

NOMINATION OF ARTHUR F. BURNS

HEARING
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
NINETY-FIRST CONGRESS
FIRST SESSION
ON
THE NOMINATION OF ARTHUR F. BURNS TO BE A MEMBER
OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE
SYSTEM

DECEMBER 18, 1969

Printed for the use of the
Committee on Banking and Currency



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1970

39-156

COMMITTEE ON BANKING AND CURRENCY

JOHN SPARKMAN, Alabama, *Chairman*

WILLIAM PROXMIRE, Wisconsin

HARRISON A. WILLIAMS, Jr., New Jersey

EDMUND S. MUSKIE, Maine

THOMAS J. McINTYRE, New Hampshire

WALTER F. MONDALE, Minnesota

ERNEST F. HOLLINGS, South Carolina

HAROLD E. HUGHES, Iowa

ALAN CRANSTON, California

WALLACE F. BENNETT, Utah

JOHN G. TOWER, Texas

EDWARD W. BROOKE, Massachusetts

CHARLES H. PERCY, Illinois

CHARLES E. GOODELL, New York

ROBERT W. PACKWOOD, Oregon

DUDLEY L. O'NEAL, Jr., *Staff Director and General Counsel*

JOHN R. EVANS, *Minority Staff Director*

(II)

NOMINATION OF ARTHUR F. BURNS

THURSDAY, DECEMBER 18, 1969

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

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

Present: Senators Sparkman, Proxmire, McIntyre, Cranston, Brooke, Percy, Goodell, and Packwood.

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

A number of Senators are expected, and will be here, I am sure, but we had better get started because we do not know when we will be called to the Senate. It is in session already.

The purpose of the meeting this morning is to consider the nomination of Dr. Arthur F. Burns, of New York, to be a member of the Board of Governors of the Federal Reserve System for a term of 15 years from February 1, 1970, succeeding William McChesney Martin, Jr., whose term expires January 31.

Dr. Burns, we are glad to have you.

Senator Javits, we are glad to welcome you to this committee on which you used to serve. We will be glad to hear from you now.

STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. I shall be very brief in this very, very agreeable and honorable introduction.

Arthur Burns we are proud of in New York. He has been a very longstanding teacher-professor at Columbia University.

When he left the Eisenhower administration service on the Council of Economic Advisers, he came back to New York and headed an economic research bureau and generally is considered one of the most eminent economists in the country, as well as a most notable and distinguished New Yorker.

I know nothing about Arthur Burns except what is good. I have known him for I would say at least 25 years, long before he went into Government service.

One last word, Mr. Chairman. No one realizes more than I do the unbelievably significant change which is being made in the high command of the Fed between William McChesney Martin and Arthur Burns, which hopefully the Senate will confirm.

I heard this morning from Senator Proxmire that 10 Senators were going to be here. I was personally very, very pleased because it is that important, and could be one of the most significant decisions—again I am paraphrasing the senior Democrat on the committee—that this committee will make in a very considerable period of time.

So I am very proud, particularly because I know that we will see a new era at the Fed; a new era of understanding and service and forward-looking administration; and I am very proud that a New Yorker has been found by the President to qualify for probably the premier central banking responsibility in the world, with a world impact of great significance, perhaps greater than any power we wield.

It is with great pleasure and pride, therefore, that I present Dr. Arthur Burns to the committee.

The CHAIRMAN. Thank you, Senator Javits.

Doctor, in this connection I am submitting for the record a letter from Senator Bennett. I shall read it. It is addressed to me. It says:

"Because I am serving as ranking minority member on the conference on the tax bill, it will be impossible for me to be present at the hearing to consider the nomination of Dr. Arthur F. Burns to be a member of the Federal Reserve Board and to replace Mr. William McChesney Martin as its chairman.

"I have known Dr. Burns ever since he served as Chairman of President Eisenhower's Council of Economic Advisers and was delighted when he came back into Government service as special counselor to President Nixon.

"The record Mr. William McChesney Martin has made as Chairman of the Federal Reserve Board is so outstanding that his will be a very difficult act to follow. I know of no man in the country better able to match the record of the outgoing chairman than Dr. Burns. The announcement of his appointment has received universal acclaim among the economists of the country, and I am sure he will have a unanimous and enthusiastic support of the members of this committee. Certainly, that is my attitude toward his confirmation, and I will appreciate it if you will read this letter at that point in the hearing at which point I would normally have the opportunity to make this statement for myself and thus put it into the report."

That will be printed in the record.

(The letter is reprinted as follows:)

U.S. SENATE,

Washington, D.C., December 17, 1969.

HON. JOHN SPARKMAN,

Chairman, Committee on Banking and Currency,

U.S. Senate.

DEAR MR. CHAIRMAN: Because I am serving as ranking minority member on the conference on the tax bill, it will be impossible for me to be present at the hearing to consider the nomination of Dr. Arthur F. Burns to be a member of the Federal Reserve Board and to replace Mr. William McChesney Martin as its chairman.

I have known Dr. Burns ever since he served as chairman of President Eisenhower's Council of Economic Advisors and was delighted when he came back into government service as special counselor to President Nixon.

The record Mr. William McChesney Martin has made as chairman of the Federal Reserve Board is so outstanding that his will be a very difficult act to follow. I know of no man in the country better able to match the record of the outgoing chairman than Dr. Burns. The announcement of his appointment has received universal acclaim among the economists of the country, and I am sure he will have a unanimous and enthusiastic support of the members of this committee. Certainly, that is my attitude toward his confirmation, and I will appreciate it if you will read this letter at that point in the hearing at which point I would normally have the opportunity to make this statement for myself and thus put it into the report.

With kindest personal regards.

Sincerely,

WALLACE F. BENNETT.

The CHAIRMAN. Dr. Burns, we have your biographical sketch. That too will be printed in the record at this point.
(The biography follows:)

BIOGRAPHICAL SKETCH OF ARTHUR F. BURNS

Born in Stanislaw, Austria, on April 27, 1904; married on January 25, 1930 to Helen Bernstein; two sons: David and Joseph.

Present and previous positions: 1969, counsellor to the President of the United States; 1968 (Spring), visiting professor, Stanford University; honorary chairman, National Bureau of Economic Research; 1967-68, chairman, National Bureau of Economic Research; member, Governor's Committee on Minimum Wage (New York); 1961-66, member, President's Advisory Committee on Labor-Management Policy; 1959-60, member, Temporary State Commission on Economic Expansion (New York); 1959-69, John Bates Clark, Professor of Economics, Columbia University; 1957-58, member, Advisory Council on Social Security Financing; 1957-67, president, National Bureau of Economic Research; 1956, chairman, Cabinet Committee on Small Business; 1953-56, chairman, President's Council of Economic Advisers; 1953-56, chairman, President's Advisory Board on Economic Growth and Stability; 1945-53, director of research, National Bureau of Economic Research; 1944-58, professor of economics, Columbia University; 1943-44, professor of economics, Rutgers University; 1942-44, visiting professor of economics, Columbia University; 1941-42, visiting lecturer in economics, Columbia University, 1941 (Fall) chief statistician, Railway Emergency Board; 1933-69, member of research staff, National Bureau of Economic Research; 1933-43 associate professor of economics Rutgers University; 1930-33, assistant professor of economics, Rutgers University; 1930-31, research associate, National Bureau of Economic Research; 1927-30, instructor in economics, Rutgers University; 1926, assistant in statistics, Columbia University.

Special lectureships and awards: 1957, Millar lecturer, Fordham University; 1964, Murray lecturer, State University of Iowa; 1965, Fairless lecturer, Carnegie Institute of Technology; 1967, Moskowitz lecturer, New York University; 1969, Alexander Hamilton Medal, Columbia University; 1969, Distinguished Public Service Award, Tax Foundation.

Degrees: A.B., 1925, Columbia University; A.M., 1925, Columbia University; Ph. D., 1934, Columbia University; LL.D., 1952, Lehigh University; L.H.D., 1955, Rutgers University; LL.D., 1956, Brown University; LL.D., 1956, Dartmouth College; LL.D., 1956, Oberlin College; LL.D., 1958, Wesleyan University; LL.D., 1958, Swarthmore College; Sc. D., 1958, University of Pennsylvania; LL.D., 1960, Long Island University; LL.D., 1960, University of Chicago; Sc. D., 1963, University of Rochester; LL.D., 1965, Rikkyo (St. Paul's) University, Tokyo, LL.D., 1969, Fordham University.

Affiliations: American Economic Association (president, 1959; Distinguished Fellow); American Statistical Association (fellow); Academy of Political Science (president, 1962-68); Econometric Society (fellow); American Philosophical Society; Council on Foreign Relations; Pilgrims Society; American Academy of Arts and Sciences (fellow); Institut de Science Economique Appliquee (correspondent); Swarthmore College (board of managers, 1959-62); Twentieth Century Fund (trustee); Advisory Board of Industrial College of the Armed Forces (1958-64); Tax Foundation, Inc. (trustee, 1962-68); Freedom House (trustee, 1966-68); Mutual Life Insurance Co. of New York (trustee, 1957-68); Nation Wide Securities Co. (director, 1957-68); Dividend Shraes, Inc. (director, 1958-68).

Principal publications: Production Trends in the United States Since 1870 (1934); Measuring Business Cycles (with W. C. Mitchell) (1946); Economic Research and the Keynesian Thinking of Our Times (1946); Frontiers of Economic Knowledge (1954); Prosperity Without Inflation (1957); The Management of Prosperity (1966); Full Employment, Guideposts, and Economic Stability (with P. A. Samuelson) (1967); The Defense Sector and the American Economy (with Jacob K. Javits and Charles J. Hitch) (1968); The Business Cycle in a Changing World (1969).

Clubs: Cosmos Club, Washington, D.C.; The Century Association, New York City; Men's Faculty Club of Columbia University, New York City.

The CHAIRMAN. I have known Dr. Burns ever since he came to Washington during the Eisenhower administration, and I fully agree with the remarks that Senator Javits and Senator Bennett both made regarding him.

We have a statement from Dr. Burns relating to his financial situation. Of course, he has had to clear this previously in his job at the White House.

This statement, Doctor, would be available to any members of this committee here in the committee room; and then it will be sealed and kept locked in our files until 1 year after you cease to hold your job.

Let's see, that will be 15 years—maybe 31 years from now. Maybe we had better make a record of it because I wonder if any of us will still be around.

But anyhow, that is the rule of the committee. Dr. Burns, you do not feel that you have any interest or any holding that would in any way constitute a conflict of interest in this job?

Dr. BURNS. That is correct, Senator.

The CHAIRMAN. And you have been so advised by counsel, both at the Federal Reserve and at the White House?

Dr. BURNS. That is correct, Senator.

The CHAIRMAN. Senator Proxmire?

Senator PROXMIRE. Dr. Burns, I concur wholeheartedly in the strong endorsements you have received. I think this is one of the best appointments President Nixon has made; we know you are as competent an economist as we have in this country.

Your views, of course, as the views of all public men, sometimes disagree with those of us in the Senate, and that is the way it should be. But I think there is no question of your competence and ability, and I am delighted you are getting this position which, as Senator Javits pointed out, is of such great importance.

In fact, in the next 14 years this is the most important confirmation we will act on, in my view, without any question.

Dr. Burns, your predecessor, Chairman Martin, made a great issue of the independence of the Federal Reserve Board; and as I understand his feeling on the independence, it was an independence of the executive branch. As we know, the Constitution gives the power to coin money and regulate the value thereof to the Congress and provides no such power whatsoever to the executive. The Federal Reserve Board is not mentioned in the Constitution. The Federal Reserve Board was created by the Congress some 50 years ago as an agent of the Congress and a creature of the Congress.

I just want to know what your views are on the implications of this relationship; this board which is created by the Congress as its creature on the one hand, but is independent of the President on the other. What is your view on this position?

Dr. BURNS. Let me say first of all, Senator, that, as you have stated, the Federal Reserve Board is a creature of the Congress and is responsible to the Congress, partly as a matter of law and partly as a matter of just plain commonsense and propriety.

If I am confirmed by the Senate, I would like to come back frequently and testify before this committee and advise you to the best of my ability. And not only that, I would like to come to seek your guidance and your counsel.

There is a great deal that I have to learn on this job. Many of you have had many years of experience and can help me and the Federal Reserve Board immensely.

It is also clear, I think, that the Federal Reserve Board must work closely with members of the executive. The Board must be fully aware of the financial policies that are being pursued by the Treasury and elsewhere within the executive, so that Federal Reserve actions can be coordinated as far as it is reasonable with the actions taken by the executive.

However, the Federal Reserve Board has a very special status under our legislation. It must exercise its own judgment always; and it cannot be guided by the executive authority.

Senator PROXMIRE. What I am particularly concerned about is the tendency of the Federal Reserve Board—if it does not have strong leadership and independent leadership—to become a kind of hand-maiden of the Treasury.

With the colossal debt we have and the immense demands in providing support for that debt in the market, this can interfere with the very vital monetary policy, the countercyclical monetary policy of the Federal Reserve Board; and it seems to me that this is most important, that you as the Chairman be fully aware of the necessity for having as top priority the monetary policy which serves the best interests of the country rather than whatever are the needs of the Treasury.

Dr. BURNS. I am glad you put it the way you have, Senator. You have expressed my own views perfectly.

It is clear to me that the first and foremost responsibility of the Federal Reserve Board is to help this Nation pursue an even-keel economic course. We must maintain economic stability in our country. The Federal Reserve Board must promote it; and the Board, beyond that, must promote orderly economic growth in our country.

Now and then the Federal Reserve Board may have to go to war with the Treasury. I hope that such occasions will not arise. If they do, I assure you that I will always do what I think is best and what is sound for our Nation, without regard to any considerations of partisan or political or extraneous advantage.

Senator PROXMIRE. This committee, as you know, is not only charged with the responsibility in banking and insurance areas and other financial institution areas, but we have a big responsibility in the area of housing. Some of us feel this is the most significant failure of our economy in recent years.

As you know, we passed last year a housing bill that called for 25 million housing starts in the next 10 years. The Full Employment Act of 1946—which was approved by this committee, incidentally—establishes three goals: high employment, price stability, and economic growth.

In the committee report on the mortgage credit bill we passed a short time ago—and we hope it passes the Congress in the next couple of days—we interpreted our housing goals to rank equally with these others of high employment, price stability, and economic growth; this committee did.

I just wonder if you concur in this interpretation? I think it is something that we have to find a solution for.

I know you are very aware of this problem and this economic failure. I wonder if you do concur in this view, placing our housing goals this high?

Dr. BURNS. I certainly concur in the view that housing is one of our great social needs. It is a need of tremendous importance socially. It is also an industry that is of great importance to our economy.

I am aware also that, the way our financial institutions have worked over the years, housing becomes a victim in the course of any restrictive financial policy that is pursued by our monetary authorities.

This is a defect in our institutions that one way or another we must try to correct. And I want you to know, Senator, that to the best of my ability I will seek a solution to that problem.

Senator PROXMIRE. I am delighted to hear that because I think the Federal Reserve Board can play a very vital role—perhaps the major role—in solving what we have been unable to solve very well in the last 10 or 15 years.

What steps do you think the Federal Reserve Board can take in the years ahead to assure that the impact on monetary policy is allocated more equitably throughout the economy, not only with regard to housing but also upon small business and on State and local government?

We have expressed concern that monetary policy does not affect quickly enough large money-center banks and the large corporate customers. Do you have any concrete suggestions to alleviate this problem?

Dr. BURNS. Well, I am not sure what the Federal Reserve Board can do to alleviate the problem, Senator; but I think there is a great deal the Government can do immediately. I also feel there is a great deal that I, as yet, do not know, and hope that I will learn before too long.

I think, for example, that at the present time it would be well for the FHA to raise the maximum interest rate on its loans. By keeping the interest rate down, we have been denying the homebuilding industry the financial funds that might otherwise flow to it.

I think we will have to do something about FNMA. Its capital structure needs early change. Unless that is done, FNMA may be handicapped in supporting the mortgage market next year. It has done that very handsomely, on a large scale, this year.

The time is probably ripe to activate GNMA bonds, although I doubt if the market could take them now. Nevertheless, action should be taken, so that a GNMA bond could gain currency and become an acceptable instrument for investment by pension funds. I think we ought to move in that direction.

Now, these are some of the things that I believe should be done at an early stage.

Senator PROXMIRE. I realize my time is up, but I will be back. Thank you.

The CHAIRMAN. Senator McIntyre?

Senator MCINTYRE. Thank you, Mr. Chairman. Dr. Burns, as chief economic adviser to the present administration, you have undoubtedly participated very fully in the formulation of the administration's fiscal and monetary policies to date. Do you feel that this background will make it difficult for you, as Chairman of the Federal Reserve Board, to function in the independent manner in which the Congress undoubtedly intended the Board to operate?

Dr. BURNS. Senator McIntyre, I served as chief economic adviser to the Eisenhower administration. In this administration, this responsibility has been carried by Dr. McCracken. My own duties have covered a much broader area—the entire range of domestic policy. In performing my duties, I have had a certain part in formulating fiscal policy. But I have had practically nothing to do with monetary policy, since this is the province of the Federal Reserve Board.

In any event, economic conditions keep changing and governmental policy must adapt to changing circumstances. I can assure you that I will function in a fully independent manner as Chairman of the Federal Reserve Board.

Senator MCINTYRE. Earlier this year I introduced a bill, S. 2499, which would authorize the Federal Reserve Board and the FDIC, after mutual consultation, to establish by regulation the maximum rates of interest that may be charged by member banks and insured nonmember banks, and to fix differing rate ceilings for different kinds of loans. Your predecessor, Mr. Martin, was very much opposed to this legislation on the grounds that he felt banks would cease to make loans wherever ceilings were established below the rate which the market would otherwise set. How do you feel about this matter?

Dr. BURNS. I am inclined to agree with Mr. Martin. Interest rate ceilings would serve to deprive businessmen of the credit they need. Small business, in particular, would fare badly.

Senator MCINTYRE. Dr. Burns, I'm afraid that I do not understand the reasoning behind your answer to that question. It appears to me that a bank's margin of profit is determined to a large extent by the differential between the rate of interest it pays on deposits and the rate of interest it receives on loans. Since the Government does specify the maximum interest rate which may be paid on deposits, I do not understand why you think similar maximums on the interest rates for loans would cause banks to cease making credit available. I should think that most banks would prefer to make a smaller margin of profit rather than none at all.

I also fail to understand your assertion that small business, in particular, would fare badly if loan interest ceilings were established. Most small businesses cannot afford commercial loans at the present rates of interest, and the Federal loan programs, which were established to provide capital for small businesses under such circumstances, have virtually ceased to operate.

Would you please comment on these two points?

Dr. BURNS. Let me turn to your general question. If maximum interest rates were fixed on bank loans and if corresponding market rates were above the maxima, the banks would have an incentive to change the structure of their earning assets; that is to say, bonds, open-market instruments, real estate, and so forth, would tend to replace bank loans. Some banks would take advantage of opportunities to increase their earnings by shifting funds into investments abroad. There would also be a tendency for banks to circumvent the ceilings by adjusting their requirements for compensating balances, by changing other terms of loans, or even by becoming money brokers instead of lenders.

As for the small firms, their loans are often rather risky and also involve heavy administrative costs. Hence, if the maximum interest is out of line with the market, the banks will tend to favor the larger businesses.

Senator McINTYRE. Thank you.

The CHAIRMAN. Senator Brooke?

Senator BROOKE. Thank you, Mr. Chairman.

Dr. Burns, I certainly take great pleasure, along with my colleagues, in welcoming you before this committee today. Your credentials eminently qualify you for the position of Chairman of the Federal Reserve Board, and I wish to commend you for your fine service to the Nixon administration to date. I certainly wish to commend the President for having made this very superior appointment.

I would like to address a few questions to you, sir.

First, a former student of yours, Prof. Milton Friedman, was quoted in this week's issue of Time magazine as stating that—

We are heading for a recession at least as sharp as that in 1960-61. There is more than 90 percent chance of that. There is a 40-percent chance of a really severe recession such as occurred in 1957-58 when unemployment reached 8 percent.

To what extent do you believe Professor Friedman's comments are correct?

Dr. BURNS. I certainly hope he is wrong. I have no way of knowing how he got his probabilities. That I cannot confirm.

I do believe, Senator, that the economy is in process of leveling off, and I think that under present circumstances this is a good thing because we have a serious inflation in the country. A cooling-off process will help us put the economy in shape for orderly economic growth once again.

In short, I think that Professor Friedman's prediction is a little premature.

Senator BROOKE. In other words, you do not think we are heading toward a recession at the present time?

Dr. BURNS. I would not say that. There is, however, a danger of recession. There is not the slightest doubt about that. And all of us—you in the Congress and we in the executive, and I, if you see fit to confirm me on the Federal Reserve Board, along with my colleagues there—we will have to watch that very carefully and do everything in our power to prevent it.

Senator BROOKE. Do you feel we can avoid a recession?

Dr. BURNS. I think we can avoid a recession, yes.

Senator BROOKE. There is evidently a split among Federal Reserve Board members and economists as to whether Fed policies are overly restrictive with respect to the money supply. Some economists believe the Fed should begin easing up on the money supply now.

Do you feel the administration and/or the Federal Reserve are engaged in a policy of overkill?

Dr. BURNS. Senator, this is a very difficult question, and let me answer your question as honestly as I know how.

Under normal circumstances, if we were living under normal conditions, I would say that the time has definitely come for some easing of credit conditions. But we are not living in normal conditions. There is great uncertainty in the business and financial world at the present time whether this Government is, as yet, prepared to fight inflation.

In view of this uncertainty, I think that the policy being pursued by the Federal Reserve Board at the present time is probably a sound policy.

But I very much hope that after the budgetary situation clarifies a bit, after action on this tax bill clarifies, that the Federal Reserve authorities will reconsider their financial policy.

Senator BROOKE. And you will review it?

Dr. BURNS. Very much so.

Senator BROOKE. As you know, Dr. Burns, many Americans are deeply concerned about the rising cost of living and other manifestations of inflation. I have received a number of letters from constituents who express the belief that anti-inflationary policies have had their greatest impact on wage earners, home buyers and other individuals, while large banks and big business have generally been able to avoid the effects of these policies. They cite the fact that banks have been able to avoid tight-money policies by resorting to Eurodollar borrowings and other loopholes.

To what extent do you believe the impact of the administration's anti-inflationary policies has been spread evenly throughout the economy; and to what extent do you believe improvements are necessary?

Dr. BURNS. Well, a restrictive monetary policy unfortunately always has selective effects. This has been true throughout our history, and it is true now. Small business, the homebuilding industry, real estate firms, State and local governments suffer most under a restrictive monetary policy, the way our institutions work.

I do not think, however, that it is accurate to say that the large banks and that the large corporations have entirely escaped the effects of a restrictive monetary policy. Our commercial banks now, when they seek to accommodate their customers, have to borrow funds frequently on the Eurodollar market and pay 11 or 12 percent. They have to go to the Federal funds market and pay 9 or 9½ percent. In consequence, banks have been cutting down on their commitments to their large customers, and cutting down very sharply. Thus, the big business firms and the big banks are now also feeling the effects of a restrictive monetary policy.

Having said that, I come back to my original statement. The pressure is largest on the small firms and on the homebuilding industry, on real estate firms, and on State and local government authorities.

Senator BROOKE. You are undoubtedly aware that minority groups have been subject to higher unemployment rates than those prevailing in the economy as a whole. The fact that these groups are generally the last hired and the first fired has particular importance at this time. Now if, as Professor Friedman contends, unemployment reaches the 8-percent level, or rises above what is generally deemed to be acceptable, what Government measures do you believe should be taken? And more specifically, do you believe that standby public hiring programs should be developed?

Dr. BURNS. First of all, I do not believe that we are going to be so stupid or so unfortunate as to see unemployment rise to anything like 8 percent.

Now, there are some measures I think that should be taken. Some are in the process of being taken; and they should be pursued very vigorously.

I have been a believer, a strong believer, for many years in job banks. Job banks are simply a mechanism for bringing together those who seek employment and those who seek workers and doing that by using modern electronic devices. With the technology that is now available,

an employee or a workman out of a job should be able to walk into a public employment center anywhere in the country, indicate the kind of job that he is seeking, and be told literally within a matter of minutes what jobs filling his needs, his capacities being what they appear to be, are available within his community or within a radius of 25 miles, 50 miles, et cetera.

And similar procedures should be available to employers.

We are developing job banks, and Secretary Shultz assures me that rapid progress will be made this year. I have been prodding him. So have others. And this is something that I hope will have the strong support of the Congress.

This is very important, Senator. Assume, let us say that sales begin to decline; that may happen. Even so, there are still hundreds of thousands of vacant jobs in the country. Those vacant jobs could be filled, you see, if our labor market functioned more efficiently. We, therefore, have to get on with the job banks.

Then again, I think we have to maintain and strengthen our training facilities for workmen, particularly the workers in our ghettos who have suffered from neglect of education and otherwise for many years. I think that training programs must be pushed, and pushed with great vigor.

The unemployment compensation bill which the Congress has been considering will also be of considerable help.

Beyond that, I think the Federal Government should be ready with the kind of program that you have suggested in your question; that is, to give assistance to the unemployed and help to take up the slack if unemployment on a significant scale develops.

But I continue to believe, Senator, that if we pursue sound monetary and fiscal policies and remain alert, we will maintain a strong economy without significant unemployment.

Senator BROOKE. Finally, Dr. Burns, many businessmen have expressed concern about the administration's reluctance to use moral suasion on business and labor. They cite the absence of wage and price guidelines and administration pressure on business and labor leaders to bring about restraint. Now there is fear that this country may experience an inflationary recession in which both prices and unemployment increase, and that controls may be necessary.

How do you view those concerns?

Dr. BURNS. Well, I certainly hope, Senator, that we will be able to avoid price and wage controls. This is an extreme measure. The time may come when we have to resort to it; but I do not think this is the time; and I doubt it will prove necessary.

Bear in mind this, Senator: To enforce price and wage controls, we will need many tens of thousands of governmental employees. Price and wage controls at the present time would be most unpopular. During World War II, yes, we were able to carry out price and wage controls, but we had the vital force of patriotism working in our favor. At the present time, many people would feel that price and wage controls are necessary because of the war in Vietnam, and public cooperation would be limited because the war is unpopular among many millions of Americans.

Beyond this, we should bear in mind that the increases in prices that we have experienced have been largest and most rapid in the food industry and in the service trades. These are very sizable components

of the consumer budget. But food is sold in small establishments, and service establishments are also small. There are hundreds of thousands of them. To police prices in these hundreds of thousands of small establishments is a task of the most formidable difficulty.

Moreover, I think it would be really very unwise to take men out of productive employment at a time when labor is scarce and put them into these policing posts, for we would be increasing thereby the scarcity of labor. So I do not look with any favor on price and wage controls at the present time. I do not think they would work well.

The world has had a great deal of experience with wage and price controls, and you know what happens; very soon you develop not only black markets but gray markets; and with gray markets you can get around price and wage controls and still live within the law.

Now, what about exhortation? President Nixon recently has been resorting to a little to exhortation. I think it is a good thing to remind the business community and the trade union leaders that Government is doing its job by controlling the money supply and by pursuing sound financial policy. And, therefore, it is up to the businessmen and the trade union leaders to fall into line, to recognize that we are working toward a noninflationary environment, and to contribute to it for their own sake as well as the country's sake.

Senator BROOKE. Dr. Burns, I am sure you are well aware that you assume these grave responsibilities at a period in our history where our economy is in critical condition, and I look forward to your administration, and I wish you well.

Dr. BURNS. Thank you so much, Senator.

The CHAIRMAN. That is a live quorum call. We have to go to the Chamber. It may be that we could stagger our departures. Senator Proxmire has already gone. So we can go ahead and come right back.

Senator PERCY. I will not be able to return to the hearing, so would it be possible for me to stay here and go over later?

The CHAIRMAN. Do you want to take over now?

Senator PERCY. If that would be possible, I would appreciate it.

The CHAIRMAN. Certainly. That is satisfactory with the others. We will leave you and Dr. Burns for a few minutes.

Senator PERCY (presiding). The minority party now seizes control.

Dr. Burns, I wonder if we could talk about the conflict-of-interest problem for a moment? I was tremendously interested that you had put your own assets into a blind trust and had reached the same conclusion I had; that under the circumstances, in the absence of any uniform disclosure legislation—which I earnestly support and co-sponsor in the Senate—I could not find any other way to really protect the public interest.

In your case, did you find that this was the best way to protect the public interest?

Dr. BURNS. I pondered this matter closely when I joined the staff of the White House; and after consulting counsel, as well as my own conscience, I decided that was by far the best single thing I could do.

Senator PERCY. I wish we had gotten our lawyers together and shared legal fees on this.

How long does the blind trust operate? As long as you are holding your present position in the executive branch of Government?

Dr. BURNS. That is right.

Senator PERCY. I also feel, after giving the matter a great deal of thought, that there seems to be a double standard on ethics; one standard established by the Congress for the executive branch of Government and the judicial branch of Government; and then a wholly separate set of standards or lack of standards for itself. This seems wrong to me. I feel that, in view of the fact that ethics has been cause for great concern, that this issue should be elevated to the level of a Presidential commission for the study of more uniform procedures that could be recommended for the Congress, judiciary, and executive branches.

I noticed in the Christian Science Monitor the other day that the President is looking with favor on the establishment of such a commission.

Do you see this problem as such that it would be well to take that kind of blue-ribbon commission look at ethics, just as we did on other blue-ribbon commissions, such as the Kappel report?

Dr. BURNS. I think this is a critical need, Senator. Many of our young people, and not only they, have lost faith in our basic institutions, in the institution of the family, in the institution of the church, in our colleges and in the Government itself. We in Government have no higher responsibility than to help our young people, particularly, to regain faith in the governmental process. The kind of commission that you have suggested may help us to achieve that objective.

Senator PERCY. I have been on 15 college campuses in recent months and there are many comments made about the double standards established. It has been revealed that members of the Banking and Currency Committee of the Congress own bank stocks. It seemed perfectly natural to me when I came to the committee to dispose of the stocks of banks that I had been associated with in the past. I do not see how you can regulate and be a Member of Congress and then have a special private interest in the outcome, assetwise and earningswise, of the very agencies that you regulate. I concur with you in this regard. I think it is a matter of crucial importance.

I would like to ask you about the economy, and I do so because we have crucial bills now in conference. You are perhaps the last top official of the administration to be able to publicly state what the effect on the economy will be of some of the things Congress will be doing in the next few days before these bills pass.

Earlier this year the Budget Bureau presented a \$5.9 billion surplus figure estimated for fiscal year 1970—between \$5 and \$6 billion. I see that endangered by three types of erosion.

The first type: Increases in appropriation bills that are now before the Congress, some of which passed yesterday, and some will today, I suppose.

Second, the fact that this tax reform bill is becoming too much a tax reduction bill. At the very time we are trying to take money out of the economy, we are pumping it back in steadily at that level. That is why I voted against the Senate tax reform bill.

And third, what I am concerned about is the possible erosion of corporate earnings, and the high estimates we have for retaining levels of revenue depending upon a high level of the economy.

Could you comment on each of these three potentials as to what effect it could have on the budget and whether or not the conference committees in both Houses ought not to take into account the fact that

we may not have a surplus if we have erosion at all three of these levels?

Dr. BURNS. Back in September the Budget Bureau presented an estimate, as you indicated, Senator, of close to \$6 billion of surplus. That surplus is in grave danger. In fact, if we continue on the course on which we seem to be bent at the present time, I doubt if we will have any surplus; and we might even have a deficit.

Now, why do I say that? First, legislation now in process in the Congress, if all of it passes, may add as much as \$5 billion to this year's expenditures.

As far as our revenues are concerned, corporate profits in my judgment will not come up to expectations and, therefore, the revenue yield from the corporate profit tax will be lower than we anticipate.

Beyond that, we must bear in mind that the stock market has declined very sharply this year. The stock market values, I am advised, have declined by something like \$180 billion, although I do not vouch for that figure. In any event, the loss has been colossal.

Now, this must mean that many taxpayers in the country will be taking tax losses this year. Hence, the revenue from the personal income tax is likely to be lower than we anticipated.

In addition to that, the tax bill that is now being considered would spell a net revenue loss; and while I am one, as I think you know, who has generally been in favor of a policy of tax reduction, at the present time I think a tax reduction would be ill advised.

Senator PERCY. I voted against the \$800 personal exemption that was adopted by the Senate. I voted against the final 15 percent social security increase. I even voted against the 7-percent investment tax credit extension to depressed areas, though you know my feelings about the long-term relief the investment tax credit can provide to the cost of production. And I voted against the final bill. I did so with the belief that, even though it offered relief, continuation of inflation hurts the very people most that those reducing taxes are trying to benefit and that it really erodes the income of the aged and those who are living on fixed incomes, and low-income people.

Does this check with your own thinking?

Dr. BURNS. I think what you say is profoundly true. I do not have the precise figure on consumer expenditures in mind, but it is in the neighborhood of \$600 billion.

Assume it is \$600 billion. Then a 1-percent rise in the consumer price level means an invisible tax, but a very real tax, of \$6 billion. If the consumer price level rises, as it has been, this year between 5 and 6 percent, then you have a tax increase for consumers of \$30 to \$35 billion.

Now here we are, we in the executive and you in the Congress, we all debate the significance of a tax cut or a tax increase of \$2 billion or \$5 billion. Meanwhile this huge tax increase of some \$30 billion is being quietly exacted from the American people. I must add that this tax burden falls heaviest on poor people.

I feel that many of the programs that the Congress has been enacting with a view to assisting disadvantaged groups in our community, poor people, that the effectiveness of many of these programs is endangered, if not nullified, by the kind of inflation that is presently raging.

So I support your statement completely, Senator.

Senator PERCY. I have heard many members of the business community and the banking community recently say they almost think it is a mistake to reduce the surtax now, that maybe the thing we should do is keep it at 5 percent, or raise it to 10 percent. In this committee we have given consideration to tight money and to tight fiscal policy. If we ran a deficit, would we not find the continuation of those tight money policies as the only recourse in the future, and we certainly would like to get away from these high interest costs?

Dr. BURNS. Well, I think, if we are to get away from the high interest costs, we must pursue a stiffer fiscal policy than we have been pursuing. I hope very much, in the first place, that we will keep expenditures down. I think this is an obligation that the executive must assume, and I hope the Congress will follow.

I would like to see the President present a budget that is a little under \$200 billion. Whether he can do that or not I do not know. It is very, very difficult; but I think the effort must be made.

After that effort has been made, after we have gone as far as we can in curbing expenditures—Senator Proxmire has fought this battle for many years, I am glad to say, and he is still fighting it—after we have done the best that we can on the expenditure front, if we still find that the budget is out of balance, then I think we must raise taxes, unpalatable though this be to the Congress, unpopular though it be all around. We all simply will then have to do our duty.

Senator PERCY. Thank you, Dr. Burns.

Mr. Chairman, I would like to evidence my enthusiasm for one of the most brilliant appointments I think the Nixon administration has made. My confidence in Dr. Burns through the years is unbounded, and I support him wholeheartedly—in the things he said this morning, and throughout the course of his lifetime.

Senator PROXMIRE (presiding). Senator Goodell?

Senator GOODELL. Mr. Chairman, it is a great pleasure for me to welcome Dr. Burns, who is an old friend, and certainly one of the most eminent economists in the country. And I agree with Senator Percy: this is a superb appointment by the President.

I will not take your time, Dr. Burns, with very many questions. I think the one thing that concerns me most is your view of the policy the Federal Reserve should pursue with reference to money supply and its relation to growth. My concern here is the effect and the action and reaction that keeps occurring, in spiraling down, if we take measures to control inflation that inhibit growth and thereby inhibit tax revenue. We are then concerned about the budget deficits again, and so we keep raising taxes, perhaps, and controlling the money supply, and the growth goes down. I think it is imperative over a period of years, at least, that we have steady growth, because this is what feeds the Government and it is what certainly provides the prosperity for our people.

I would like you to relate that to policy on money supply, if you would.

Dr. BURNS. Let me say, Senator, that I feel very definitely that a restrictive monetary policy, if pursued very long, will damage the country's economy.

Now, in order to prevent such a result, we must rely heavily on a sound fiscal policy and not leave it to our monetary authorities to try to stabilize the economy all by themselves.

I would go further and say, even if I work myself into trouble in the process of doing so, Senator, that it is by no means clear to me that it is the duty or the responsibility of the Federal Reserve Board to try to correct for any and every mistake that, in its judgment, the executive and the Congress make. That would be arrogant on the Federal Reserve's part.

But I do think that at the present juncture it is highly important to bring expenditures under better control than we have. This will give confidence to the business community. At the present time we suffer from a lack of confidence on the part of business and financial people in the willingness of this Government to pursue an anti-inflationary policy.

The Congress has indicated that it is interested in curbing inflation. The executive has indicated that. As yet, however, we are not believed sufficiently, you see. To gain credibility, we must have a budget for next year which will be regarded by financial people as being anti-inflationary.

If we do that, then I think our monetary authorities will no longer carry the heavy burden that they have been carrying. The inflation premium on interest rates will tend to come down and we could all begin to look forward to easier credit, lower interest rates. In the long run, as you suggested, Senator, the country needs that. If we do not have that, our economy will not prosper and will not grow as it should.

Senator GOODELL. If I understand you correctly, if you controlled the White House and the Congress and the Federal Reserve Board and you could set the policy in each, at this time, you would emphasize fiscal measures. You would strive for a surplus whether it has to be through increased taxes or reduction in expenditures, and perhaps loosen up some in the Fed as far as the money supply is concerned. Is that an accurate statement?

Dr. BURNS. You have summed up my basic thinking correctly, Senator, yes.

Senator GOODELL. It is one with which I strongly agree.

Now, there is one area where you and I have disagreed in our discussions in the past year. I have felt since last spring that in certain aspects of the Fed's policy and of the administration's policy we were putting the brakes on too hard. As you know, most of these brakes do not go on like a handbrake on a car. You push a button and 3 months, 6 months, 1 year later they grab and have their impact on the economy. It has been my view and is my view we pushed so many of those buttons and they are quite likely to grab all at the same time and we are moving into a recession, either a leveling-off completely of the growth rate which has already occurred, or a downward trend in the growth rate. This in turn will stimulate more regressive or more conservative measures as far as fiscal and monetary policy is concerned and it is a very dangerous cycle to get into.

I would just like your assessment of this at this point, and maybe a projection as to how you see the economy moving in the next 6 months.

Dr. BURNS. Well, Senator, as I indicated earlier, if it were not for the factor of credibility, I would be in favor of easing of credit conditions now.

We are pursuing a very highly restrictive monetary policy and one which, if continued long, will prove very dangerous to our Nation.

But I do think that a foundation for an easing of credit policy must be laid. I am very hopeful that within the next 2 to 4 weeks that foundation will be laid by the Congress and by the executive; by the Congress in the kind of tax bill that it will send to the White House; and by the executive or by the President in the kind of budget that I hope he will submit to the Congress.

Once doubts, which are very extensive, about our fiscal policy are resolved, once business and financial people see that this Government is pursuing a financial policy that is adjusted to the Nation's need to curb inflation, then I think we can have an easing of monetary policy such as you desire and such as I desire.

Now, when you say that we have gone too far, this is a question of judgment. I do not think we really have in the present circumstances; but I cannot say categorically, Senator, that I am right and that you are wrong.

Senator GOODELL. As usual, you have, I think—as Senator Javits characterized Senator Cotton yesterday—an open, luminous mind, Dr. Burns, and I appreciate at least your recognition that my projection might be right.

I take particular heart in your comment that you do not feel it is the role of the Federal Reserve Board to necessarily strive to correct the mistakes of an administration in terms of economic policy or of the Congress in terms of economic policy because, without getting into the details, I think we could cite some history where that was rather disastrous in the last few years; and this is one area I think the Federal Reserve Board right now should exercise some independence. Even if Congress and the President do not go as far as you would like in terms of fiscal policy, the Fed should look very closely to the impact of the tight money, particularly its impact on the stock market, its impact on very specialized areas of our economy where it is not just a question of it being a little bit tight. There are some areas of our economy, as you know, that are completely dried up. This could have very serious consequences if it begins—well, it already has, to those affected—and in terms of the economy could have very serious consequences when it begins to snowball. I know you are aware of those situations.

I want to apologize to you that I came in on a plane a little bit late. I had planned to be here at the outset to welcome you, and I would just say to you, Dr. Burns, that I think all of us have a great deal of confidence in the whole situation and the future with a wise and talented person such as yourself going in the Federal Reserve Board.

Dr. BURNS. Thank you very much, Senator.

The CHAIRMAN (presiding). Dr. Burns, I am glad to hear you say that you recognize the fact that the Federal Reserve Board, being a creature of the Congress, is responsible to Congress. I think in the past a good many people may have lost sight of that.

I believe in a high degree of independence for the Federal Reserve Board, but I do believe that there is a very vital connection there that certainly ought to be maintained. I am glad to hear you say that.

The thing that has been of greatest concern to me in this present tight-money situation—and it is simply a repetition of what we have had in the past—has been the impact on housing. I would certainly not expect small business, agriculture, the governments—municipal and

State governments—everybody that has to use credit to get along. I was very much impressed with the statement that Governor Maisel made some time ago in which he referred to the 1966 crunch. He said that housing had to bear from 60 to 70 percent of that impact.

I believe housing occupies a sector of only 3 percent of our gross national product. Certainly a 3-percent sector ought not to receive 70 percent of the impact of hard times. I certainly hope—I will be frank with you—I have felt through the years that the Federal Reserve Board just simply did not have the right attitude toward housing. They consider it expendable and a tool that can be used as a contra-cyclical force in tight-money periods.

I think the attitude of our country is that housing is just as essential as the clothes that we wear, the food that we eat and the medicine that we take. I believe that every effort ought to be made to see that this heavy burden of the impact to correct for inflation not be borne by housing. I hope that some things can be done under your leadership that will ameliorate that condition.

Dr. BURNS. I can promise you this, Senator: This is a question with which I will concern myself most seriously. I cannot promise you success, but I can promise you a very determined effort.

The CHAIRMAN. I do not know just what his plan is, but Governor Robertson some time ago, testifying before this committee, suggested that he had been thinking of a plan that could be worked out that might give relief to the housing crisis. I am sorry I cannot discuss it with you. I never did know the details of it.

Dr. BURNS. I will try to find out pretty promptly what his thinking is.

The CHAIRMAN. Fine.

I read a very interesting article recently, rather analyzing your philosophy as compared with or as against that of the outgoing Chairman—who has done a tremendous job over the years and I think we all recognize that fact—but there was one thing in that article that impressed me particularly. It said it believed the Federal Reserve Board would not be as slow to react as it had in the past, under your leadership.

I may say that many times—sometimes, at least—I told Chairman Martin and others of the Federal Reserve Board that I felt that one of their shortcomings was the slowness to shift in policy. They wait until deflation is on before they do anything about it. In the past when some of the regulations were brought into effect, it seemed they waited entirely too long before acting.

I am not asking you to comment on that, but I just want to tell you that I did read that article with considerable interest.

I think often the Federal Reserve Board could act more expeditiously and probably give some relief.

With reference to FNMA, I wonder if you could give us your opinion as to whether or not you believe that FNMA should be authorized to buy conventional mortgages? And in connection with that, we are going to conference this afternoon on a bill that contains a provision giving the Home Loan banks the power to buy conventional mortgages. Would you have any thoughts on that?

Dr. BURNS. I have some preliminary thoughts on that, Senator. My instinct would be to give this authority to the home loan banks. FNMA has developed a great expertise in FHA and VA mortgages.

The home loan banks have great expertise in conventional mortgages. I think we need a secondary mortgage market for conventional mortgages. I think I would seek to develop that through the home loan banks.

Now, these are my preliminary thoughts.

The CHAIRMAN. I was interested in your statement that big business enterprises were cutting back pretty strongly on commitments for new plant and equipment, were using restraint. But if I am not mistaken, I read an article in the financial papers a few days ago that industry was expected to expand to some \$8 billion—I don't remember the exact figures. Some \$8 billion increase next year over this year even though this year was a tremendous increase over last year.

It seems to me that there is the one area in which restraint ought to be practiced. I have felt very strongly and I have said this to the Federal Reserve and to the Treasury, that I do not believe that sufficient moral suasion has been used to get these companies to restrain themselves on these expansions. They could be held up, deferred, until a more propitious time.

Do you feel the banks are actually cutting down on these commitments? If so, why do we get these reports that business is planning a bigger expansion next year than ever before?

Dr. BURNS. Well, as far as commitments are concerned, my earlier statement on that is based on compilations made by the Federal Reserve Board which have not been published but which I had the privilege of reviewing only a day or two ago. They show a very sharp decline in commitments on the part of our commercial banks, a very sharp decline.

As far as our business people are concerned, I think they are still planning large capital expenditures and I think the reason is that the belief still exists in the business community that inflation has become a way of life and that what you can buy or build today you can still accomplish at bargain prices.

This is dangerous, Senator, not only because it is whipping up forces of inflation but because we may build up excess capacity, and that is not a good thing. But this fear of inflation is so widespread that business people are making their plans in this way.

My own judgment is that the plans being shaped by the business community will not be carried out fully. Partly because profits are sliding. They are moving down. And partly because they will find it is more difficult to obtain credit than they presently anticipate.

The CHAIRMAN. There is just one other item I want to comment on. That is your discussion of the handling of fiscal affairs.

I agree with you. I have always felt—although there would have to be exceptions in case of emergencies from time to time—that we ought to operate on a balanced budget. I think a surplus would be highly desirable every year; that is, if it can be attained.

But in the thinking of many people the blame is always placed on Congress. Historically, the legislative body is the body that, as you say, controls the purse strings. Yet there seems to be a feeling that when the executive, through the Budget Bureau, proposes something, that is perfectly all right; but if Congress sees fit to do something on its own initiative, and its prerogative, why, then it is all wrong.

In other words, I think that we ought to keep in mind that the handling of fiscal affairs is a two-way responsibility; a responsibility of the President under the Constitution to recommend to Congress, and a responsibility of Congress under the Constitution and historically as a legislative body to decide upon.

I think sometimes we get a kind of conflict that way and perhaps that may do more damage than good.

Dr. BURNS. I agree completely with your statement down to the last detail, Senator.

The CHAIRMAN. That is rollcall over at the Senate, and we will have to go. Senator Proxmire left early and will be right back. I do not think we can afford to wait until he gets back because there will not be enough time.

Senator Goodell, do you want to ask more questions at this time?

Senator GOODELL. Are we going to come back?

The CHAIRMAN. Yes.

Senator GOODELL. I will come back then, too.

The CHAIRMAN. Let us stand in recess until Senator Proxmire returns.

(Recess.)

Senator PROXMIRE (presiding). The committee will resume its deliberations.

I do apologize, Dr. Burns, for this interference. It is just one of the hectic and unfortunate problems. This is, as I say, the most important appointment we have; but we have the rollcalls we have to make.

Dr. BURNS. I know how busy this part of the year is for you.

Senator PROXMIRE. Dr. Burns, some financial observers say the administration's policy of gradualism—that is the policy of trying to concentrate to the extent they can on fiscal and monetary policy without using the President's authority and power and prestige for any kind of voluntary guidelines—has been a failure, and that businessmen just do not take it seriously and they assume we are going to have inflation. This is the really serious problem.

Senator Sparkman made the point that one of our most serious inflationary problems is that business is investing in plants and equipment at this breakneck speed. It is unstable. We are operating far below the desired rate of capacity and this is simply discounting future inflation; and that until the administration takes a decisive and clear-cut position and makes it clear that they are going to prevent inflation, that this is going to continue.

What is your reaction to that?

Dr. BURNS. Well, I think our policy of gradualism has been sound and correct. On the other hand, I think we have made a mistake within the executive establishment in talking so much about it. It is one thing to pursue a gradualist policy; it is another thing to tell everybody that this is what you are doing. I wish we had talked less about that.

Senator PROXMIRE. You mean "talk loudly and carry a small stick"? I am sure you do not mean that. I just want to—

Dr. BURNS. I mean carry a good stick which you apply very thoughtfully but do very little talking.

Senator PROXMIRE. Then you mean "talk softly and carry a big stick." All right.

You have indicated what you feel should be the overall national policy to cope with this, but I just wonder if there is anything over the long term that you have not said which you would like to say with regard to the problem all of us are aware of, and the Federal Reserve Board gets the blame—and you will when you are Chairman, I am sure—for the very high interest rates, the highest interest rates we have had in so long. They are so cruel and burdensome for so many people. I just wonder if you think there should not be a reduction in interest rates during the time period you will be a member of the Board in the next 14 years?

I am not talking about immediate, short-term policies; but in the long run, what is there—other than the fiscal policies that I think you very forcefully and I think rightly outlined—what can the Federal Reserve Board do?

Dr. BURNS. Senator, if interest rates remain at anything like their present level over the next few years—I am not going to speak of the next 14 years—I would consider myself and the Federal Reserve Board a failure if interest rates behave in that fashion.

Senator PROXMIRE. Having said that, you say you would consider the Federal Reserve Board having failed. On the other hand, the remarks so far, and the remarks of the Senators, have been directed at the failure of the Congress, and perhaps the administration to some extent, to get tax policies and spending policies which would counteract inflation.

What can the Federal Reserve Board do?

Dr. BURNS. I have a great deal of faith in the Congress. It is sometimes slow and I think Congress has been, if I may say so, Senator, slow this year in acting on taxes. I also think Congress has shown an excessive propensity to enlarge expenditures.

I think we in the executive have been at fault as well. I do not mean to suggest that we have done everything correctly in the executive and that the Congress has been mistaken.

But my observation of the Congress, over the years, has been that while the Congress may act slowly and may go to extremes now and then, eventually Congress will do the right thing. I have great confidence that Congress will ultimately pursue a responsible and a sound fiscal policy.

Senator PROXMIRE. Then are you saying there is nothing that the Federal Reserve Board in and of itself can do, absent action by Congress and the executive in these areas you have outlined?

Dr. BURNS. No, I would not say that. I would be very much surprised if there was not a great deal that the Federal Reserve Board can do to improve patterns.

Senator PROXMIRE. What can they do?

Dr. BURNS. Well, this is something that I feel, Senator, I must study more closely before I can speak responsibly.

To say just one thing, I have some doubts about regulation Q, the way it has been applied. I am not yet, however, prepared to say the Federal Reserve Board has been wrong. I have to study that more closely in terms of the thinking of the members of the Federal Reserve Board. They have considered it and struggled with it and they may have persuasive reasons for acting as they have. But I am not convinced as of now.

Senator PROXMIRE. We would be very interested in that. As you know, this committee is interested in regulation Q. We are acting on it today or tomorrow in conference. We think something like that to prevent disintermediation is essential. Your predecessor was very much opposed to regulation Q and he said so. He told the committee so. But we would like to know what else we can do.

Housing is in bad enough shape. Without regulation Q we are afraid it might be even more disastrous.

In your very interesting Fordham lectures in 1957, and I quote you :

Someday in the distant future it is possible that Americans will be willing to tax themselves at higher rates just to enable the government to accumulate a sizable surplus and thereby ease inflationary pressure. The time for such a policy has not yet arrived.

Do you think the time has arrived now?

Dr. BURNS. In all honesty, Senator, if I were rewriting or revising that lecture, I believe I would permit that sentence to stand.

Senator PROXMIRE. I think that is a very realistic reply.

You go on to say that :

One of the ingredients that you have to have if you are going to get broad public support for anti-inflationary policy is the assurance that you are not going to have a serious depression or recession.

You point out in the following sentence, "You are not going to get people to support an anti-inflationary policy if they fear that in doing so they might lose their jobs in the future."

Dr. BURNS. I strongly believe it.

Senator PROXMIRE. Do you think the administration—and we asked Mr. Kennedy and Mr. Mayo when they came before the Joint Economic Committee—we asked them at that time about the temporary increase in unemployment and whether they were prepared to cope with the situation if it got worse. They did not seem to have plans to cope with this, no standby programs they could put into effect to put people to work. This is certainly far from the proposals made by a number of Senators for a governmental program providing work for people who needed the work.

Under these circumstances, do you not think that this is another ingredient that is missing that we should have if we are going to have an effective anti-inflationary policy and get the kind of assurances to people that they are not going to go into a recession if we follow this austerity which is needed now?

Dr. BURNS. I think I would agree, Senator. I would say only that if we proceed by the legislative route, then we will have to write that legislation very carefully with regard to wage compensation.

It is one thing to have the Government provide jobs for people who are out of work. It is another thing to provide those jobs at wages that are acceptable to our trade unions, you see. This is a very difficult question that the Congress will have to wrestle with, and we in the executive will have to wrestle with.

Senator PROXMIRE. As you know, the Joint Economic Committee has recommended that the Federal Reserve Board follow a policy of stabilizing the increases in the money supply and report to us at the end of every quarter if it varies between an increase of the annual rate of 2 percent and 6 percent. What is your feeling about this kind of policy?

We do not dictate they have to follow the policy, but we say we ought to know if they do not follow it and why they are not following it.

Dr. BURNS. I will answer in two parts.

If I had not read the exchange of correspondence that you had with the Federal Reserve Board, I would have said quickly, "I think the policy that you suggested to the Federal Reserve Board is sound and entirely acceptable to me."

The members of the Federal Reserve Board had some reservations. I have seen the correspondence and I have not understood all of it, and I will have to search their thinking why they did not quite go along with you. After I do that, I may find that my impulse to agree with you entirely, you see, requires reexamination.

On the other hand, I may find that I am still with you. So I just want to reserve my answer to the question. However, my preliminary view on the basis of what I know and think now is that your suggestion is quite sound. I see nothing wrong with it as of today.

Senator PROXMIRE. There is considerable sentiment for a 10-percent or lower reserve ratio which would let the banks keep 90 percent, instead of the existing generous five-sixths, of the benefits gained from the delegation to the banking system of the public function of creating money.

Do you think a lower reserve ratio does have merit? Or do you feel that the present ratio is about right, or might possibly be increased?

Dr. BURNS. I hesitate to answer that question. I have not considered it sufficiently, Senator, to feel that I can give you a responsible answer now.

Senator PROXMIRE. As you know, there have been press reports that the administration is considering reorganizing the regulatory banking agencies to take from the Fed its regulatory power and leave it, of course, its monetary power, and distribute that between the Controller of the Currency and the FDIC, and to do it by an Executive Branch Reorganization Act, which would only give Congress a few days for a veto and would not give us an opportunity to consider this.

What are your general views concerning the desirability of this kind of reorganization?

Dr. BURNS. Well, first, this is not and never has been administration policy. I was surprised to read all this in the press.

Secondly, if any reorganization were planned, I think the right way to do it is by consulting the members of this committee and the members of Congressman Patman's committee, then presenting legislation to the Congress, and going through the regular legislative route.

At the moment I have no definite views on the question of reorganization. My prejudice, to the extent that I have one, is to have the Federal Reserve Board continue its regulatory function. That is a question that I want to study, and I hope to do so.

Senator PROXMIRE. Mr. Martin has been a persistent critic of wasteful Government spending. In a previous appearance before this committee this fall he said that he thought the military spending ought to be cut \$10 to \$15 billion. Do you share Mr. Martin's view?

Dr. BURNS. I neither share it nor am I opposed to it. I do not know enough to express a view on that subject.

Senator PROXMIRE. You see, you have indicated that you think we should have a more stringent fiscal policy and some of us feel if we are going to have it, we have to make some of these very sharp cuts.

The Congress, as you know, cut \$8.5 billion from President Johnson's original military request in January, which I thought was the best and most constructive anti-inflationary news of the year. There was not much in the paper about it. They reported it but not in detail nor with any emphasis.

But if the administration is going to continue with the full functions of the space program, the supersonic transport and some of the other things, I just wonder if it is going to be practical for us to hold down spending in other areas. It is so easy to point at the supersonic transport or the space adventure, which is exciting and glamorous, and say, "If you are going to do that, we ought to take care of hungry children, housing problems, antipoverty problems and we ought to provide much more money for education." We are working in an atmosphere where holding down spending is much more difficult.

Dr. BURNS. I can only say this, Senator: I think the President has reduced the military budget by \$4.1 billion for this fiscal year, and a sizable reduction of military spending is planned now for fiscal 1971. But how large that reduction should be, whether it should be \$5 or \$10 or \$15 billion, or only \$3 billion is a question that I have not studied, and I am not competent to express an opinion on that.

Let me just say this: I hope that we can cut spending in that area; of course, I do. But I would like to have qualified people think about that and work toward that objective, and I cannot help them because I am not a student of this range of problems.

Senator PROXMIRE. If you are Chairman of the Federal Reserve Board—Mr. Martin and Mr. Robertson have both come out very strongly for the one bank holding company legislation. Mr. Martin has said he thinks if you permit the banks and commerce to merge, you tend to cartelize American industry. Would you share their general view in this area?

Dr. BURNS. I do, decidedly. I worked on a report for Mr. Nixon during the transition period and I put the one bank holding company legislation close to the top of my priority list at the time. I think definitely we must have a separation of banking and commerce. Details aside, I am in favor of the one bank holding company legislation the Congress is considering.

Senator PROXMIRE. Have you had a chance to look at the House bill in this regard?

Dr. BURNS. Not in detail, no.

Senator PROXMIRE. Let me ask about your views on the Phillips curve, because it is so good and unusual to have a man of your extraordinary competence in this area; it is something that has puzzled us for quite a while. Many economists argue the only way to reduce inflation is to follow a policy which is going to result in some unemployment and that there is a tradeoff which is necessary.

Do you think that we can pursue any anti-inflationary policies long enough and with sufficient consistency without creating an unemployment level that would be unacceptable?

Dr. BURNS. Yes; I do, Senator. I think the Phillips curve is a generalization, a very rough generalization, for shortrun movements, and I think even for the short run the Phillips curve can be changed.

I think we ought to be able in the years ahead to pursue, when we need to, a restrictive financial policy without significantly increasing unemployment. I have great faith in well-managed job banks. I think they will prove tremendously helpful.

Also, at times like the present, I think there is a great labor scarcity in our economy, so that if we had some decline in sales and in production for 6 or 9 months, our business people by and large would hold on to their employees whom they have trained. In view of the tightness that has existed in the labor market. I do not think you would have very many layoffs in that case.

Of course, if a decline in sales lasted longer than 6 or 9 months, then we would be in trouble.

Senator PROXMIRE. I just have one other question. I apologize to Senator Packwood, but I will just take a minute on it.

I ask this question because I think you—and I do not necessarily share the implications of the question although some Members of Congress do—but there has been criticism in the past of the expense that the Federal Reserve Board allows officers and employees. At a time when the banking community is urging the Government to be prudent and when interest rates for ordinary people are so high, when it is important to practice frugality, should the Federal Reserve Board cut back to a level commensurate with other public agencies in the expense accounts it allows its employees and members, the numbers of cars and limousines it provides, and the per diem expense accounts it allows?

I know it is a matter of internal housekeeping, but at the same time it is a matter of considerable public interest and a feeling that maybe the Federal Reserve Board is prescribing austerity for the economy and living high on the hog.

Dr. BURNS. Well, I cannot answer that question. I simply do not know enough about the housekeeping of the Federal Reserve Board. I do not know whether the Federal Reserve Board is subject to criticism on this ground or not. But this of course is a question I will want to look into in the early stage.

Senator PROXMIRE. I do not like to end on that note because, as I indicated at the beginning, I have the greatest admiration and respect for you. I am sure you will do a superlative job, and I am very happy President Nixon has made this outstanding appointment.

The CHAIRMAN (presiding). Senator Packwood?

Senator PACKWOOD. I have just one question that Senator Goodell was going to ask.

Dr. Burns, I understand you said earlier in answer to a question from the chairman that your preliminary reaction would be favorable to providing secondary mortgage market authority to home loan banks. Do you have any feeling about providing such authority before there are any hearings held, or before we have any idea as to the scope of the legislation or how it would operate?

Dr. BURNS. Well, I expressed my feeling as of the moment. I would hope that before Congress passes legislation on this, that a thorough examination would be made. And this of course would require hearings.

Senator PACKWOOD. Thank you.

The CHAIRMAN. Dr. Burns, when I learned that the House Banking Committee was about to add this amendment, I wrote letters to the Chairman of the Home Loan Bank Board, to the Federal Reserve System, and to the Secretary of the Treasury, asking for comment.

We have received only one reply. That is from the Federal Reserve System. Governor Robertson wrote the letter for the Federal Reserve Board. He said that the Board is in favor of expanding the secondary mortgage market, or rather, restructuring and setting up a secondary mortgage market.

But he makes the point that this is rather complicated legislation. He says it would require closer study. He says that he does not believe—let me read the last paragraph.

Since section 4 (that is of this proposal) would not solve the problems currently facing the mortgage market, Congress should take the time to consider the substantial issues it would raise regarding the long-run structure of the Federal Home Loan Bank System and its relation to the operations of the Federal National Mortgage Association in particular and the secondary mortgage market in general.

I am in favor of expanding the mortgage market, as I said a while ago. But my immediate reaction when I heard they had added it on over there was that it was being done without our having an opportunity to hold hearings and study these different things.

He mentions one thing here. He says :

There is a question as to whether or not it would actually give much relief to the mortgage market because, first of all, he says raising of the money was most—there is a problem there with the rate of interest they would have to pay, what they would have to pay for the conventional mortgages, and what interest they would have to pay on the money that they get in the market.

And then he says :

It would not increase the actual amount of mortgages ; in fact, it might curtail some of the home loan banks in their own operation.

He says this : With all the above considerations in mind, and in light of existing authority permitting insured savings and loan associations to participate in their mortgage holdings, to borrow from the Federal home loan banks and to pool mortgages with or without GNMA guaranties, the Board suggests that further study of the questions mentioned above would be appropriate.

And he said that in view of what the home loan banks could do now and what their member societies could do with reference to these things I have just mentioned, he thinks it gives them just about all of the ground they can cover at the present time.

I am not asking you to comment further, but I just thought I would mention these things since it is a letter from the Federal Reserve Board.

Dr. BURNS. If I may just make a comment, Senator? I think it is a very interesting letter, a very thoughtful letter.

Again, my own very preliminary thought would be that while a secondary market for conventional mortgages would not help in the present housing crisis, it might lay the foundation for a broader market in the future. Conventional mortgages would first have to be standardized in order to have a secondary market. They are not standardized now. But once you develop a standardized conventional mortgage, then pension funds might become interested in this financial instrumentality.

Now, that is the ray of hope that I see—or that I think I see.

But I would repeat what I said earlier. I certainly endorse Governor Robertson's suggestion for hearings on the part of the Congress so that this question might be reviewed thoroughly.

The CHAIRMAN. I have long been interested in trying to get a good secondary mortgage market. I have introduced bill after bill trying to find some means of doing it. I have never been able to get any of them passed.

But it may very well be we can work out something now. There is no particular feeling on my part as to who ought to handle it. Goodness knows, I have offered it to the banks and their separate corporations. I introduced one for the Home Loan Bank Board. I introduced one 3, 4, 5 years ago for this. All of these were back in that period.

I remember one year I introduced three different bills. I would be glad if we could reach all of them. One of them was for the Home Loan Bank Board; one for FNMA; one was for the banks. In fact, they had a double proposition in connection with theirs. But I never was able to work up sufficient support for it.

I do think that it is highly essential that we make our mortgage market more widespread in its application and more flexible. I certainly think you have pointed out a very necessary point: We must bring some kind of uniformity to our mortgages and to our foreclosure laws and to a good many things that are connected with mortgages before we can expect the big money that may be available for this—and you mentioned the pension funds, the institutional buyers, and so forth. I agree with you fully on that.

Well, let me say this, Dr. Burns. I know, of course, that you will be confirmed. I think you can sleep well tonight with that assurance, and we will all be wishing you well.

If the well-known saying that "history repeats itself" is true in your case, you will be before us quite often in the future, as the present Chairman has been. We have always enjoyed having him. We will look forward to having you with us.

Senator Goodell, I understand, has another question.

Senator GOODELL. No, Mr. Chairman. This point that you were talking about and which Senator Packwood raised was the one I wanted to raise. That is all I have.

I would repeat the assurance to Dr. Burns, however, that I think there is no question you will be overwhelmingly approved, and that you will have the confidence of not only this committee but of the entire Congress.

Dr. BURNS. Thank you.

The CHAIRMAN. Thank you very much.

I will ask the members of the committee to stay for a few minutes after the room has been cleared.

(Whereupon, at 11:56 a.m., the committee went into executive session.)

