARTIN. Thank you, Senator. May I say I agree with respect to the questions that Senator Douglas has asked today.

The CHAIRMAN. Does the Senator from Oregon have any questions?

Senator MORSE. I have a couple of questions on procedure but I would like to make this observation before I ask them. That I think

this is a much better appointment than the usual Eisenhower appointment, such as Wilson, Kyes, Talbot, Stevens, Strauss and d'Ewart, ad infinitum. He is almost in a class by himself.

But I do have concern about a Board meeting on a matter of great importance, such as this particular matter we have under discussion, by telephonic comments. I can well understand the procedure whereby a conference could be held by telephonic hookup. On a matter as important as this where there is going to be voting there is bound to be a lot of difference between the sort of meeting you have over a telephone and the sort of meeting you have when you are all in one room, and there is that give and take. I seriously question the advisability of that kind of Board meeting.

It is for you to conduct your Board, but I would hate to think that the American people in this democracy of ours are being subjected to having decisions such as this determined by a telephonic Board meeting.

Mr. MARTIN. Could I comment on that?

Senator MORSE. I think we had better spend the money for the airplane tickets and get the people in here, because I have a feeling about board meetings, and there is a lot of difference in the whole attitude over the telephone. You are trying to save time and are under the pressure of the telephonic time pressure itself. You do not have your files available. I can well imagine an entirely different discussion might have occurred in a room over this matter than over the telephone. I hope this is not a common practice of the Federal Reserve Board on major issues.

If it is, as a citizen and not as a Senator—as a citizen I say you had better improve and reform your Board meeting procedures.

Mr. MARTIN. Can I comment on it?

Senator MORSE. You can comment.

Mr. MARTIN. I would like to say I agree with you, and my opening comment to the group was that I thought this was very regrettable that we had to have a meeting of this sort, and it was unfortunate we had not had the chance to work this problem out in a quieter and clearer atmosphere than we had at the present time. It was only because we were caught in the middle of the stream without having properly spaced our operations that we were required to do this. I hope we will not engage in that type of decision over the telephone except in a rare emergency.

Senator MORSE. I am glad you made this comment because I do not believe the record up to this very moment has been very clear on it. We are to understand now it is a rare exception that the Federal Reserve Board holds a Board meeting over the telephone?

Mr. MARTIN. I have been in office for 4 years and 10 months the end of this month, and in that time there have been only 3 meetings by telephone.

Senator MORSE. That is very, very reassuring and I am glad to hear it.

The CHAIRMAN. Will the Senator yield on that same point? Just why was it so urgent that you had to have it? I am not quite clear on it.

Mr. MARTIN. Because there were only 3 days when the books were open for subscriptions on this Treasury offering.

The CHAIRMAN. What was that?

Mr. MARTIN. There were only 3 days—November 28, 29, and 30—when the books were open on this particular Treasury financing; and if a decision were to be made to assist it, it had to be made during that time.

The CHAIRMAN. Who determined it was only 3 days? The Treasury?

Mr. MARTIN. You cannot change in the middle of the stream. When you have announced to the market this is what you are going to do, and when, you cannot say you will take another week to do it.

The CHAIRMAN. Then they made a bad misjudgment of what the market was to take. Is that right?

Mr. MARTIN. I do not believe—it is not a case of that. The question of whether something should be done or should not be done had to be decided within the time it was announced on November 25 that the books would be open.

The CHAIRMAN. It was announced when?

Mr. MARTIN. The announcement was made on November 25 of what the terms of the new offering would be. There is a date set on all offerings. And, once you have set that date you cannot retrace your steps. The offering was well received on Friday the 25th. Generally speaking the market thought it was properly priced and it looked like it was all right. There were many confirming indications of that. On Monday the 28th it was found that a number of corporations had dividend operations that put them in a position where they were going to take the cash for the offering.

Rumors began to develop, and shortly before the end of Monday, by Monday night, it was obvious that a miscalculation had been made on the amount of attrition that would be there, regardless of what the issue had been priced at. I do not mean to say that there was no miscalculation on it—I do not for a moment deny that there was miscalculation. I say the Federal Reserve participated in that miscalculation. Not that it was our major responsibility, but I for one was surprised to find that the attrition was going to be as large as it turned out to be.

Why did anything have to be done then? My judgment—which I put on the record here, and which may be wrong—my judgment was if the Treasury had taken a much larger attrition, which they might have taken if we had not stepped in, and then had come forward with bills immediately—which would have been the clean cut way to handle this situation, as Senator Douglas suggested, and with which I agree. But let me put it this way: It was my definite conviction—and I might say, gentlemen, that I stayed up till 5 o'clock the night before that, weighing every aspect of this decision in my own mind—by the time we met at 9:30, on the last day the books were open on this offering, I was convinced in my own mind this was only way in which to handle this situation. My judgment may have been poor.

Senator ROBERTSON. Will you define that word, "attrition"?

Mr. MARTIN. The amount of money the Treasury has to pay on a maturing issue that is being refunded, because it could not refund maturing securities into another issue.

The CHAIRMAN. The cash outgo.

Mr. MARTIN. Cash outgo.

Senator ROBERTSON. Was any windfall involved there if you put out certificates that were not right and they go below the market and then you redeem them?

Mr. MARTIN. No windfalls. No, sir.

The CHAIRMAN. I am sorry to have interrupted the Senator from Oregon. I wanted to develop why there was an urgency about the matter, because I agree with you it is a very difficult thing to get a sound understanding over the telephone. But, go ahead. I do not want to interrupt.

Senator MORSE. It is a matter of judgment. I will not sit here and argue with Mr. Martin about the judgment he exercised as contrasted to the judgment I think ought to be exercised, even under a 3-day limitation of time with airplane travel as it is. I think they could have come here for a conference in a board room in a matter as important as this. I think they could have reached a different conclusion in rendering a judgment. I disagree with the procedure under the time schedule that you had.

However, what I want to ask you about is the matter of Federal Reserve Board procedure. We have pending before us in the Senate, a bank holding act and have pending before the committee certain proposed amendments to that act. There have been submitted to the committee by Transamerica both tax and nontax amendments. I happen to be one who is a stickler on procedure but I hold the point of view that the American people have no substantive rights separate from that procedure. There is a great danger, in the administration of our Government, for legislators to become a little sloppy about procedure and overlook the importance of protecting procedural rights.

One of the amendments of Transamerica—and I shall see to it as far as I am concerned that any amendment proposed by Transamerica or any other banking interests or industrial interests in this country will get a fair hearing on the floor of the Senate from the standpoint of procedural requests, as I say, and the requests are fair—one of these amendments of Transamerica goes to the question of being provided with a hearing and a record. If I am correctly informed, this hypothetical outlines the problem I want to raise with you and brings the Federal Reserve bank into it.

I understand, for example, that if a banking interest seeks to purchase a bank or establish a bank in State A, the matter, of course, goes before the banking officials of that State. The banking commission or whatever State agency they have passes judgment on it.

If that State agency decides against the request of the banking interest for the establishment of the bank, a hearing is held and a record is made, and the banking interest has the right then to appeal to the courts on the basis of that record.

But if the banking interest makes an application for the establishment of a bank or the purchase of a bank and the State agency raises no objection, the matter then goes to the Federal Reserve Board for consideration. If the Federal Reserve Board rejects the application, the applicant has the right to appeal to the courts. But the banking interest does not have a right to a hearing before the Federal Reserve Board. I am advised by a staff member of this committee that the

Federal Reserve Board has opposed the establishment of a procedure of a hearing at that point.

As a lawyer I am a little concerned about that, because when the applicant has to appeal in that case to the courts he really does not have a record to appeal on as far as the decision of the Federal Reserve Board is concerned. He cannot show the court why, on the basis of the record made by the Board itself, the decision was in error or followed a bad policy.

If I am correctly informed about this, my question is: Why does the Board take the position that a hearing, a record hearing, will not be held by the Board in its determination of a rejection?

Have I made my problem clear?

Mr. MARTIN. Well, yes, I think I have your problem. The Administrative Procedure Act, of course—if it is that type of proceeding, we would have a hearing. But this is after the banking authorities of the State have passed on it. Then it comes to the Board.

Senator MORSE. The State authorities raised no objection.

Mr. MARTIN. They have raised no objection.

Senator MORSE. But you do.

Mr. MARTIN. All right. We do. Well, now, we cannot have endless hearings. The court can always demand our records.

Senator MORSE. Well, but you have—

Mr. MARTIN. We would certainly hear them informally, but we ought not to be turned, in our judgment, into a court.

Senator MORSE. But you are rendering a quasi-judicial opinion. You are rendering it with the party of interest not having an opportunity in a hearing to point out your error or to demonstrate on the record why you should reach an opposite decision.

Are you taking the position that the applicant must go then into a judicial tribunal for what amounts to a de novo consideration of the case?

Mr. MARTIN. Well, I think our records would be available. I would have to review this, Senator. I am not familiar enough with the provision offhand to know. Do you—

Senator MORSE. I will be glad to get a memorandum from you on it.

Mr. MARTIN. I will be glad to supply you with a memorandum on it.

Senator MORSE. I am subject to change of opinion if somebody can show this amendment proposed by Transamerica is unsound.

Mr. MARTIN. I will be very glad to get you a memorandum on it.

Senator MORSE. It just seems to me that the applicant, if he is going to have the right to appeal to the courts, ought to have a record to go up on rather than to just go before the court and say, "The Federal Reserve Board has turned down our application. Why, we don't know. They haven't been willing to make a quasi-judicial record on it."

I think we have to watch out for that in our Government. I have seen this trend now for some 10 to 15 years in administrative law in this country. We are moving too fast into a procedure of ruling and regulation by administrative decision without a judicial record behind it in case of contest. I think we have got to tie down these administrative tribunals and agencies to a procedure that forces them to make a record.

We like to talk about a government by laws not by men. You haven't got a government by law, may I say most respectfully, when

an agency can render a decision without that decision being based upon an official record.

I am worried about it in this Bank Holding Act. I do not know whether I can convince my colleagues or not. But unless somebody can show me I am wrong, I am going to fight for this on the floor of the Senate.

Senator ROBERTSON. I will be glad to indicate, Mr. Chairman, why I think the gentleman is wrong. We have a provision in S. 2577 where if it is a State bank the State authorities object, and if it is a national bank the Comptroller of the Currency objects. There have to be public hearings and a record made and there is a right of appeal in those instances.

However, where nobody objects, we have followed the usual law of granting bank charters and a lot of things where there is no protest at all. They never call for open hearings to establish a record as to why the Comptroller of the Currency, for instance, should authorize the charter of a new bank. Nobody objects. He considers the application and he satisfies himself it ought to be. He does not have to go through all the expense and delay of inviting witnesses in there, when there is no opposition, to put officially on the record what he already knows and on which he is fully advised and when he is satisfied it ought to be done.

Just why Trans-America should be the only one, to offer this kind of an amendment I do not know. Trans-America is a big bank. We put in the record of the hearings its tremendous expansion since this act was passed. They gave us a lot of amendments—a list as long as my arm—the essence of which is fully covered by the amendments that I brought to the attention of the committee yesterday, the tax amendments and the other amendments.

Here is a Trans-America amendment. When it is trying to acquire banks and wants to get them with as little trouble as it can, they ask us to put in here a cumbersome provision that does not apply to any administrative agency that has discretionary power when there is no contest. But when there is no contest about a provision of expansion and the State says it is OK and the Comptroller says it is OK and the facts are presented to the Board, we do not require them to set out a formal record on the subject.

That is the essence of what this amendment means.

Senator MORSE. Well, I respectfully disagree. I am talking about a situation in which the Federal Reserve Board has objected but no record is made of its objection. The State officials did not object. It went through the State procedure. You are quite right that under the law if the State officials do object that then there has to be a hearing. But they did not object in my hypothetical. It goes to the Federal Reserve Board, and it does object, but they are not entitled to a hearing.

I want to say good-naturedly that I would fight for fair procedure for a murderer. This has nothing to do with Trans-Atlantic. I do not care whether it is Trans-America or X, Y, or Z. They have put their finger in my judgment—unless somebody can show me to the contrary—upon a procedural rule that any individual or corporation in this country is entitled to protest under our system of government by law. When an adverse decision comes down to you, you have a right to appeal to the courts. You have a right to go up on a record,

not on simply the dogmatic ruling of the Federal Reserve Board, "petition or application denied," which is what the present procedure is.

Senator ROBERTSON. Does the Senator attach some significance to this fact: There are about 165 or 170 bank holding companies. They are all informed about the procedure in S. 2577. The leaders of them know about the Trans-America amendment. Not a single one of them has joined with Trans-America in asking this change in the bill. Not one out of the whole group in the entire United States representing assets of perhaps \$25 billion.

Senator MORSE. That is no concern of mine that others may not be interested in sound procedure. If Trans-America has raised a point here that promises sound procedure, I am going to fight for it.

Senator ROBERTSON. Of course, that is the Senator's right. But I have looked over all these amendments, and most of them are dust in the eyes to cause confusion and delay.

Senator MORSE. I want to say as a lawyer that one of the most stereotyped arguments against a procedural protection is that they are dilatory and that they delay and that they are costly. But, let me tell you, they are essential to freedom.

The CHAIRMAN. I suggest we get on with Mr. Martin and then come back to the bank holding bill or we will not get through with either one.

Senator MORSE. I am trying to get on, Mr. Chairman. I have another question on the bank holding bill.

I am going to get a memorandum, I understand now, from Mr. Martin as to why the Federal Reserve Board, if I am correctly informed by members of the staff, takes the position that hearings of record should not be held on the type of hypothetical that I have described.

In this bank holding bill another procedural objection is that its penalties are all criminal penalties rather than civil and equitable. There are amendments offered seeking to establish some civil and equitable penalties, because when you deal with this question of burden of proof, trying to establish criminal intent, it is of a much higher order and more difficult to establish in a judicial record than civil liability.

You may not be prepared to answer it now, but the Federal Reserve bank demonstrated a great interest in the bank holding bill. I would like to know what your position is on this matter of criminal penalties instead of civil and equitable penalties. I would like to know whether or not you would object to amendments to the Bank Holding Act that would include equitable and civil penalties as well as criminal penalties.

Mr. MARTIN. Can I give you a memorandum on that too?

Senator MORSE. You can give me a memorandum on that. Because I think in passing this bank holding bill we ought to make certain that we are passing an act that the Federal Reserve Board thinks is good policy or has demonstrated to us in those respects where it thinks it is not good policy why it thinks so.

I have great difficulty in believing that the Federal Reserve Board would go along, if it took the time to study it, with either the failure in the bill to give adequate hearings of record or with the penalty features of the bill that are limited entirely to criminal penalties.

I would like to have a memorandum on both those points.
(The information referred to follows:)

MEMORANDUM REGARDING DESIRABILITY OF (1) CIVIL RATHER THAN CRIMINAL PENALTIES, AND (2) ADDITIONAL PROVISIONS FOR FORMAL HEARINGS, IN S. 2577, REGULATING BANK HOLDING COMPANIES

1. CIVIL AS AGAINST CRIMINAL PENALTIES

S. 2577 imposes criminal penalties for willful violations of the provisions of the act or of any regulation or order of the Board of Governors of the Federal Reserve System under the act.

It is understood that the suggestion has been made that the bill should include civil penalties rather than criminal penalties. It is assumed that the term "civil penalties" would include such matters as the assessment of money penalties, authority for injunction proceedings, or perhaps specific provisions prohibiting any company violating the act from paying salaries to its officers, or paying dividends, or voting stock in banks controlled by the holding company.

In June 1952, before the House Banking and Currency Committee, the Boards, views were expressed as follows:

"In the past, proposals with respect to legislation on this subject have sometimes included so-called sanctions or enforcement measures under which the administering agency would have been authorized, in the event of violations of the statute, to prohibit the payment of salaries to holding company officers, to prohibit dividends by the holding company or the payment of fees by subsidiary banks to the holding company, or to prohibit the holding companies from voting their stock in the banks controlled by them. We doubt, however, that sanctions of this kind would be either desirable or effective.

"Bearing always in mind the desirability of keeping the legislation to a minimum, it is our feeling that the only essential measure of enforcement, and the most effective one, would be a provision for criminal penalties for violation of the statute or of conditions prescribed by the administering agency in granting consent to acquisitions of bank stocks. This would place complete responsibility for enforcement of the law in the Department of Justice. The administering agency would not be placed in a position in which it would be required to institute proceedings for enforcement."

Similarly, the Board's position was expressed in hearings before the Senate Banking and Currency Committee on June 10, 1953, as follows:

"Bearing in mind the limited scope of the proposed legislation we feel that the only essential measure of enforcement would be a provision for criminal penalties. This would place complete responsibility for enforcement in that agency of the Government which presumably is best equipped to perform the job, the Department of Justice."

We still believe that the most effective sanction for the Board's supervision would lie in criminal penalties. No other sanction would be as effective in deterring attempts to evade the law. The Board would have grave doubts whether it is desirable to extend substantially the enforcement responsibilities of the Board by requiring it to institute civil proceedings in connection with its administration of this bill. However, if Congress should deem it desirable to provide civil penalties for violations of this law, the Board would not wish to be in opposition to such provisions.

2. EXTENSION OF REQUIREMENTS FOR FORMAL HEARINGS

The bill S. 2577 as reported by the Senate Banking and Currency Committee on July 25, 1955, contains two provisions expressly requiring the holding of formal hearings by the Board. First, if the appropriate State supervisory authority or the Comptroller of the Currency, as the case may be, should express its disapproval of any applications submitted to the Board by a bank holding company with respect to the acquisition of bank stocks or assets, the Board would be required to hold a formal hearing. In the second place, the bill provides that the divestment requirements shall not apply to shares of stock of any company all of the activities of which are of a financial, fiduciary, or insurance nature and which the Board, after notice and hearing and on the basis of the record made at such hearings, determines to be so closely related to the business of banking as to make it unnecessary for the divestment requirements to apply in order to carry out the purposes of the act.

It is understood that suggestions have been made for the inclusion of additional provisions for formal hearings, particularly one which would forbid a denial of an application except after a hearing before the Board when requested by the applicant.

It is not believed that any formal hearings, including those already provided for by the bill, are essential to the administration of this law. For nearly 100 years Federal bank supervisory agencies have acted upon applications for charters and branches of banks without formal hearings. This practice has worked satisfactorily, not only for the banking agencies, but for all parties affected. If formal hearings were required under the present bill in any case in which the applicant requested a hearing, not only would much of the Board's time be consumed by the frequent holding of such hearings (to the detriment of its primary responsibility in the field of monetary and credit policy), but there would necessarily be considerable delay in all cases. The hearings would involve the taking of testimony by trial examiners and subsequent review by the Board, perhaps with oral argument before the Board; and these proceedings would require months of time before a decision might be reached.

It should also be borne in mind that, from the very nature of the transactions involved, it would probably be necessary to bring out in such hearings matters relating to the management and financial condition of the banks concerned or even of their customers. Any dissemination of this information might unjustifiably damage the reputation of particular banks or persons or give rise to unfounded rumors. Information of this kind has been, and in our judgment must be, treated in the most confidential manner by bank supervisory agencies.

Under the bill as presently drafted, the parties would be afforded an opportunity to submit with their applications whatever written briefs or arguments they might desire. They would also be afforded, if they desired, an opportunity for discussion of the matter with the Board and its staff. In any case in which the Board might deny an application, the reasons for the denial would be stated by the Board; in fact, this would be required by the provisions of the Administrative Procedure Act.

For the reasons above indicated, it is believed that the proposed extension of the provisions of the bill with respect to formal hearings would inevitably impede and hamper administration of the law. Furthermore, such additional provisions are unnecessary for the adequate protection of the rights of bank holding companies under the bill.

Mr. MARTIN. All right.

The CHAIRMAN. Senator Frear?

Senator FREAR. No. I have a comment to make at the end, but I will wait.

The CHAIRMAN. Senator Sparkman, do you have any questions?

Senator SPARKMAN. No questions.

The CHAIRMAN. Senator Douglas, we revert to you if you have some further questions.

Senator DOUGLAS. Yes.

Mr. Chairman, I ask unanimous consent that there be printed at the end of this hearing a very able column by Miss Sylvia Porter which appeared in the Washington Star for December 27, but I should like to read certain paragraphs from it dealing with this matter.

The CHAIRMAN. Without objection, it is so ordered.

Senator DOUGLAS. It says:

It is the morning of November 29. Something is going badly wrong in the Government securities market. Despite the attractive coupons on the new United States securities, lots of banks and corporations are deciding not to exchange but, instead, to ask for cash. The possibility arises that the offering might be a stunning failure and the Treasury might be faced with the task of paying out a huge chunk of cash—cash which it just doesn't have.

That is a comment, but I think, as both Mr. Martin and I say, that they could have avoided that by short-term bills.

But, nevertheless, let me continue with Miss Porter's statement:

It is the afternoon of November 29. Suddenly, buying orders running into the 10's of millions of dollars pour into the Government securities market. Prices perk up. Holders who had been indifferent to the Treasury's offering change their minds, decide to exchange.

Their timing may have been a little bit off.

It is midnight November 30. The Treasury closes the books on its offering. In early December it announces that requests for cash from holders of its December loans totaled less than \$850 million.

It is late afternoon December 15. The New York Federal Reserve Bank releases figures showing the Federal Reserve's operations during the period of the Treasury's offering. The statistics disclose that the Federal Reserve itself had been the great buyer of Treasury securities during the crucial period and it had turned the trend.

It is the last week of the year 1955. The Treasury is paying its bills without trouble—but only because, despite all its pronouncements and pledges to the contrary, the Federal Reserve did come to the Treasury's rescue.

The Federal is restricting itself to "no comment"—and obviously it is hoping the behind-the-scenes maneuvers will so baffle reporters that they'll duck the whole story.

I will skip a paragraph.

Independence in our world is a flexible word.

Mr. Chairman, I would like to turn from this matter, which I think has been explored sufficiently, to a few other matters.

Mr. Martin, you will remember in the hearings of the so-called Patman committee, or perhaps it was the Flanders committee—I forget which—I asked that the report of the so-called ad hoc committee be published and be made a matter of public record.

Mr. MARTIN. That is correct, sir.

Senator DOUGLAS. And after some demurrals on your part it was done.

Mr. MARTIN. Right.

Senator DOUGLAS. Is it not true that this ad hoc committee recommended that the management of the open-market operations be transferred from the Federal Reserve Bank of New York to the Federal Reserve Board?

Mr. MARTIN. Well, I would not say it went that far. It pointed out that the manager of the open-market account should be directly responsible to the Open Market Committee.

Senator DOUGLAS. That is right.

Mr. MARTIN. And that—

Senator DOUGLAS. I may say I spent some days in New York studying the operations of the Open Market Committee. I think I am one of the few outsiders who sat in the trading room and watched the scene very carefully. I want to say I deeply appreciate the cooperation which was shown to me by President Sproyl and by all of the officers of the Federal Reserve Bank of New York.

After watching the operations very intimately, I came to the conclusion that these men are competent men. I think they have a high sense of public duty. My own judgment of them as individuals was very favorable. But I subscribe to your view that so important a function as this, which really regulates the supply of money, should be under the direction of the Federal Reserve Board.

This recommendation of the ad hoc committee has not yet been carried into effect, has it?

Mr. MARTIN. Well, this is the Open Market Committee you mean as distinct—

Senator DOUGLAS. I understand; yes.

Mr. MARTIN. Well, we are still working on that, Senator, quite actively.

Senator DOUGLAS. I have asked you about this from time to time, and you always say, "We're still working at it." I am struck with the fact that despite all this work that you say you are doing you seem to make no progress.

Is it your intention to—

Mr. MARTIN. I think we have made a great deal of progress in the last 4 years, and I—

Senator DOUGLAS. Let me ask you this: Who pays the salary of the very efficient managers of the open-market account?

Mr. MARTIN. The New York Federal Reserve Bank.

Senator DOUGLAS. The New York Federal Reserve Bank? They are not paid either by the Open Market Committee or by the Federal Reserve Board?

Mr. MARTIN. The Open Market Committee has no budget.

Senator DOUGLAS. The Federal Reserve Board has a budget, however.

Mr. MARTIN. That is right, but as the Open Market Committee was put into the Banking Act of 1933, no budget is—

Senator DOUGLAS. You can set aside funds I think for this purpose.

Let me ask you this, Mr. Martin: Do you think that these managers of the fund should be employees of the bank or employees of the Open Market Committee and the Board?

Mr. MARTIN. Well, that is a very difficult question. I want to answer your question directly on this. We have right now a lot of changes that have been made in operating procedures. I am just delighted that you went up there and spent the time on the desk, and I hope any other Senators who feel so disposed will go at any time, because it is helpful to us.

We have right now a subcommittee of the Open Market Committee that is working on this very problem. And we went up and met with the Board of Directors of the New York Federal Reserve Bank in late November, and we are endeavoring to work out a satisfactory solution to this problem.

Senator DOUGLAS. May I ask if the New York Federal Reserve Bank shows any alacrity in surrendering jurisdiction over this matter?

Mr. MARTIN. The New York Federal Reserve Bank is naturally anxious to—the New York Federal Reserve Bank is trying to do what it believes to be right. I have complete confidence in them.

Senator DOUGLAS. I am sure that is true. They think what is right is for them to hold on to this function. Is that not true?

Mr. MARTIN. Well, they have an institutional position in the matter, and we—

Senator DOUGLAS. And this institutional position is that they should hold on to it? Is that not true?

Mr. MARTIN. They favor holding on to it.

Senator DOUGLAS. Who has the authority in this matter? The Federal Reserve Bank of New York or the Open Market Committee or the Federal Reserve Board?

Mr. MARTIN. I am not sure. That is just one of the problems. Senator DOUGLAS. You mean you do not know whether you have legal authority to transfer this?

Mr. MARTIN. Well, I am not arguing—

Senator DOUGLAS. You mean to say the Open Market Committee would not have jurisdiction over the people who presumably are working for it?

Mr. MARTIN. Well, there is responsibility on the part of those people. It is the chain of command that is involved, whether it goes through the New York bank, and the institutional responsibility of the New York bank, or—you can't have 12 men on a committee which—

Senator DOUGLAS. You have an executive director of the fund. You do have an executive director of the fund, do you not, or secretary of the fund, of the committee?

Mr. MARTIN. I have a secretary of the committee, yes, a very able man.

Senator DOUGLAS. Who is he?

Mr. MARTIN. Winfield Riefler.

Senator DOUGLAS. That is what I thought.

Mr. MARTIN. Right.

Senator DOUGLAS. You have a setup which could manage the operations. I am not saying that the Board room should be changed from New York to Washington. I simply say that the paycheck generally has a real influence upon policy. I want to pay great tribute to the capability and the integrity of these employees. I mean it is very important that we should realize that there is no personal reflection in these matters. Is it not desirable that they should be employees of the Open Market Committee or of the Board, not of the bank?

Mr. MARTIN. Well, as one of the members of the ad hoc subcommittee, I have been moving in that direction.

Senator DOUGLAS. Well, your movement is imperceptible.

Mr. MARTIN. I think it is—

Senator DOUGLAS. I would not say that you qualify even under the Supreme Court standard of "deliberate speed." Certainly no "majestic instancy," to quote Francis Thompson. No deliberate speed in this.

Are you going to get on with this job, Mr. Martin, or are you just going to let it slumber?

Mr. MARTIN. Senator, I do not know where we will come out, but one of the reasons why I am willing to undertake this assignment if you gentlemen are good enough to confirm me is that I want to proceed with this and other problems that I think must be worked out in the—

Senator DOUGLAS. In the direction of taking over control?

Mr. MARTIN. I don't say control. I believe we have control today. It is a question of the mechanics.

Senator DOUGLAS. In the direction of making the managers of the open market fund employees of the Board or the Open Market Committee? Are you going to move in that direction?

Mr. MARTIN. I am certainly going to explore—

Senator DOUGLAS. Good heavens, man, you have been exploring this for years.

Mr. MARTIN. No——

Senator DOUGLAS. In the ad hoc committee, you said, you were going to move in that direction. There is a time when exploration should cease.

Mr. MARTIN. No, Senator, we have made a great deal of progress.

Senator DOUGLAS. Imperceptible to the naked eye.

Mr. MARTIN. Maybe to the naked eye, but the Open Market Committee is a much more effective and cohesive body in my judgment than it has been for a long time, and it is a more responsive——

Senator DOUGLAS. In other words, the answer is that you do not pledge yourself to seeing that the control of the Board or the Open Market Committee is extended over the place and operations? You see, it could take place in the same room, with simply the very efficient people who manage the fund. I want to pay great tribute to them for the third time so no one can say I am smearing them——

Mr. MARTIN. Well, I am going to work just as hard as I can on this problem.

Senator DOUGLAS. On this problem, but in no definite direction?

Mr. MARTIN. Well, I think the definite direction is contained in the ad hoc subcommittee report.

Senator DOUGLAS. In other words, you are going to try to progress to carry out the ad hoc subcommittee's——

Mr. MARTIN. That is right.

Senator DOUGLAS. When did that committee make its report?

Mr. MARTIN. I cannot promise a time.

Senator DOUGLAS. No; when did it make its report, historically?

Mr. MARTIN. The ad hoc subcommittee?

Senator DOUGLAS. Yes.

Mr. MARTIN. Well, it made it in 1952.

Senator DOUGLAS. This is now 1956.

Mr. MARTIN. Well, these things—we have had constant debates on that, and most of the——

Senator DOUGLAS. Generally it does not take 4 years to grow pumpkins.

Mr. MARTIN. Well, most of the provisions—it sometimes takes longer than 4 years to educate——

Senator DOUGLAS. We hope these hearings will accelerate the movement.

Mr. MARTIN. And I will do everything within my power to accelerate it, sir.

Senator DOUGLAS. Well, that is fine.

I am going to ask the stenographer to type out another sentence, "I will do everything in my power to accelerate the carrying out of the ad hoc committee report," and we will have a second sentence that the Chairman can paste on his shaving mirror in the mornings.

Mr. MARTIN. I am afraid I won't have much room on that shaving mirror.

Senator DOUGLAS. We can snip that off. I will give you some scotch tape.

There is a third question. I am informed that in April of last year the House Committee on Government Operations sent a letter to the Comptroller General requesting that he make an audit of the accounts

and expenses of the Federal Reserve Board. Do you understand that to be true?

Mr. MARTIN. That is correct.

Senator DOUGLAS. And that the Comptroller General wanted to do this and then called upon you to consult about the matter. Is that correct?

Mr. MARTIN. That is correct.

Senator DOUGLAS. And that you replied that you did not think the Federal Reserve Board accounts should be audited by the General Accounting Office under the direction of the Comptroller General? Is that correct?

Mr. MARTIN. That is correct.

Senator DOUGLAS. Well, now, Mr. Martin, you have said that the Federal Reserve Board is an agent of the Congress. The Congress delegates the function of auditing accounts to the General Accounting Office. In the consolidated statutes the United States Code, page 4623, there is a statement of the duties of the Comptroller General, and section 53 (b) is a statement that he shall make such investigations and reports—"he" referring to the Comptroller General—as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures.

The House Committee on Government Operations asked the Comptroller General to make this audit. He believed that this was a legitimate request. Would you—

Mr. MARTIN. I have read that, sir.

Senator DOUGLAS. He believed this was a legitimate request of the Congress and constituted a mandate to him. He approached you, and you refused to let him do it.

Yet you say you are an agent of Congress. How do you reconcile that attitude?

Mr. MARTIN. Senator, we have been over this many times, and I merely want to call to your attention that the last thing in the world I want ever to do is defy Congress, and that there has absolutely in my approach never been anything to suggest that—"We will not do what the Congress wants."

Senator DOUGLAS. But here is a committee of Congress—

Mr. MARTIN. Now, wait a second. The Banking Act of 1933 as I read it specifically excludes the Federal Reserve Board from this provision, if you will reread the law.

Now, I do not know what the law—

Senator DOUGLAS. What is the section?

Mr. MARTIN. Our position is that we think it would be most unfortunate for us to be audited by the Comptroller General. But if the Congress as a Congress adopts this as a rule, of course we will submit.

Senator DOUGLAS. You mean to say it requires an act of Congress to—

Mr. MARTIN. If the Federal Reserve is as important as I think it is, it seems to me we should be very careful to abide by—be sure it is the will of the Congress we are following.

Senator DOUGLAS. What would you regard as the will of Congress?

Mr. MARTIN. As I remember the will of Congress, if I recall the wording—I have not studied that particular act recently—it says

specifically that because of the nature and the importance of this function of managing the money supply of this country the Federal Reserve has a special function and it should determine what its expenses are in relation to that function.

Senator DOUGLAS. We are not questioning that; but we are saying that there should be an audit of it.

Mr. MARTIN. It is, in my judgment, the best-audited institution in America.

Senator DOUGLAS. Have you submitted an audit to Congress?

Mr. MARTIN. We have submitted an audit to Congress of the Board.

Senator DOUGLAS. To what committees?

Mr. MARTIN. To the Banking and Currency Committee.

Senator DOUGLAS. Do we have such an audit here?

Mr. MARTIN. You have on file an audit with respect to the Board's accounts—

Senator DOUGLAS. And the banks' accounts?

Mr. MARTIN. At one time.

Senator DOUGLAS. Do we have on file the expenses of the various banks?

Mr. MARTIN. You certainly have.

Senator DOUGLAS. The 12 banks?

Mr. MARTIN. The 12 banks.

Senator DOUGLAS. When was this submitted?

Mr. MARTIN. I do not know the date, Senator. We do it—

Senator DOUGLAS. I will ask the—

Mr. MARTIN. Mr. Cherry will be glad to get them for you.

Senator DOUGLAS. Were these accounts submitted to the Banking and Currency Committee of the Senate?

Mr. ALFRED K. CHERRY (Legislative Counsel, Federal Reserve Board). The examination reports of the 12 Federal Reserve banks and branches covering a period of 5 years were, together with the audit reports of the Federal Open Market Committee, submitted to the House Banking and Currency Committee in June of 1954, where they remained for several months, with the understanding that those documents were available to all Members of Congress who wished to see them.

Senator DOUGLAS. Did you submit any copies to the Senate Committee on Banking and Currency?

Mr. CHERRY. No, sir. The Senate Committee on Banking and Currency had never requested those particular documents. But the Board has made a practice of, since 1952, submitting to the House and Senate Banking and Currency Committees the report of the audit of the Federal Reserve Board's accounts.

Senator DOUGLAS. Did the House Banking and Currency Committee ever inform the Senate Committee on Banking and Currency that these accounts were available there?

Mr. WALLACE. No.

Senator DOUGLAS. What is the evidence on that?

Mr. WALLACE. According to the counsel of our committee, Mr. McKenna, we have never received notice, and he was unaware of any such audit having been made.

Senator DOUGLAS. You expect us to be mindreaders? Why didn't you submit your accounts to us as well as to the House? The type-writing cost would not have been large.

Mr. CHERRY. The documents—There is only one set of them.
 Senator DOUGLAS. It would not have taken much trouble to prepare a second set of documents.

Mr. CHERRY. They are very large documents. They cover a period of 5 years.

Senator DOUGLAS. I'll make a subscription. If you haven't money enough, there's a dollar.

Mr. MARTIN. We will be glad to furnish it.
 (The following was supplied for the record:)

BOARD OF GOVERNORS OF THE
 FEDERAL RESERVE SYSTEM,
 Washington, January 30, 1956.

Hon. J. W. FULBRIGHT,
 Chairman, Committee on Banking and Currency,
 United States Senate, Washington 25, D. C.

DEAR MR. CHAIRMAN: In compliance with the request made by your committee at the hearing on Friday, January 27, 1956, there are submitted herewith the reports of examination of the 12 Federal Reserve banks made during the year 1955. Accompanying the 1955 report of examination of the Federal Reserve Bank of New York is a report of the examination of the accounts relating to the System open market transactions for the 12 Federal Reserve banks. Reports of examination for earlier years are available to your committee on request.

These documents are being sent to your committee with the understanding that they may be made available in confidence only to Members of Congress and the staff of your committee. I know you fully understand why it is necessary to treat reports of examination as confidential. These reports contain, for example, information with respect to borrowings by member banks, as well as by concerns and individuals. It is the uniform understanding in the banking field that information with respect to borrowings by firms and individuals from banks will be treated with utmost confidence.

Since the documents mentioned above are the only copies in our files, it will be appreciated if they are returned to the Board as soon as they have served the purposes of your committee.

The Board retains the services of Arthur Andersen & Co. for the purpose of review and appraisal of the procedures followed by the Board's examiners in the examination of the Federal Reserve banks. The representatives of Arthur Andersen & Co. accompany the examiners in connection with the examination of one of the Reserve banks during each year. For the information of your committee, there is submitted herewith a copy of the report rendered by Arthur Andersen & Co. with respect to the review of the examination of the Federal Reserve Bank of Dallas as of May 27, 1955.

As you know, for the past several years it has been the practice of the Board to send to the chairman of the House and Senate Banking and Currency Committees a complete report of the annual audit made of the Board's accounts by Arthur Andersen & Co. The report of audit for the year 1954 was sent to your committee on March 18, 1955. If you wish an additional copy, we will be glad to furnish it upon request.

Sincerely yours,

WM. McC. MARTIN, JR.

Senator DOUGLAS. Mr. Chairman, I think the Federal Reserve Board has been derelict in not submitting these accounts to the Senate Committee on Banking and Currency—sending them over to the House and then we never knowing that they were over in the House.

I may say that I have called up the Committee on Government Operations and find that no such statement has been submitted to them.

These audits and accounts were made by whom?

Mr. MARTIN. Of the individual banks?

Senator DOUGLAS. Well, first let's take the Board.

Mr. MARTIN. The Board's has been made by J. Arthur Andersen & Co.

Senator DOUGLAS. Who selected J. Arthur Andersen & Co.?

Mr. MARTIN. The Federal Reserve Board.

Senator DOUGLAS. In other words, you select the agency to audit your own accounts?

Mr. MARTIN. That is correct.

Senator DOUGLAS. Well, now, Mr. Martin, let me say again, in order that there may be no personal implications in this at all—and I want the reporters to take notice of this—I regard you as a highly honorable man. Let me say that. A highly honorable man. I am sure you are not only completely dollar honest but honest in all respects. I have the highest opinion of you. But don't you think this is a highly irregular proceeding in which you refuse to submit to audit by the General Accounting Office, which is the agency which audits the accounts of all Government departments? You are the only branch of Government so far as I know—there may be others—which refuses to allow the General Accounting Office to go over your books. Instead of that, you select firms of private accountants who audit your books.

I take it that each of the 12 Federal Reserve banks similarly selects their firms—the firms which provide their audits?

Mr. MARTIN. Each of the 12 Federal Reserve banks has a board of directors of its own.

Senator DOUGLAS. That is right.

Mr. MARTIN. It is a unique American political institution. It has been designed to safeguard the currency. And I think that we were specifically excluded in the Banking Act of 1933 because I discussed this with Senator Glass at great length.

Now, Senator Glass felt stronger on this than any point that I can recall in my conversations with him.

Senator DOUGLAS. I am not going into the question of whether we have the power to control expenditures—

Mr. MARTIN. You have—

Senator DOUGLAS. Wait a minute. I am not for the moment going into the question of whether we have the power to control your salary scales or how much you spend on buildings and so forth and so on. I am not going into that question for the moment.

But what I am saying is: Why should not Congress and the American people be entitled to know through audit by an official governmental agency what the outlays and receipts have been?

As a matter of fact, you turn over by voluntary decision—and I am glad you do—90 percent of your net earnings to the Government. Is that not true?

Mr. MARTIN. Yes.

Senator DOUGLAS. You do that because the Government has delegated to you some of the functions of creating monetary purchasing power. You let the banks create 82 percent of it, roughly, and you create 18 percent of it. The Government makes a profit on the purchasing power which you create.

Why shouldn't we know from a governmental source what your receipts and expenditures are?

I may say you did not even submit your private audit until you were pushed pretty hard, until the Board was pushed pretty hard by Con-

gressman Patman and by me. I mean you did not even favor the private audit until we pushed this issue very severely.

Let me say again, I make no charges at all, but I think in the interest of good procedure this is something that you should do. I think, if you should persist in this attitude, we should make a test of it at the earliest possible moment.

Mr. MARTIN. Well, I think that the test of it ought to be made then by a hearing where some chairmen of individual Federal Reserve banks and some presidents of individual Federal Reserve banks as well as members of the Board of Governors and members of the community are given an opportunity to be heard.

Senator Glass, whom I happen to revere very much—one of the reasons I am interested in the Federal Reserve System is because of my early acquaintance with him—felt stronger about this point in my judgment than about any point—with the exception of the matter of the Secretary of the Treasury being on the Board; Carter Glass was Secretary of the Treasury and still he didn't want the Secretary of the Treasury on the Board. Apart from that, he felt stronger about this point than any other point.

Now, it is a difficult point to get across. But I will merely cite what I cited to you in executive session once—that a high British official told me at the time that the Bank of England was nationalized that the reason they did not take over the administrative functions of the Bank of England—and I am sorry they nationalized it—was because he wanted to “control the Bank of England, not destroy it.”

Now, I am not charging that the General Accounting Office would destroy it, but I do feel that the safeguarding of the currency requires some discretion and some intelligent judgment with respect to expenses.

Senator DOUGLAS. My own belief is it does not require anonymity.

Part of the trouble in this whole thing is that you make the process of banking excessively complicated. The more of this that can be known to the general public, the higher the level of financial knowledge and the sounder the decisions which are made. As long as the facts are in question or can be questioned, then an element of obscurity is introduced.

Mr. MARTIN. Well, my motto, like yours, is “Forward,” and I am for more information and more publicity all the time.

Senator DOUGLAS. I have the passage in the Federal Reserve Act as amended. It says in section 244, page 1267, of the Code, the United States Code:

The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this chapter and the rules and regulations of the Board not inconsistent therewith.

That to my mind does not say that you are to be immune from audit. They are not saying that the Federal Government shall fix a salary scale for your employees or decide how much you are to spend for buildings. Of course the Federal Government should not do that. But I do not see that you get any immunity from audit by a governmental agency. I do not see how you get any immunity from the

act governing the activities and functions of the Comptroller General and the General Accounting Office.

Mr. MARTIN. Well, sir—

Senator DOUGLAS. I think there is a good deal to Congressman Patman's letter in the Post the other morning in which he said the Federal Reserve in many instances was trying to set itself up as a fourth branch of Government.

Let me say that you are not a fourth branch of Government. You are an agent of Congress. You are not an agent of the Executive. You are subject to the rules of Congress.

Mr. MARTIN. And I will always will be subject to the rules of Congress. Our people who have studied this disagree with your interpretation of the rules. Now—

Senator DOUGLAS. What would you regard as an expression of the will of Congress?

Mr. MARTIN. Well, I think—

Senator DOUGLAS. Would you say that action by a committee, by the Banking and Currency Committee of the Senate, would be an expression?

Mr. MARTIN. With respect to this, no, sir. Not with respect to this, because I think this is a fundamental determination of the act. And I think if the Congress—

Senator DOUGLAS. In other words, would you say that a joint congressional resolution would be necessary on this point?

Mr. MARTIN. I think that if there is a change, it ought to be a change in the act.

Senator DOUGLAS. No; I disagree with you completely. The act does not give you immunity from audit. It gives you immunity from Congress fixing the pay scale and the capital expenditures, but it does not give you immunity from audit.

Mr. MARTIN. Let me say, Senator, that I still think we are one of the best-audited institutions in the world.

Senator DOUGLAS. Well—

Mr. MARTIN. It is a question of how the auditing is done.

Senator DOUGLAS. That may be, but you are a unique Government institution in not being audited by the General Accounting Office. You choose your own auditors. The Maritime Commission cannot choose its auditors, thank God.

Mr. MARTIN. We have a difference of opinion on this, an honest difference of opinion, but I say before this is changed—and, of course, I hope it never will be changed—but before this is changed it ought to be changed with an opportunity for chairmen of the boards of individual banks and for some of the presidents of the individual banks and for some members of the public who have been involved to present the problem as they see it. I do not think that this is something that ought to be done lightly.

The CHAIRMAN. Will the Senator yield?

Senator DOUGLAS. Surely.

The CHAIRMAN. I understand that this matter has been developed in some correspondence with the Government Operations Committee in the House that would throw light on it. Perhaps you can furnish copies of that for our record so it completes this record.

Mr. MARTIN. If that is your request, I would be glad to. I do not want to be in the position, without a request from the committee, of revealing correspondence with another—

The CHAIRMAN. Does the Senator think it would help the record to use that? I was told that this matter was threshed out in writing at considerable length.

Senator DOUGLAS. You would like to have those documents made part of this record?

The CHAIRMAN. Yes. Does the Senator think that would help the record?

Senator DOUGLAS. I think that would help the record.

(The correspondence referred to follows:)

SUMMARY OF ATTACHED LETTERS RELATING TO AUDIT BY THE COMPTROLLER GENERAL OF THE ACCOUNTS OF THE BOARD OF GOVERNORS, THE FEDERAL RESERVE BANKS, AND THE FEDERAL OPEN MARKET COMMITTEE

On June 2, 1954, the House Committee on Government Operations held a public hearing on a bill (H. R. 7602, introduced by Congressman Patman) directing the Comptroller General to audit the accounts of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve banks for the year ending December 31, 1953. At the conclusion of the hearing the committee agreed to hold up further consideration of the bill if the Board would deliver the reports of examination of the Reserve banks and the Open Market Committee for the year 1953 to the House Banking and Currency Committee, where they would be available for the confidential information of Members of Congress and the staff of the committee. Mr. Patman stated at the hearing: "If they will deliver the audits to the Banking and Currency Committee, in charge of the chairman, and let the experts there see them and let me see them in that committee, it will be perfectly all right to hold up this bill as far as I am concerned * * *."

On June 14, 1954, reports of examination of the Reserve banks and Federal Open Market Committee covering a 5 year period—1949 through 1953 (Mr. Patman had informally requested that the reports for the 4 earlier years be furnished)—were delivered to the House Banking and Currency Committee with the understanding that they be made available in confidence to Members of Congress and the staff of the committee. (See letter June 14, 1954, Martin to Wolcott.) Mr. Patman was present and examined the documents, and members of the committee staff and representatives of the Board of Governors were present to assist him in interpreting the reports. (See letter July 26, 1954, Martin to Hoffman.)

On June 15, 1954, Mr. Patman offered a resolution in the House Banking and Currency Committee for adoption by the committee requesting the General Accounting Office to review the examination reports in question for the purpose of ascertaining whether said reports of examination conform generally to the type and scope of examination which the General Accounting Office would make. The Banking and Currency Committee decided that Chairman Wolcott would confer with Chairman Martin before proceeding with the resolution. (See letter of June 16, 1954, Patman to Martin.) Later, we were advised informally that the committee did not take action on this resolution.

The attached correspondence between Chairman Martin and Congressman Patman between June 22 and July 1, 1954, relates chiefly to Mr. Patman's request that Chairman Martin advise him whether he [Chairman Martin] is opposed to the resolution pending before the House Banking and Currency Committee, although Chairman Martin had testified at the hearing on June 2, 1954, that "If the appropriate officials of the Congress will request the Comptroller General to take a look at our audits and see whether we are doing a job on it or not, I wouldn't have the slightest objection." (See letter July 1, 1954, Patman to Martin.) Chairman Martin advised Mr. Patman that, since the Banking and Currency Committee had directed its chairman to confer with him [Chairman Martin] on the matter, in the interest of orderly procedure it would be preferable that communications on official matters pending before the committee should be with its chairman.

In the letter dated July 21, 1954, the Chairman of the House Committee on Government Operations stated that Mr. Ikard, a member of such committee, had introduced a resolution requesting the General Accounting Office to review the examination reports of the Reserve banks and the Federal Open Market Committee. (The resolution was identical with the one introduced by Mr. Patman in the House Banking and Currency Committee.) The letter stated that Mr. Ikard informed the committee that he had been advised that the Board had not furnished to the Committee on Banking and Currency the documents referred to above and requested advice as to whether Mr. Patman had been given an opportunity to examine the documents and as to the present situation.

In the letter of July 26, 1954 (Martin to Hoffman), it was stated that the reports of examination referred to had been delivered to the House Banking and Currency Committee; that Mr. Patman had seen them; and that they were still there available for examination by Mr. Patman or any other Member of Congress who wished to see them with such assistance of the experts of the committee or of the Board of Governors as may be desired. Later, we were advised informally that Mr. Ikard's resolution was not agreed to by the committee.

The documents in question remained in the offices of the House Banking and Currency Committee, available to members of Congress, until September 15, 1954.

On April 18, 1955, the Board was advised by the Comptroller General that the House Committee on Government Operations had directed the General Accounting Office to make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve banks and branches for a period January 1, 1953, to December 31, 1954. (See letter April 18, 1955, Campbell to Martin, and its enclosure.)

On April 20, 1955, the Comptroller General was advised by Chairman Martin that the proposed separate audit represented an important departure from long-established practice and precedent with far-reaching implications and that, after consulting with the Open Market Committee, chairmen, directors, and presidents of the Reserve banks, he would advise further with him. (See letter April 20, 1955, Martin to Campbell.)

Chairman Dawson of the House Government Operations Committee was kept currently advised of developments.

The substance of the letter of June 22, 1955, from Chairman Martin to the Comptroller General was—

That the question raised by the request of the House Government Operations Committee was not whether the Board, the Federal Open Market Committee and the Federal Reserve banks should be audited. They are audited in accordance with standard practices and exacting procedures, and the reports of these audits are available to the appropriate committees of Congress. For the past 4 years the Board has followed the practice of furnishing the reports of the audits made of its accounts to the Senate and House Banking and Currency Committees.

As to the Reserve banks, Congress has never authorized the General Accounting Office to audit the Federal Reserve banks, although during the enactment of the Government Corporation Control Act in 1945 Congress gave consideration as to whether Federal Reserve banks should be brought within the purview of that act, but did not do so.

As to the Board of Governors, the Comptroller General audited the accounts of the Board until 1933, when Congress terminated his authority so to do. The Banking Act of 1933 declared that the funds of the Board "shall not be construed to be Government funds or appropriated moneys."

Therefore, in the light of the statutes, the legislative history, and explicit expressions of congressional intent, the Board, in the absence of an express directive from the Congress (as distinguished from a request of a committee thereof) could not lawfully acquiesce in the request of the chairman of the House Government Operations Committee. The letter also stated that the Board would welcome an opportunity to appear before Chairman Dawson's committee in order to present the important policy considerations involved.

The Board has received no further communication on this subject from the Comptroller General or Chairman Dawson.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 8, 1954.

HON. JESSE P. WOLCOTT,
*Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D. C.*

DEAR MR. CHAIRMAN: Attached for your information is a copy of a letter which I am sending today to Mr. Hoffman, chairman of the House Committee on Government Operations.

Sincerely yours,

WM. MCC. MARTIN, JR.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 8, 1954.

HON. CLARE E. HOFFMAN,
*Chairman, Committee on Government Operations,
House of Representatives,
Washington, D. C.*

DEAR MR. HOFFMAN: You will recall that when I testified before your committee on June 2 it was understood that I would place in the charge of the chairman of the House Banking and Currency Committee the reports of examination of the 12 Federal Reserve banks during 1953 and the report of the audit of the accounts of the Board by Arthur Andersen & Co. for 1953. This material is being assembled for transmittal to the chairman of the House Banking and Currency Committee.

Sincerely yours,

WM. MCC. MARTIN, JR., *Chairman.*

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 14 1954.

HON. CLARE E. HOFFMAN,
*Chairman, Committee on Government Operations,
House of Representatives,
Washington 25, D. C.*

DEAR MR. CHAIRMAN: For your information, enclosed is a copy of a letter of this date to Chairman Wolcott, of the House Banking and Currency Committee, which is self-explanatory.

Sincerely yours,

WM. MCC. MARTIN, JR.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 14 1954.

HON. JESSE P. WOLCOTT,
*Chairman, Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.*

DEAR MR. CHAIRMAN: On June 2, I appeared before the House Committee on Government Operations at a hearing on H. R. 7602, a bill which would direct the Comptroller General to audit the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve banks for the year ended December 31, 1953.

In the course of the hearings it was understood that a member of the Board's staff would bring up to your committee the reports of examination of the 12 Federal Reserve banks for 1953 and of the audit made of the Board's accounts by Arthur Andersen & Co. for 1953, and that the reports would be furnished for the confidential information of the Members of the Congress and the committee's staff. Congressman Patman, the author of H. R. 7602, stated: "If they will deliver the audits to the Banking and Currency Committee, in charge of the chairman, and let the experts there see them and let me see them in that

committee, it will be perfectly all right to hold up this bill as far as I am concerned. * * **

In accordance with this understanding, there are attached the reports of examination of the 12 Federal Reserve banks for the year 1953. Accompanying the 1953 examination report of the Federal Reserve Bank of New York is a report of the examination of the accounts relating to the System open-market transactions for the 12 Federal Reserve banks. The report of the audit of the Board's accounts for 1953 has already been sent to your committee.

In addition to the above documents, there are also attached the reports of examination of the 12 Federal Reserve banks, together with the reports of the examination of the accounts relating to the System open-market transactions, for each of the years 1949 through 1952. These additional reports are being furnished to your committee pursuant to the oral request of Congressman Patman made through Mr. Hallahan, clerk of your committee.

These documents are being sent to your committee with the understanding that they may be made available in confidence only to Members of Congress and the staff of your committee. I know you fully understand why it is necessary to treat reports of examination as confidential. These reports contain, for example, information with respect to borrowings by member banks, as well as by concerns and individuals. It is the uniform understanding in the banking field that information with respect to borrowings by firms and individuals from banks will be treated with utmost confidence.

Since the above documents are the only copies in our files, it will be appreciated if they are returned to the Board as soon as they have served the purposes of your committee.

Sincerely yours,

WM. MCC. MARTIN, Jr.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., June 16, 1954.

HON. WILLIAM MCC. MARTIN, Jr.,
Chairman, Board of Governors,
Federal Reserve System,
Washington 25, D. C.

DEAR CHAIRMAN MARTIN: On Monday, June 14, 1954, at 3 p. m., we had a meeting in the Banking and Currency Committee room of the House of Representatives to consider the question involving the audits of the Federal Reserve banks. Your representative, Mr. Cherry, was there, together with members of the staff of the Banking and Currency Committee; Dr. William Moore of the Joint Committee on the Economic Report (at my request); two gentlemen from the General Accounting Office (representing the Comptroller General); Congressman Oakman, a member of the Banking and Currency Committee; and myself.

At this meeting we agreed—and we thought we had Mr. Cherry's approval—that we would ask that the audits be sent to the General Accounting Office, where they would be kept confidentially under lock and key, to be examined in accordance with our agreement. The agreement is set forth in a copy of the resolution, which is attached hereto.

On yesterday, at a meeting of the Banking and Currency Committee, I asked the chairman, Mr. Wolcott, to present the resolution for passage by the committee. The General Accounting Office representative suggested it would place them in a good position if a congressional committee passed such a resolution. After discussion, in which it was stated by the chairman that he had a letter from you which I did not know anything about, it was decided that the chairman would confer with you before proceeding with the matter further. This met with my approval because I was convinced that it was a sincere desire to have a perfect meeting of the minds and no intention on the part of anyone to delay the matter. In the letter which Mr. Wolcott read there was some reference to the agreement before the Committee on Government Operations that I do not believe contained the whole agreement, if I correctly understood the reading of the letter. One point I attempted to make clear before the Committee on Government Operations was that I was to have access to these audits, which, of course, would include having people I trusted look at them with the understanding that the contents would be carefully guarded and considered strictly confidential. In your letter to the chairman, if I understood it correctly, this part was not included.

If you will advise me your attitude in this matter, particularly with reference to my understanding before the Committee on Government Operations, and our reliance upon an agreement with Mr. Cherry, your representative, it will be appreciated very much.

Sincerely yours,

WRIGHT PATMAN.

RESOLUTION OFFERED BY MR. PATMAN

JUNE 15, 1954.

Resolved, That the Committee on Banking and Currency of the House of Representatives hereby requests the General Accounting Office to review the examination reports of the 12 Federal Reserve banks and the Open Market Committee of the Federal Reserve System for the purpose of ascertaining whether said reports of examination conform generally to the type and scope of examination which the General Accounting Office would make if it had conducted the examinations.

It is understood that in view of the fact that the examination reports themselves are of a confidential nature that the comments thereon made by the General Accounting Office to the committee will be similarly treated by both the General Accounting Office and the committee.

It is further understood that in view of the workload of the General Accounting Office while the Congress is in session that the General Accounting Office is not required to perform the review requested by this resolution until the adjournment of the Congress.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 17, 1954.

HON. JESSE P. WOLCOTT,

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR MR. CHAIRMAN: I am forwarding herewith a letter received yesterday by special delivery from Mr. Patman which I think is self-explanatory. Perhaps you and I should discuss what ought to be done about it.

With all good wishes.

Sincerely yours,

WM. MCC. MARTIN, JR.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,

Washington, D. C., June 18, 1954.

HON. WM. McCHESNEY MARTIN, JR.,

*Chairman, Board of Governors,
Federal Reserve System, Washington, D. C.*

DEAR MR. CHAIRMAN: I want to acknowledge your letter of June 17 with which you enclosed copy of a letter and resolution which you received from Hon. Wright Patman, dated June 16.

I am very glad to have this. Thanks ever so much for your kindness in sending it to me. The resolution which you attached is not the one which I read to the committee; the one I read had a specific reference to 5 years of audits.

I am leaving for Michigan this afternoon but will welcome an opportunity to visit with you about this when I return.

With kindest personal regards, I am,

Sincerely yours,

JESSE P. WOLCOTT,
Member of Congress.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 22, 1954.

HON. WRIGHT PATMAN,

*House of Representatives,
Washington, D. C.*

DEAR MR. PATMAN: This refers to your letter of June 16, 1954, regarding the examination reports of the Federal Reserve banks which were delivered to the House Banking and Currency Committee with my letter of June 14, 1954.

You state that at a meeting of the House Banking and Currency Committee on June 15 you asked the chairman, Mr. Wolcott, to present for passage by the committee a resolution which you offered which would state that the committee "requests the General Accounting Office to review the examination reports of the 12 Federal Reserve banks and the Open Market Committee of the Federal Reserve System * * *", and that it was decided that the chairman would confer with me before proceeding further. You also refer to my letter of June 14 forwarding the examination reports, and to a meeting on June 14, in the Banking and Currency Committee room at which Mr. Cherry, of the Board's staff, was present among others.

My letter of June 14 states my impression of the understanding under which the examination reports were to be delivered to the House Banking and Currency Committee, and I regret if for any reason you may have had any different impression. With respect to my conferring with the chairman of the House Banking and Currency Committee regarding this matter, I will, of course, be glad to confer with him at any time at his convenience.

Sincerely yours,

WM. McC. MARTIN, JR.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 22, 1954.

HON. JESSE P. WOLCOTT,

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR MR. CHAIRMAN: For your information there is enclosed a copy of my reply of today's date to a letter dated June 16, 1954, which I received from Congressman Wright Patman. You will recall that I sent you a copy of his letter on June 17.

With all good wishes, I am
Sincerely yours,

WM. McC. MARTIN, JR.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 22, 1954.

HON. CLARE E. HOFFMAN,

*Chairman, Committee on Government Operations,
House of Representatives, Washington 25, D. C.*

DEAR MR. CHAIRMAN: For your information there is enclosed a copy of a letter dated June 16, 1954, which I received from Congressman Wright Patman regarding the hearings before your committee on June 2, 1954, together with a copy of my reply of today's date.

Sincerely yours,

WM. McC. MARTIN, JR.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

June 22, 1954.

HON. JESSE P. WOLCOTT,

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington 25, D. C.*

DEAR MR. CHAIRMAN: At the suggestion of Congressman Oakman, I am transmitting to your committee a copy of the report by Arthur Andersen & Co., under date of January 30, 1953, of the review of examination made of the Federal Reserve Bank of Chicago by the field examining staff of the Board of Governors.

During the hearings before the House Committee on Government Operations on the bill H. R. 7602, I referred to the fact that the Board had adopted the policy of engaging a nationally recognized public accounting firm to accompany the examiners on one Federal Reserve bank examination each year for the purpose of reviewing and observing the procedures in actual use.

It will be appreciated if the enclosed report may be returned to the Board when it has served the purposes of your committee.

Sincerely yours,

WM. McC. MARTIN, JR., *Chairman.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., June 23, 1954.

HON. WM. McC. MARTIN, JR.,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D. C.

DEAR MR. CHAIRMAN: Your letter of June 22 in reply to my letter of June 16, concerning the audit of the 12 Federal Reserve banks and the Open Market Committee, fails to give me the information I sought. In other words, Mr. Martin, do you oppose the resolution that is before the Banking and Currency Committee that will allow the General Accounting Office to look over these reports, or does it have your support and approval?

In your reply, you refer me to your letter of June 14, which I have never seen and have no knowledge of except having heard it mentioned in discussions. Personally, I see no reason why you should be corresponding with the chairman of the Committee on Banking and Currency on this particular matter without keeping me advised.

If you will please give me your reply as to whether or not you favor or oppose the above-mentioned resolution, it will be appreciated very much.

Sincerely yours,

WRIGHT PATMAN.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
June 24, 1954.

HON. WRIGHT PATMAN,
House of Representatives,
Washington, D. C.

DEAR MR. PATMAN: I have your letter of June 23, in reply to my letter of June 22, regarding the examination reports of Federal Reserve banks which have been delivered to the House Banking and Currency Committee.

In your letter to me of June 16 relating to this matter, you stated that at a meeting of the Banking and Currency Committee you had presented a resolution, a copy of which you enclosed, for passage by the committee and that, after discussion, it was decided that Chairman Wolcott would confer with me before proceeding with the matter further.

I think you will agree with me that in these circumstances and in the interest of orderly procedure it is preferable that communications on official matters pending before the House Committee on Banking and Currency should be with the chairman of that committee.

Sincerely yours,

WM. McC. MARTIN, JR.

Copies to Hon. Jesse P. Wolcott, Hon. Clare E. Hoffman.

83D CONGRESS,
CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C., June 24, 1954.

HON. JESSE P. WOLCOTT,
Chairman, House Banking and Currency Committee,
Washington, D. C.

FRIEND JESSE: Referring to the matter of the furnishing of certain audits of the Federal Reserve Board to your committee, pursuant to an agreement reached after the taking of testimony on H. R. 7602 before this committee.

We gave Mr. Patman, the author of the bill, an opportunity to present his statesmanlike views and, as far as I personally have any control over the committee, we are through for at least this session.

Sincerely yours,

CLARE E. HOFFMAN, Chairman.

Copy to Wm. McC. Martin, Jr.

83D CONGRESS,
 CONGRESS OF THE UNITED STATES,
 HOUSE OF REPRESENTATIVES,
 COMMITTEE ON GOVERNMENT OPERATIONS,
 Washington, D. C., June 24, 1954.

Hon. WILLIAM McC. MARTIN, Jr.,
 Chairman, Board of Governors,
 Federal Reserve System, Washington, D. C.

DEAR MR. MARTIN: Thank you for sending on copies of correspondence with the Honorable Wright Patman, author of H. R. 7602.

The enclosed copy of letter today written to the chairman of the House Banking and Currency Committee, Hon. Jesse P. Wolcott, will be self-explanatory.

Sincerely yours,

CLARE E. HOFFMAN, *Chairman.*

CONGRESS OF THE UNITED STATES,
 HOUSE OF REPRESENTATIVES,
 Washington, D. C., June 25, 1954.

Hon. WILLIAM McC. MARTIN, Jr.,
 Chairman, Board of Governors of the Federal Reserve System,
 Washington, D. C.

DEAR MR. CHAIRMAN: In reply to your letter of June 24, frankness compels me to state that you either did not understand my letter of June 23 or you deliberately intended an insulting reply.

My only criticism of your writing to the chairman of the Committee on Banking and Currency without advising me was due to the following facts:

(a) You stated before the Committee on Government Operations that I could have access to the examination reports of the Federal Reserve Banks and that they would be brought to my office, if I desired them.

(b) I requested the clerk of the Committee on Banking and Currency to arrange with you to have the last 5 years of reports sent to the Banking and Currency Committee for my inspection and for the inspection of the staff.

(c) The reports were sent there and after consultation with your representatives, representatives of the Committee on Banking and Currency and representatives from the General Accounting Office, it was agreed that the examination reports would be looked over by the General Accounting Office to determine if they conform generally to the type and scope of examination, which the General Accounting Office would make if it had conducted the examinations.

(d) The General Accounting Office representatives wanted the agreement formalized by a resolution from a congressional committee.

(e) Such a resolution was prepared and when presented to Mr. Wolcott, chairman of the committee, for the first time I discovered that you, without my knowledge or consent, had sent the audits to Mr. Wolcott with certain restrictions and limitations, which I do not yet know what they were.

(f) Mr. Wolcott, at the session yesterday, June 24, stated before the committee that he would have nothing further to do with it.

The point I am making is that I had a right to object to your sending the reports to the chairman of the committee with limitations on their use without advising me, under the circumstances. I still insist that you should have advised me, under the circumstances, at least by furnishing to me a copy of the letter.

I certainly do not object to any communication of yours with the chairman of any congressional committee and I certainly have no right to be kept advised of such correspondence, except in a case like this, which I have outlined.

You still did not answer my question as to whether or not you will oppose representatives of the General Accounting Office looking over the examination of reports for the purposes I have indicated. I hope you do not refuse to reply to this question.

Very truly yours,

WRIGHT PATMAN.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
 June 29, 1954.

Hon. WRIGHT PATMAN,
 House of Representatives,
 Washington 25, D. C.

DEAR MR. PATMAN: I am in receipt of your letter of June 25, with further reference to the matter relating to the reports of examination of the Federal Reserve

banks and the transactions in the Open Market account which were delivered to the House Committee on Banking and Currency on June 14 as the result of an understanding reached at the conclusion of the hearings before the House Committee on Government Operations on June 2.

I am sorry if you saw in my letter of June 24 to you an insult. Let me assure you that nothing was further from my mind.

I fully recognize that individuals can form different impressions of what is intended at congressional hearings. I have reviewed the transcript of the hearings on June 2 referred to above, and I recognize that remarks were made by me, as well as others, which may not be clear. My understanding of those hearings was that the committee would hold up action on the bill H. R. 7602 provided the Board would deliver to the House Banking and Currency Committee reports of examination of the Federal Reserve banks and transactions in the Open Market account for the year 1953, which was the period specified in the bill H. R. 7602. I quote from the transcript of the hearings the statement you made in this connection:

"If they will deliver the audits to the Banking and Currency Committee, in charge of the chairman, and let the experts there see them and let me see them in that committee, it will be perfectly all right to hold up this bill as far as I am concerned."

In your letter of June 16 to me, you stated that at a meeting of the Banking and Currency Committee you had asked Chairman Wolcott to present a resolution which would request the General Accounting Office to review the examination reports of the 12 Federal Reserve banks and the Federal Open Market Committee, and you enclosed a copy of this resolution. Your letter also stated that, after discussion, it was decided that Chairman Wolcott would confer with me before proceeding with the matter further. In view of this decision by the House Banking and Currency Committee, I deemed it inappropriate to confer on an official matter pending before the committee with anyone other than the chairman of that committee.

Sincerely yours,

WM. McC. MARTIN, Jr.

Copy to Hon. Jesse P. Wolcott.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
June 29, 1954.

HON. JESSE P. WOLCOTT.

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington 25, D. C.*

DEAR MR. CHAIRMAN: For your information, there is enclosed a copy of letter dated June 25 from Congressman Wright Patman, together with a copy of my reply, with further reference to the reports of examination which we have sent to your committee. These letters, I think, are self-explanatory.

Sincerely yours,

WM. McC. MARTIN, Jr.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., July 1, 1954.

HON. WM. McC. MARTIN, Jr.,

*Chairman, Board of Governors,
Federal Reserve System, Washington 25, D. C.*

DEAR MR. MARTIN: In your letter of June 29 to me, I do not believe that you quote fully the understanding before the Committee on Government Operations at the hearing, which was conducted June 2, 1954. This involves, of course, the availability of the audits that have been made of the Federal Reserve banks and Open Market operations in the past.

In your testimony before this committee, you are recorded as saying:

"Mr. MARTIN, I will be glad to have any Member of the Congress who would like to have them—I will be glad to have a member of our staff bring any or all of them up. * * *"

At another place in your testimony, you state:

"Mr. MARTIN, If the appropriate officials of the Congress will request the Comptroller General to take a look at our audits and see whether we are doing a job on it or not, I wouldn't have the slightest objection."

Further along in the testimony, it was stated:

"Mr. LANTAFF. * * * Mr. Martin stated he would send a staff member up and bring all these audits to any Member of the Congress. * * * I wonder if the author of the bill would like to hold up action at this time on H. R. 7602 and take advantage of the offer made by Mr. Martin * * *."

"Mr. PATMAN. * * * If they will deliver the audits to the Banking and Currency Committee, in charge of the chairman, and let the experts there see them and let me see them in that committee, it will be perfectly all right to hold up this bill as far as I am concerned."

The other proceedings in the committee clearly disclose that it was the understanding of the committee that the audits would be made available to me or any other Member of the Congress.

I merely asked the chairman of the Banking and Currency Committee to formulate for the General Accounting Office what you consider all right before the Committee on Government Operations. Naturally, the Comptroller General would like to have some committee make a request that this be done.

What I cannot understand, Mr. Martin, is why you would object to these audits being examined by the General Accounting Office, and why you are now seemingly taking the position that you would even object to me or any other Member of Congress getting them delivered to our offices for inspection—a position contrary to what you took before the Committee on Government Operations.

Although you have succeeded in delaying an inspection of these audits temporarily, I believe the delay will be temporary, and, eventually, you and the Board of Governors will regret that you caused this delay.

Sincerely yours,

WRIGHT PATMAN.

P. S.—Possibly you have forgotten the testimony, which you gave as a representative of and speaking for the Board of Governors of the Federal Reserve System before the Banking and Currency Committee, May 5, 1953. On a separate sheet, I am enclosing herewith an excerpt from that testimony.

Copy to each member of the Board of Governors of the Federal Reserve System.

Mr. PATMAN. You have had audits annually, haven't you?

Mr. MARTIN. We are required by law to have annual audits.

Mr. PATMAN. That is right, but the reports are made to you. Do you not think it would be within our discretion as members of this committee to have access over those audits over the past few years, and let us see what the situation is? We think everything is all right, and you think it is, too, but you know, as an agency of this body, do you not think those audits should be made available to the members of this committee?

Mr. MARTIN. Would you care to come down and look at them?

Mr. PATMAN. No; why not bring them up here?

Mr. MARTIN. Because there are so many confidential items in there, and I question very much whether they should be made a matter of public record.

Mr. PATMAN. But the members of this committee are responsible persons, and the chairman is certainly a very responsible person, and they would be in the charge of the chairman and the clerk, who is also a very responsible person.

Mr. MARTIN. We went all through this with your committee. I would be very glad to have you or the whole committee come down and look at the audits.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C., July 21, 1954.

HON. WILLIAM MCC. MARTIN, Jr.

*Chairman, Board of Governors, Federal Reserve System,
Washington, D. C.*

DEAR MR. MARTIN: At the committee meeting this morning, Mr. Ikard introduced a resolution, a copy of which is enclosed.

He then made a statement, the substance of which was that he had been advised that the information which Mr. Martin, Jr., had previously stated would be furnished to the Committee on Banking and Currency, so that Mr. Patman might examine the same, had not been furnished.

Will you kindly advise as to the present situation, that is, as to whether the records and information requested by Mr. Patman was sent to the Committee

on Banking and Currency, whether Mr. Patman was given an opportunity to examine the same. We regret the necessity of calling upon you for this information, but your reply will be helpful in determining action on the resolution.

Sincerely yours,

CLARE E. HOFFMAN, *Chairman.*

RESOLUTION

Resolved, That the Committee on Government Operations of the House of Representatives hereby requests the General Accounting Office to review the examination reports of the 12 Federal Reserve banks and the Open Market Committee of the Federal Reserve System for the purpose of ascertaining whether said reports of examination conform generally to the type and scope of examination which the General Accounting Office would make if it had conducted the examinations.

It is understood that in view of the fact that the examination reports themselves are of a confidential nature that the comments thereon made by the General Accounting Office to the committee will be similarly treated by both the General Accounting Office and the committee.

It is further understood that in view of the workload of the General Accounting Office while the Congress is in session that the General Accounting Office is not required to perform the review requested by this resolution until the adjournment of the Congress.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

July 26, 1954.

HON. CLARE E. HOFFMAN,

Chairman, Committee on Government Operations,

House of Representatives,

Washington 25, D. C.

DEAR MR. CHAIRMAN: This refers to your letter of July 21, enclosing a copy of a resolution which Mr. Ikard presented to your committee requesting the General Accounting Office to review the reports of examination of the Federal Reserve banks and the Open Market Committee and inquiring whether the records and information requested by Mr. Patman have been sent to the Committee on Banking and Currency and also whether Mr. Patman was given an opportunity to examine the same.

At the conclusion of the hearings before your committee on June 2, it was my understanding that the Board would deliver to the House Banking and Currency Committee reports of examination of the 12 Federal Reserve banks and transactions in the open-market account for the year 1953, which was the period specified in the bill H. R. 7602. I quote from the transcript of the hearings the statement which Mr. Patman made in this connection:

"If they will deliver the audits to the Banking and Currency Committee, in charge of the chairman, and let the experts there see them and let me see them in that committee, it will be perfectly all right to hold up this bill as far as I am concerned."

On June 14, the reports referred to above were delivered to the House Banking and Currency Committee and, in addition thereto, similar reports for the years 1949 through 1952, which Mr. Patman had requested orally through the clerk of the House Banking and Currency Committee. A copy of the letter transmitting these documents is attached thereto.

At the time these records were delivered, I am informed that Mr. Patman came to the committee room and, after examining 1 or 2 of the volumes, stated that they were more comprehensive than he had expected and inquired whether it would be possible for an expert from the Federal Reserve Board to meet with him for the purpose of explaining and interpreting the reports. A meeting was arranged for that afternoon in the House Banking and Currency Committee room, at which there were present Mr. Patman and Mr. Oakman, members of the House Banking and Currency Committee; the clerk and staff director of the House Banking and Currency Committee; a member of the staff of the Joint Committee on the Economic Report; 2 representatives from the General Accounting Office; and 2 members of the staff of this Board, one of whom is the Assistant Director of the Division of Examinations, especially qualified to interpret the reports. I am further informed that after some discussion at

this meeting Mr. Patman stated that he intended to offer to the House Banking and Currency Committee on the following day a resolution directing the Comptroller General to review the reports of examination of the Reserve banks and the Open Market Committee for the purpose of ascertaining whether the reports conform generally to the type and scope of examinations which the General Accounting Office would make.

Under date of June 16 Mr. Patman addressed a letter to me stating that he had offered the resolution, a copy of which he enclosed, to the House Banking and Currency Committee and that, after discussion, it was decided that Chairman Wolcott would confer with me before proceeding further with the matter. It is my understanding that the question of this resolution is still pending before that committee. The copy of the resolution which Mr. Patman sent me on June 16, and which is now pending before the House Committee on Banking and Currency, is identical with the copy of the resolution which you enclosed with your letter of July 21.

The reports of examination of the 12 Federal Reserve banks and reports of examination of transactions in the open-market account for 5 years—1949 to 1953, inclusive—are still in the offices of the House Banking and Currency Committee, where they are available for examination by Mr. Patman or any other Member of Congress with such assistance of the experts of the committee and of the Board of Governors as may be desired.

I want to take this opportunity to assure you again, as I have assured Chairman Wolcott, of the desire of the Board of Governors to cooperate fully at all times with the committees of Congress, and I wish also to express appreciation of the courtesy of your letter.

Sincerely yours,

WM. McC. MARTIN, JR.

Copy to Hon. Jesse P. Wolcott.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

July 26, 1954.

HON. JESSE P. WOLCOTT,

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington 25, D. C.*

DEAR MR. CHAIRMAN: For your information, I enclose a copy of letter dated July 21 from Chairman Hoffman of the House Committee on Government Operations and a copy of my reply, with further reference to the reports of examination which we have sent to your committee. These letters, I think, are self-explanatory.

Sincerely yours,

WM. McC. MARTIN, JR.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, September 9, 1954.

MR. AL CHERRY,

*Federal Reserve System,
Washington, D. C.*

DEAR AL: Chairman Wolcott asked me to arrange with you the return of the examination reports for the 12 Federal Reserve banks, the Open Market Committee, and the copy of the Arthur Andersen & Co. review of the examination made by the Federal Reserve Bank of Chicago by the examining staff of the Board of Governors. The examination reports for the 12 Federal Reserve banks and the Open Market Committee cover the examinations for the 5 years ending with 1953 and the examination of the Federal Reserve Bank of Chicago for 1953.

Thank you very much for having made these reports available to the committee.

Sincerely,

ORM.
ORMAN S. FINK.

B-118535

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, April 18, 1955.

HON. WILLIAM McC. MARTIN, JR.,
*Chairman, Board of Governors,
 Federal Reserve System.*

DEAR MR. MARTIN: Pursuant to our meeting of today, I am forwarding a copy of letter dated April 13, 1955, from the chairman, Committee on Government Operations, House of Representatives, directing the General Accounting Office to make an audit, on behalf of the Committee on Government Operations, of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve banks and their branches for the period January 1, 1953, to December 31, 1954.

There are a number of problems to be worked out in connection with this assignment. We are prepared to discuss with your Board, your staff, and yourself the procedural matters which must necessarily be agreed upon in advance of the beginning of the audit.

We shall appreciate a reply to this letter at your early convenience.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

EIGHTY-FOURTH CONGRESS,
 CONGRESS OF THE UNITED STATES,
 HOUSE OF REPRESENTATIVES,
 COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C., April 13, 1955.

HON. JOSEPH CAMPBELL,
*Comptroller General of the United States,
 General Accounting Office,
 Washington, D. C.*

DEAR MR. CAMPBELL: You are hereby requested to make an audit for the period beginning January 1, 1953, and ending December 31, 1954, of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve banks and their branches, meaning and intending to include within the scope of the audit such operations and activities of the Federal Reserve System, so-called, as will enable Congress better to evaluate and appraise the operation of said System and to form judgments upon which may be premised possible legislative action. It is further requested that the audit shall include a sufficient examination of the operations of the aforementioned agencies during prior years to afford adequate fiscal perspective for viewing current operations.

It is requested that your report include such comments and recommendations as you may deem advisable.

Please consider that the above request is in the nature of an order made on behalf of the Committee on Government Operations of the House of Representatives pursuant to the provisions of section 53 (b) title 31 of the United States Code.

Sincerely yours,

WILLIAM L. DAWSON, *Chairman.*

BOARD OF GOVERNORS OF THE
 FEDERAL RESERVE SYSTEM,
April 20, 1955.

HON. JOSEPH CAMPBELL,
*Comptroller General of the United States,
 Washington 25, D. C.*

DEAR MR. CAMPBELL: This is to acknowledge your letter of April 18 enclosing a copy of a letter dated April 13, 1955, from the chairman, Committee on Government Operations, House of Representatives, requesting the General Accounting Office to make an audit on behalf of the Committee on Government Operations of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve banks and their branches for the period January 1, 1953, to December 31, 1954.

As I believe the Board made clear at the meeting with you Monday afternoon, the Federal Reserve System is a creature of Congress and its powers, responsibilities, and administrative procedures are determined by the Congress. Since it is the country's monetary and credit authority, the Congress has placed on the Federal Reserve Board the responsibility for administering proper disciplines with respect to budgetary, auditing, and related matters affecting System expenditures. The proposal that the Comptroller General of the United States undertake a separate audit represents an important departure from long-established practice and precedent with far-reaching implications affecting not only the Board of Governors, but the Federal Open Market Committee and the 12 Federal Reserve banks with their 24 branches.

The Board will consult with the Open Market Committee, which is a statutory entity, and with the chairmen, directors, and presidents of the Federal Reserve banks and will advise further with you as promptly as possible.

Sincerely yours,

WM. McC. MARTIN, Jr.

By messenger only

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
April 22, 1955.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington 25, D. C.

DEAR MR. CAMPBELL: For your information I am enclosing copy of a letter which I am sending today to Chairman Dawson of the House Committee on Government Operations.

Sincerely yours,

WM. McC. MARTIN, Jr.

By messenger only.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
April 22, 1955.

HON. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, House Office Building,
Washington 25, D. C.

DEAR MR. DAWSON: Mr. Campbell, the Comptroller General of the United States, has discussed with the Board and has sent to us a copy of your letter to him under date of April 13, relating to an audit of the Board, the Federal Open Market Committee, and the Federal Reserve banks. A copy of Mr. Campbell's letter of April 18 and the Board's reply of April 20 are enclosed.

As our reply indicates, this matter creates certain problems in the Federal Reserve System which we are working on at the present time. I would like to discuss the matter with you at an early date in order to determine what would be the best way to proceed.

I plan to be away next week and will get in touch with you shortly after my return.

Sincerely yours,

WM. McC. MARTIN, Jr.,

Copy to Mr. Joseph Campbell, Comptroller General of the United States.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
June 22, 1955.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington 25, D. C.

DEAR MR. CAMPBELL: This letter refers to our previous correspondence with respect to the request you received from Chairman Dawson of the House Committee on Government Operations that the General Accounting Office make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve banks and their branches for the period January 1, 1953, to December 31, 1954.

In my letter to you of April 20, I stated that since the proposal represented an important departure from long-established practice, with far-reaching implications, we would consult as promptly as possible with the Federal Open Market Committee, which is a statutory entity, and with the chairmen and presidents of the Federal Reserve banks. In the interim we have done so, and the Board has given further consideration to this request. In addition, I have had two meetings with Chairman Dawson regarding the matter.

At the outset I think it should be clearly understood that the question before us is not whether the Board, the Federal Open Market Committee, and the Reserve banks should be audited. They are audited in accordance with standard practices and exacting procedures, and reports of these audits are available to the appropriate committees of Congress. For the past 3 years the Board has furnished the reports of the audits made of its accounts to the House and Senate Banking and Currency Committees. Last year the Board also sent the reports of examination covering the 5 years 1949-53 of the 12 Federal Reserve banks and branches, as well as the reports of audits of the Federal open market account to the House Banking and Currency Committee where they could be examined by Members of the Congress who wished to see them. The Board stands ready at all times to make reports of audits of its own operations, as well as the reports of examination of the Reserve banks and the audits of the Federal open market account, available to appropriate committees of Congress.

The matter of a separate audit by the Comptroller General presents a different question, and we believe that in the light of the statutes, legislative history, and explicit expressions of congressional intent, the Board, in the absence of an express directive from the Congress, could not lawfully acquiesce in a separate audit made by your office.

Chairman Dawson's request that you audit the Board, the Federal Open Market Committee, and the Reserve banks is predicated upon section 53 (b) of title 31 of the United States Code, which was enacted as a part of the original Budget and Accounting Act, dated June 10, 1921. This act provides in part that the Comptroller General "shall make such investigations and reports as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures." The context of section 53 seems to us to relate clearly to public funds appropriated by and expended in accordance with the directions of Congress.

When the General Accounting Office was established in 1921, no exception was made with respect to the Federal Reserve Board. Accordingly, the accounts of the Board, but not those of the Reserve banks and their branches, were audited for a number of years by the Comptroller General. However, in the Banking Act of 1933 Congress terminated the authority of the Comptroller General in this respect. That act amended section 10 of the Federal Reserve Act to provide explicitly that funds of the Board, which are derived from assessments on the Federal Reserve banks, "shall not be construed to be Government funds or appropriated moneys." It provided further that "The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid. * * *" The reports of the Senate and House Banking and Currency Committees on this amendment stated that its purpose was to leave "to the Board the determination of its own internal management policies."

During the enactment of the Government Corporation Control Act, in 1945, Congress gave consideration as to whether or not the Federal Reserve banks should be brought within the purview of that act, so as to be audited by the General Accounting Office. Congress did not include the Federal Reserve banks within that act. At the hearings before the Senate Committee on Banking and Currency on the bill S. 469, which became the Government Corporation Control Act, Mr. Frank H. Weitzel, attorney for the General Accounting Office, testified on behalf of the Comptroller General to the effect that Federal Reserve banks should not be made subject to the bill for the reason that they were supervised very closely by the Board.

As you know, there is a bill (H. R. 2643) pending in the present Congress which would provide for an audit by the Comptroller General of the Board, the Reserve banks, and the Open Market Committee. A similar bill was considered but not reported by the House Committee on Government Operations in the last Congress. These measures were predicated, apparently, on the assumption that, if such an audit is to be undertaken, it should be authorized by an act of Congress.

You may be assured of our desire to cooperate at all times with your office, as well as with the committees of Congress, but in the light of the statutes and

expressions of legislative intent we feel we must adhere to the conclusion stated above.

I have assured Chairman Dawson that, if it meets with his approval, we would welcome an opportunity to appear before his committee in order to present the important policy considerations which are raised by this proposal beyond the legal aspects of the matter dealt with in this letter.

Sincerely yours,

WM. McC. MARTIN, JR.

Senator DOUGLAS. I may ask this: You content that the Banking Act exempted you from the General Accounting Office. I do not think so. But did it preclude a General Accounting audit if you permitted it? Did it forbid a General Accounting audit?

Mr. MARTIN. In my judgment; yes, sir.

Senator DOUGLAS. That is, it precluded it?

Mr. MARTIN. Well, I do not say "precluded" it, but I think it is a matter of policy. This is a system problem, not just—

Senator DOUGLAS. You could have voluntarily allowed the General Accounting Office to make the audit; could you not?

Mr. MARTIN. If the system as a system did it, yes.

Senator DOUGLAS. Why would you not welcome a General Accounting Office audit, which had been requested by a congressional committee? Why refuse a simple request of this type? I mean the House Committee on Government Operations did not go as far as I did, as I would. I would say you were required, but we will waive that. They merely requested the Comptroller General to make the audit, and you refused to permit him to do it.

Mr. MARTIN. We did not refuse, Senator. We merely stated our position on the matter. And just as soon as the Congress adopts, as a Congress—

Senator DOUGLAS. Would you require a joint resolution of both branches?

Mr. MARTIN. I am not a parliamentary expert on this type of thing.

Senator DOUGLAS. You evidently are because you say you wouldn't recognize an opinion by a congressional committee.

Mr. MARTIN. Well, I—

Senator DOUGLAS. Would you recognize a resolution by one House? Would you recognize a resolution by the Senate?

Mr. MARTIN. I rely upon the advice that is given me by our counsel and the other—

Senator DOUGLAS. Are they here in the room?

Mr. MARTIN. No; I have no counsel in the room at the moment. I have a legislative counsel. But this is nothing new. I go back to Senator Glass—

Senator DOUGLAS. I am quite aware of that.

Mr. MARTIN. And this is personal, word to word. Senator Glass told me repeatedly—and a high official in the British Government told me the same thing about the Bank of England—that this is one of the most important single things in connection with the Federal Reserve Act.

Senator DOUGLAS. I do not see it carries with it—that the requirement or the practice of audit carries with it—the control over expenditures. I am not asserting that we should control your expenditures. I am saying that since you are a public agency the American public is entitled to know how you spend your money, and it

is entitled to know it from a governmental source rather than from a group of auditors whom you choose yourself.

Mr. MARTIN. We want the American public to know all.

Senator DOUGLAS. You apparently did not want the Senate committee to know, because you did not file statements with the Senate Banking and Currency Committee but only with the House committee. No one in the Senate committee until this morning knew that it had been filed with the House Banking and Currency Committee. You certainly have not blazoned this audit from the housetops.

I am going to ask the clerk of the committee to get the audits from the House Banking and Currency Committee and that they be made available to all members of the Senate Banking and Currency Committee.

Well, Mr. Chairman, the music goes round and round.

The CHAIRMAN. Has the Senator concluded?

Senator DOUGLAS. Yes; I have concluded.

The CHAIRMAN. Senator Frear?

Senator FREAR. Mr. Chairman, the Senator from Illinois has raised in my mind a very pertinent question. I believe I gathered from your questioning of the Chairman of the Board that the person on whose payroll he may reside bends or leans toward the desires and wishes of the paymaster.

Senator DOUGLAS. No; I do not say that it has a controlling influence, but I say it has a persuasive influence.

Senator FREAR. Persuasive?

Senator DOUGLAS. Yes.

Senator FREAR. I am wondering if the Senator from Illinois, receiving his check from the United States Treasury, would lean or be persuaded any by the Secretary of the Treasury, who is a Republican in good standing? I assume the Senator from Illinois is a Democrat in good standing. Would he be persuaded by the desires of the Secretary of the Treasury?

Senator DOUGLAS. I do not think the Secretary of the Treasury has the power to stop my paycheck. At least I hope not. If he did, I am sure it would be discontinued.

Senator FREAR. Then I think the leaning is very definite and very pertinent.

Mr. Chairman, I think that the present Chairman of the Board of the Federal Reserve System exerted very effectively his flexibility in his thinking to meet an emergency which appeared on the surface last November that could cause his changing of his opinion from a previous decision. I think perhaps we are very fortunate in having a man of that type and character and who is qualified I believe in the eyes of many to do it. I think it is very pertinent that we do have a person who can assist in maintaining a sound monetary system in the United States and also to keep up our Government's credit.

The CHAIRMAN. Is that all?

Senator FREAR. That is all.

The CHAIRMAN. Mr. Martin, I wonder if you could in a few words tell us what the present situation is now with regard to this policy? Do you regard, in other words, the change that you made in the former policy as being permanent, or just how would you describe this policy now?

Mr. MARTIN. Well, that is very difficult, Mr. Chairman, because it is actions not statements that make policy. And I cannot commit the other members of the committee to what their position would be. I have merely stated for the record here that my position is that I voted for this as an exception that makes a rule, not as a change in policy.

However, you have to make many fittings of a suit of clothes sometimes before you get the proper fitting, and it is much the same with monetary matters till you get to the point where you can say, "This is the policy."

Now, I want to be very careful about stating what my associates will do as time goes on. I have stated clearly what my own thinking is. But I cannot control what conditions may arise, and I think the only way we can demonstrate our usefulness and effectiveness is by the way we perform.

The CHAIRMAN. I do not wish to put you in any difficult position. What I am trying to do is to avoid our kidding ourselves and kidding the public that we do actually have an independent agency independent of the influence of the Treasury. I do not quite think we have, and I do not quite think we are ever going to have.

After all, the President does appoint the members and nominates them, and the Executive is going to have that very basic influence. Whenever the Treasury gets in bad enough shape, you are going to come to the rescue if it is really serious. I do not think there is any use in our kidding ourselves that you are not going to do it.

I do not know how to put that in the kind of language I had in mind, but perhaps you could, if you would have a sort of rule of reason, if you like, or flexibility.

Whether or not that is a good thing I am not trying to say, but I do not like for us to practice self-deception and say, "Well, now, we have got agreement, and no longer is the Federal Reserve going to come to the rescue of the Treasury," when that is not the case.

Do you think it is the case—that you are not going to come to their rescue when they are in difficulties?

Mr. MARTIN. When I was up here 4½ years ago I testified that independence must be earned, and it requires responsibility.

The CHAIRMAN. Look at what happened to both of your predecessors when they were independent of the White House. They both got in difficulty. That situation, that relationship adheres in all. I do not know what we are going to do about it. I am not saying it is good or bad. I am just trying to recognize what is the actual fact of the matter.

We say you are an agency of the Congress, but we do not do the appointing. All we can do is refuse to confirm an appointee. But that still is a rather futile privilege, and we cannot appoint the successor. I do not know how to resolve this difficulty.

Mr. MARTIN. Well, it is independence of judgment.

The CHAIRMAN. Is there really independence of judgment? How can you be independent of the White House when you are working in your position—completely? Can you really be independent?

Mr. MARTIN. I think so.

The CHAIRMAN. Do you?

Mr. MARTIN. Yes; I do. I think that your judgment there can be independent because the White House can order but it cannot compel—

The CHAIRMAN. The only independence is you can resign. I guess that is the ultimate. You can always resign if you feel strongly enough about a particular position.

Mr. MARTIN. That is right, and perhaps it is unwise to say so, but I am perfectly willing to say here that I would promptly resign if in my judgment I was not able to exercise my independent judgment of what is the best interest. Now, when you talk about judgment, however, there is quite a difference between principle honesty and a matter of judgment. There are many, many times when I have found out later that my judgment was not as good as I thought it was at a given time.

The CHAIRMAN. We have all had that experience I think.

Mr. MARTIN. That is right. And a hundred percent I want to be very careful, at all times about being certain as to the distinction between a matter of practice and a matter of principle. As I testified 4 years ago, if I ever think that the Secretary of the Treasury is dealing dishonestly with me or the President is dealing dishonestly with me, then you gentlemen don't have to worry. I won't make any public statements; I'll just leave.

The CHAIRMAN. Of course, it rarely in practice comes down to that. But a very violent difference of opinion occurred between Mr. Eccles and the administration at one time. Then, of course, you know what happened. The power there to, we'll say, disagree or punish is really Executive rather than the Congress. They are the ones who are in daily contact and who are making these requests and so on. We only periodically exert any influence at all.

Senator DOUGLAS. Every Chairman of the Board has a right to be independent at his own peril.

The CHAIRMAN. At his own peril; that is right. As I say, he has the choice of resigning and leaving I suppose.

But this matter of being independent I think is possibly a lot of play on words. I do not believe there is any real independence in that sense except in the sense that you can quit. You do not have the power to continue your own way in the face of the pressure the White House is able to exert through the Treasury I do not believe. I think thereby, if we understand that, we know the Treasury and the White House have got to take a little of this responsibility. They cannot have it both ways—say that they are not responsible and then whenever they need you come over and make you do it.

I think if they actually have that power they have to bear some of the responsibility. If this was a bad decision on your part, their part in it ought to be accepted and known, which leads me into another subject. I know it is time for us to stop.

I wanted to ask this one thing, and I do not want to take too much time about it. Mr. Martin, the President has suggested in his economic report that study and consideration be given to the possibility of reimposing consumer credit controls. Presumably these would be administered by the Federal Reserve Board. Do you think the Federal Reserve Board might request such authority?

Mr. MARTIN. I do not know, because the Federal Reserve Board has not taken it up as a board. I have stated my own view on this from time to time—I think as recently as November 28 when I was before Senator Sparkman—which is that selective controls if you have them should always be supplements rather than alternatives and that they must be administered the way general controls are, free of private pressures and political pressures, that, in other words, they should be in there as something that can be insulated.

Now, if they are to be useful, they ought to be a permanent part of some act. I am talking necessarily of the Federal Reserve Act. We are the logical agency. But if they are given to the Federal Trade Commission or some other agency, it ought to be given to them with some insulation from the pressures that develop.

The CHAIRMAN. I do not wish to urge you to speak for the Board, just for yourself. If I understand you correctly—I do not wish to put words in your mouth—you are giving consideration to this request? Is that correct?

Mr. MARTIN. We have been studying it right along.

The CHAIRMAN. You are studying it? Do you personally—if you are not willing to say so, I do not wish to press you, but I want to make a record on it. Do you personally feel that the Federal Reserve Board would be the proper agency to administer such controls?

Mr. MARTIN. In my judgment; yes.

The CHAIRMAN. Yes?

Mr. MARTIN. Personally.

The CHAIRMAN. You did administer them before?

Mr. MARTIN. We administered them before.

The CHAIRMAN. I have been concerned about the tremendous growth of consumer credit for some time now, and the committee staff has been gathering data and opinions on the subject. But before the committee can give effective consideration to a proposition of this kind we ought to have the judgment of your agency, I think, and a recommendation.

I want to read a very brief statement into the record, a statement which I made with respect to the President's recommendation for consideration of standby authority over consumer credit. The statement is as follows :

I have been greatly concerned about the tremendous growth of consumer credit for some time now. During the stock market hearings last year, I and other members of this committee called attention to the potential dangers in the marked rise of installment credit. The President's economic report states that in the second quarter of 1955 consumer installment debt expanded by nearly \$2 billion, the largest on record over so brief a period. While members of the Committee on Banking and Currency cautioned the public on the dangers of excessive credit in this area, as well as in the stock market, the administration's concern seems belated.

The President's report now recognizes the unhealthy rise in stock market credit and in speculative activity on the stock market at the time of our hearings last March, which it belittled and glossed over while they were occurring. I believe objective observers will give due credit to the efforts of the committee to call attention to excessive speculative developments and to the need for stricter controls over stock market credit at that time. The administration now says the rate of expansion of stock market credit has declined substantially since last April, and its quality has improved.

The vast bulk of increased installment credit came from borrowing on new cars. With new-car demand dropping off, direct credit controls seem unwarranted at the present time.

If the administration wants standby authority over consumer credit, I shall be glad to schedule hearings on their proposal. The staff of the committee has been gathering data and opinions on this subject for some time.

Generally, I prefer indirect credit regulations to direct controls, but the indirect methods did not stop an unhealthy increase in consumer credit last year. Whether this was because general credit instrumentalities were not effectively employed or whether they were simply inadequate, I am not prepared right now to say. If consumer credit controls had been in existence in 1955, prospects for consumer durable goods this year might well be brighter. It now appears that a great part of the boom of 1955 was borrowed from the future, in the form of great increases in private debt for consumer durables.

In any event, however, we should not permit a recurrence of excessive borrowing which can only result in violent fluctuations in so important an industry as automobiles. Insofar as the 1955 prosperity was based on an unusually rapid expansion of consumer debt, there is a real question whether the high level of activity was not achieved at the expense of substantially lower levels of production in 1956.

Are there any further questions?

Senator DOUGLAS. I want to congratulate the chairman on this very excellent statement.

The CHAIRMAN. The meeting is recessed.

(Whereupon, at 12:15 p. m., the committee recessed, subject to the call of the Chair.)

(The column *Your Money's Worth*, by Sylvia Porter, follows:)

[From the *Evening Star*, Washington, D. C., December 27, 1955]

YOUR MONEY'S WORTH

By Sylvia Porter

REALITY OVERCOMES THEORY

"The Treasury," said the official, "must and always will pay its bills."

"You mean that when the basic realities come in the door, a lot of theories go out the window?" I asked with a smile.

He didn't smile back. "The Treasury must and always pays its bills. That's all I'll say about it."

He didn't have to say any more. Let me tell you a tale.

It is March 1951. After months of bitter bickering, the Federal Reserve Board and the Treasury—America's two great fiscal powers—have reached an accord on their future relationship.

In effect, the Federal Reserve has said to the Treasury: for too long we have been forced to do what you want us to do. Now we're asserting our independence. Our function is to control the supply of money and credit and, through the way we control credit, to fight inflations and deflations. Our function is not to help you borrow money or to keep interest rates low so you can get cheap and easy loans. From now on, you in the Treasury are on your own—and we are not coming to your rescue.

Treasury agrees

In effect, the Treasury has replied to the Federal Reserve: So be it. You stick to your sphere of credit management. We'll stick to our sphere of debt management. We'll both be independent.

It is mid-November 1955. For months, the Federal Reserve has been clamping down on the supply of credit to fight inflation. It has just given interest rates a strong push up to the highest levels since the early thirties. Money is tight. Every borrower—from the Treasury down—is finding it tougher and more expensive to get cash.

It is late November. The Treasury has a stupendous total of \$12.2 billion of loans coming due. It has to offer the holders of these loans new securities because, of course, it hasn't anything like this amount of money on hand to pay off the loans.

It is November 28. The Treasury offers two issues carrying the highest rates in years to holders of its \$12.2 billion of maturities.

