

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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## HEARINGS BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE EIGHTY-FIFTH CONGRESS FIRST SESSION

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JULY 29, 30, 31, AUGUST 1, 2, 3, 6, 7, 8, AND 9, 1957

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### PART 2

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# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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MONDAY, JULY 29, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to call, at 10:10 a. m., in room 312 Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Anderson, Gore, Martin, Williams, Flanders, Malone, Carlson, and Bennett.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

We have the pleasure and honor today of having the Under Secretary of the Treasury, Mr. W. Randolph Burgess, who will be the witness this morning. On account of important engagements of members of the committee and Mr. Burgess, the committee will recess at 11:45 until 10 o'clock tomorrow morning.

Mr. Burgess, you may proceed, sir.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY

Mr. BURGESS. Thank you, sir.

Senator MALONE. Mr. Chairman, before we start, may we have some idea of the schedule? I have a meeting now going on of the Senate Interior and Insular Affairs Committee.

I just wanted to say for the record, I suppose there is a record here someplace, that they are considering this long-range mineral plan down there and other things of great importance, and I would just like to have some idea of what the schedule is.

The CHAIRMAN. It is the desire of the Chair that the committee meet as regularly as it did when Mr. Humphrey was the witness and go ahead with the hearings as expeditiously as possible.

Mr. Burgess says he wants to be examined at the same length as was Mr. Humphrey. [Laughter.]

Mr. BURGESS. Mr. Chairman, I will not be insulted if you take less time.

The CHAIRMAN. We shall try to meet the requirements of the Senator from Nevada.

Senator MALONE. I take it he will have no trouble getting proper examination, but what time do you think you will get—will you use the same program you did with Mr. Humphrey?

The CHAIRMAN. Yes. As far as possible, the committee will meet every day to hear the witnesses. We have Mr. Martin following Mr. Burgess. There may be some days we cannot meet. It may be necessary to have an executive session for other matters.

Senator MALONE. We will start around the table, and each Senator will finish his investigation?

The CHAIRMAN. There is no change in the interrogation procedure.

Senator MALONE. The chances are you will not get to me today, and I am going to ask permission to attend the other meeting, of the Senate Committee on Interior and Insular Affairs, if I may be excused.

The CHAIRMAN. Do you mean you will be unable to attend the meeting?

Senator MALONE. I will not be able to attend both of them.

The CHAIRMAN. We will miss you a great deal, Senator, and I hope you will return as early as possible.

You may proceed, Mr. Burgess.

Mr. BURGESS. Mr. Chairman and gentlemen, I am very glad to appear before your committee today to discuss the problems of the management of our public debt in more detail than was included in Secretary Humphrey's presentation, and this, I realize, is a very technical subject. We will try to make it as clear as we can with the use of charts and slides. But we appreciate greatly the chance to tell the committee our story.

Let me review first some of the more important changes in the debt in recent years, with particular emphasis on the period of 4½ years since we have been at the Treasury.

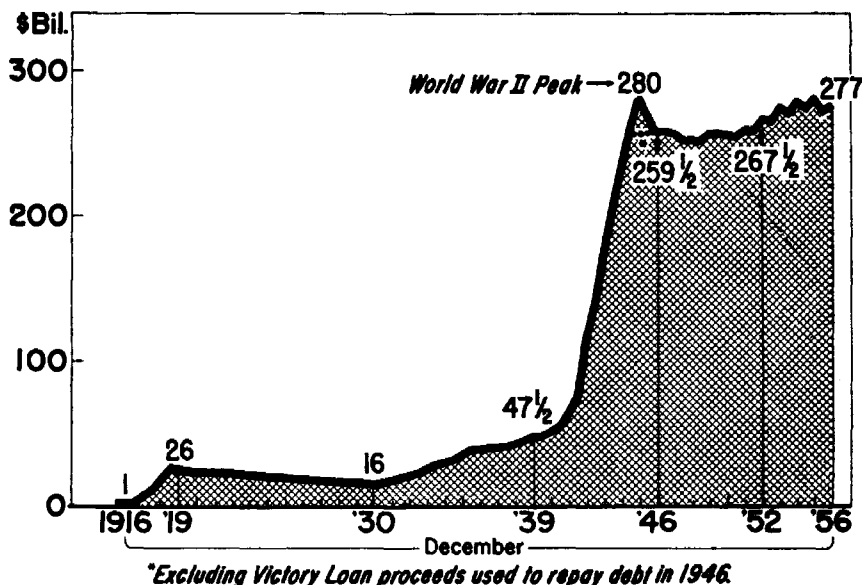
1. Trends in the size of the debt: The history of our national debt is, of course, a direct reflection of wars and depressions and changing financial policies over the years. In the first of several charts which illustrate some of our problems is a comparison of the debt over the past 40 years, and we have large copies of these charts so that you can see them. The audience has copies of the text before them, so they are not completely shut off from seeing these.

The public debt just before World War I was only \$1 billion, but by the end of that war the Treasury was faced with the management of a then unprecedented debt of \$26 billion. There was \$10 billion of debt reduction out of budget surpluses during the prosperity of the twenties, but then came the depression and the debt trebled—from \$16 billion to \$47½ billion. That was just before World War II.

During World War II, the debt rose to new heights and reached a peak of \$280 billion in February 1946. Part of that debt, however, represented a large amount of borrowing during the Victory loan in December 1945, which, as it turned out, was not needed because of a more rapid reduction in war spending than had been anticipated. Therefore, about \$20 billion of that excess cash was used to pay down debt in the remainder of that year—the year 1946. The figure of \$259½ billion in December 1946 is a more representative figure of the public debt at the end of the war, so we have shown that on the chart.

(Chart No. 1 follows:)

CHART 1  
THE PUBLIC DEBT



Office of the Secretary of the Treasury

B-1204-12

Mr. BURGESS. Post-World War II debt reduction out of budget surpluses in 1947 and 1948 was about \$8 billion. Then with Korea, and an expanded defense program, there was further deficit financing and the debt grew to \$267½ billion in December 1952.

Inherited deficits, which could only gradually be eliminated, brought the debt to an all-time seasonal peak of \$281 billion, in round figures, by the end of 1955. This past December the debt was back down to \$277 billion, reflecting budget surpluses and a better balanced seasonal pattern of corporation tax payments.

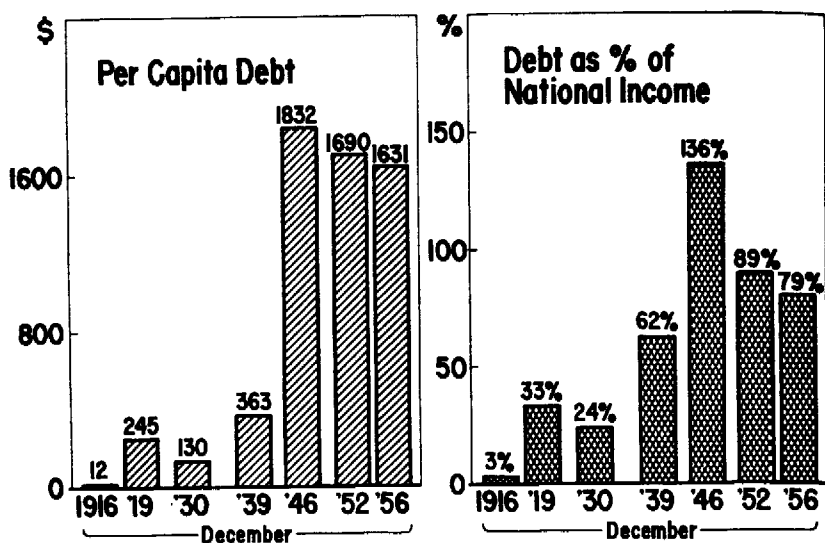
Our debt of \$270½ billion on June 30, 1957, the seasonal low point, was \$2 billion below a year ago. Of course, to get the figure you have to deduct the surplus, and you have to make allowance for a little change in the cash balance.

While this debt reduction is not large, the important point is that, despite huge defense expenditures, the upward sweep of the debt has been checked and reversed—not by much, but by a little.

2. The burden of the Federal debt relative to our strength: As our economy grows steadily and confidently, so does our ability to carry a given amount of public debt without too great a strain on the economy. Thus the sound economic growth of our Nation in recent years has made the Federal debt somewhat less burdensome. That is shown on the chart No. 2.

(Chart No. 2 follows:)

CHART 2

**RELATIVE SIZE OF THE PUBLIC DEBT**

BUREAU OF THE CURRENCY, U.S. DEPARTMENT OF THE TREASURY

B-1207-2

Mr. BURGESS. The left-hand side of chart 2 shows the relative size of the Federal debt on a per capita basis. By December 1946, it had risen to a high point of \$1,832 for every man, woman, and child in America.

By December 1956, it had shrunk by about \$200 per capita, by reason of the growth of the population. By June 30, 1957, the per capita debt was down further—to \$1,581.

When the Federal debt is related to national income—on the right-hand side of chart 2—the reduction in burden is much greater. Ten years ago the \$259½ billion public debt was one-third larger than our national income of about \$190 billion.

National income has now grown to more than \$350 billion, so that our \$277 billion national debt in December 1956 was equal to only 79 percent of national income. As of June 30, 1957, the ratio had fallen further—to 75 percent.

Unfortunately, however, a part of this reduced ratio of debt to income—particularly prior to the Federal Reserve-Treasury accord in 1951—was a reflection of the inflation of the earlier postwar years which brought about a significant decline in the purchasing power of the dollar.

In spite of inflation, however, a large share of the reduction represents the growing productivity of our Nation in real terms—the increased ability to produce more houses, industrial plants, highways, schools, cars, TV sets, and so forth. With greater price stability during the past 4 years, up to a few months ago, increased productivity has accounted for almost all of the reductions since 1952.

In this way we are gradually growing up to the debt, so that even though the dollar amount of debt is not declining as much as we might wish, the debt still becomes somewhat less burdensome.

I hasten to add, Mr. Chairman, that I am not arguing for doing nothing. I think we ought to be actually reducing the debt; but even though we do not, the situation, from the economics of the country, is becoming a little better in spite of us.

Another way of looking at the public debt is in terms of its interest burden.

The left-hand side of chart 3 shows the computed interest charge on the debt, which has been rising during the past decade, partly because of the increased size of the debt and partly because of the increased interest rates associated with the strong demand for money in our record prosperity.

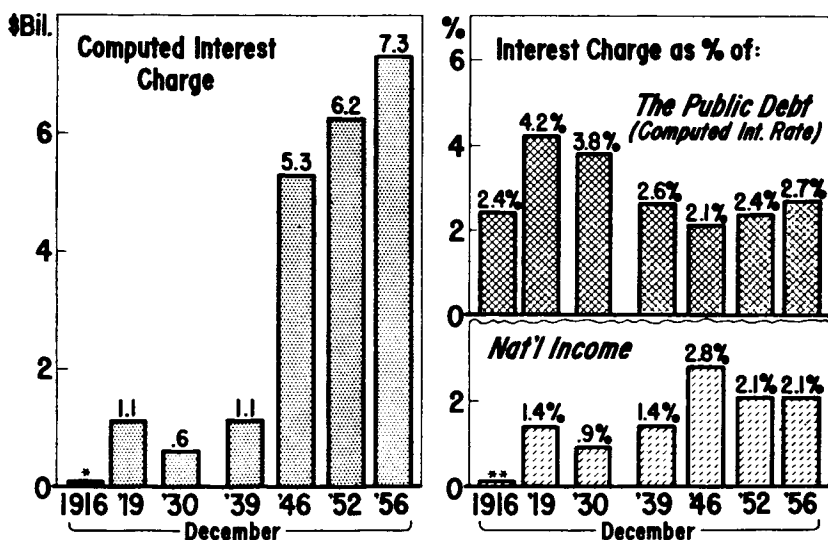
By December 1956, the interest charge on the debt had risen to \$7.3 billion a year, an increase of \$1.1 billion in 4 years as against an increase of \$0.9 billion in the preceding 6 years.

That is, this is not something, this increase in the interest rate, that just started. It has been going on ever since the war.

(Chart No. 3 follows:)

CHART 3

### INTEREST BURDEN OF THE PUBLIC DEBT<sup>†</sup>



<sup>†</sup>Excluding guaranteed securities. \*Less than \$50 million. \*\*Less than .05%.

Office of the Secretary of the Treasury

8-1219-6

Senator KERR. I did not understand that last statement. Would you repeat it?

Mr. BURGESS. We are looking at the left-hand side of this chart.

Senator KERR. No.

Mr. BURGESS. What I said outside my statement?

Senator KERR. Yes.

Mr. BURGESS. This increase in interest rates is not something that just started. It has been going on for a decade, since the end of the war.

Senator MARTIN. You mean World War II?

Mr. BURGESS. Yes. Since 1946.

Senator ANDERSON. Do you have any figures showing that?

Mr. BURGESS. Yes. I will be glad to provide that. We will show that in some of these later charts, Senator.

Senator ANDERSON. Yes.

Mr. BURGESS. It should be remembered that these total interest costs are not a proper measure of the net cost of interest to the people of the country or the net drain on the Federal budget.

The money used to pay the interest is collected from many people in taxes, and the money is paid out again partly to the same people and partly to others. I think it is fair to say that about as many people benefit directly or indirectly from these interest payments as are hurt by them.

As to the budget, the Federal Treasury gets back promptly in taxes a substantial slice of the interest it pays out. Also, much of the interest goes to Government trust accounts—or to the Federal Reserve System, which returns 90 percent of its net earnings to the Government.

The upper right-hand side of chart 3 shows that the computed interest rate on the public debt has risen to about three-tenths of 1 percent in the 4 years from 1952, ending December 1956—that is a partial answer—

Senator ANDERSON. I cannot follow that 0.6 compared to 7.3. Did something jump from 0.6 to 7.3?

Mr. BURGESS. Well, the interest charge was at 2.1 percent in the upper right-hand part of that chart.

Senator ANDERSON. I am talking about the peak figures over there. That is what had me confused. I do not understand the 0.6 in 1930 to the 7.3 in 1956. I do not know where they come from.

Mr. BURGESS. That is the dollars—the billions of dollars of interest paid on the debt. In 1930, it was \$600 million.

Senator KERR. Yes.

Senator ANDERSON. Yes. Thank you.

Mr. BURGESS. This last, the reference to the upper part of the chart which showed that in 1946, after the war, the average interest rate, the overall interest rate, on the debt was 2.1 percent, then it rose at the end of 1952 to 2.4, and it is now 2.7, or was at the end of December. It is, in round figures, not much higher than that now, in spite of the rise in rates.

The upper right-hand side of chart 3 shows that the computed interest rate on the public debt has risen by about three-tenths of 1 percent in the 4 years ending December 1956, after increasing about three-tenths of 1 percent from 1946 through 1952. The rate as of June 1957 was 2.7 percent; and even after the current refunding operation is completed, the rate will be 2.8 percent.

Looking back, we note that the current average interest charge on the debt is not much higher than it was in 1916, just prior to our entry into World I; it is well below the average rates in the twenties; and it is very close to what it was in 1939 at the outbreak of World

War II, despite the fact that the earlier rates were partially tax-exempt.

It makes quite a bit of difference now. It did not make so much difference then, because the tax rate was low.

Of course, during World War II, interest rates were held at artificially low levels, and that carried over into the postwar era. The current rates are high only in comparison with the abnormally low rates during periods of depression, war, and ratepegging. In terms of history, these are not very high interest rates.

Relating these interest rates to national income we find that now, as in 1952, they represent only 2.1 percent of national income as against a high point of 2.8 percent of national income in 1946. That is, national income has increased so that, even though the dollars have increased, is smaller in percentage of income.

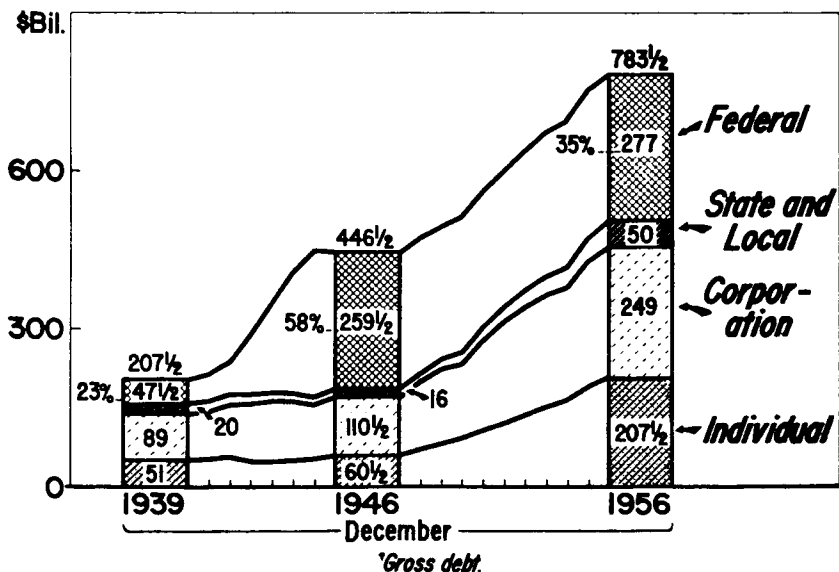
We should, of course, continue vigorously our policy of seeking to reduce the debt. That is the American way. We have done it before; we are doing it right now. Debt reduction helps to combat inflation; it releases funds for other uses; it strengthens our national readiness for any contingency.

3. The Federal debt and other debt: Another way to look at the Federal debt is in its relation to other kinds of debt in the United States. Chart 4 shows the total public and private debt on a gross basis over a span of years.

(Chart No. 4 follows:)

CHART 4

### PUBLIC AND PRIVATE DEBT



Office of the Secretary of the Treasury

8-1172-4-9

Mr. BURGESS. The chart starts in 1939, just before the war, when the total public and private debt of the Nation was \$207½ billion. In financing the war overall debt was increased tremendously, with almost all of the change in the Federal sector as the Federal debt rose from \$47½ billion to \$259½ billion.

During the war, when civilian activities were kept under wraps, private debt increased very little. Financial as well as physical resources were diverted to the war effort. State and local government debt actually decreased because maturities were paid off and new projects were limited. The corporation and individual debt increased only slightly during those 7 years.

The change during the past decade is shown by the bars in the middle and on the right side of chart 4. The Federal debt has increased \$17½ billion since 1946. In terms of percentage of the total debt structure, however, it has declined from 58 percent of the total to 35 percent, but it still exceeds the prewar percentage of 23 percent by a substantial margin.

The total debt at the end of 1956 was \$783½ billion, which is up about 75 percent over the past decade. During that same period our national income has nearly doubled, again partly by inflation and partly by real growth. Thus, our total debt today, of all sorts, is a smaller percentage of our national income than it was 10 years ago.

State and local government debt increased as the States and localities went ahead with new highways, schools, hospitals, public buildings, and utility services on an unprecedented scale—programs which had been held back during the war. The total State and local debt is now about \$50 billion.

That has been increasing at the rate of \$5 billion a year for the past 3 years, which is a rate never before equaled, and I think before you gentlemen get through your inquiry, it would be very interesting to analyze that debt a little bit.

The corporate debt also has increased by leaps and bounds as corporations have undertaken postwar expansion and modernization programs. These figures include bank loans and accounts payable as well as new corporate bonds and notes.

The pressure on the security markets of these huge demands for money is the major source of present problems in Treasury financing.

The individual debt more than tripled during the last 10 years, from \$60½ billion to \$207½ billion, mostly in the form of increased home mortgages and consumer debt.

As Secretary Humphrey has already mentioned to you, the total of all debt has increased \$146½ billion during the past 4 years, with all but \$10½ billion of the increase accounted for by nonbank sources rather than by increases in the money supply.

It thus rests very largely on a sound base of savings rather than on any excessive bank credit expansion, but it has been heavier than the present flow of savings could take care of without straining the capital markets. Many buyers of bonds and mortgages have been getting part of their funds by selling Government securities.

Of the record of the past 2 years, it might well be said that almost everybody except the Federal Government has been increasing his debt. Nevertheless, the Federal debt is still the largest single sector of debt, and has a great impact on the country.

The effect of the huge public debt on the country's economic growth and stability depends a great deal on how the debt is distributed among the citizens and financial institutions and the types and maturities of the securities which make it up. So I ask your indulgence in presenting the facts on these points.

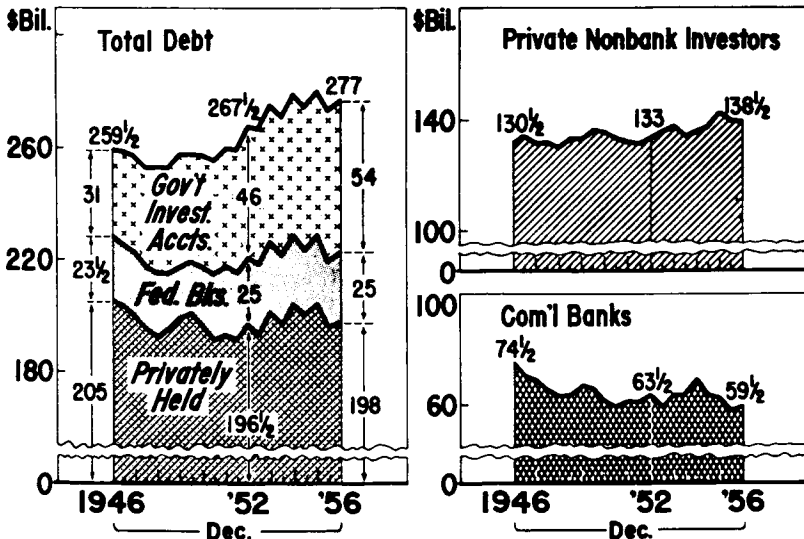
4. Who holds the debt? Chart 5, which Mr. Mayo will show in large form, presents the picture on the ownership of the public debt from 1946 to date.

During the 4 years, looking at the left-hand side of the chart, during the 4 years ending in December 1956, the debt has risen—as shown earlier—by \$9½ billion, 3 deficits and 2 surpluses.

(Chart No. 5 follows:)

CHART 5

## PUBLIC DEBT OWNERSHIP TRENDS



Office of the Secretary of the Treasury

B-1300-2

Mr. BURGESS. About \$8 billion of that is accounted for by an increase in the ownership of Government securities by Government investment accounts, shown by the top part of the chart—largely representing savings by or for individuals in the form of social security, veterans' life insurance, retirement reserves, and so forth.

Senator KERR. I do not understand, Mr. Burgess. I do not want to question you; I am just trying to follow you.

Mr. BURGESS. That is right.

Senator KERR. How can you tell by this what the Government investment accounts owned December 31, 1952?

Mr. BURGESS. \$46 billion. You see, it is shown right on the chart in the left-hand—

Senator KERR. Oh, yes.

Mr. BURGESS. \$46 billion, and that has grown to \$54 billion.

Senator KERR. I see.

Mr. BURGESS. So that practically all of our increase in the total Government debt has been absorbed in that way.

With Federal Reserve bank holdings of Governments—which is the next strip down in the chart—showing no net change during these 4 years—it went up from \$23½ billion to \$25 billion in 1952, and it is

still \$25 billion, they have not changed their holdings—this left only about \$1½ billion to be absorbed privately.

As shown on the right-hand side of the chart, at the end of December 1956, commercial banks held \$59½ billion of the debt. That was \$4 billion less than in December 1952. There had been no expansion of bank credit due to an increase of holdings of Government securities.

It should also be noted that the banks had only 36 percent of their earning assets in Government securities at the end of 1956 as against 45 percent in 1952 and 65 percent 10 years ago, when we had completed the war financing.

Bank holdings were further reduced through June 1957. These reductions reflect bank sales of Governments to get funds to meet the loan demands of their customers. Financing the Treasury during this period without adding to bank holdings of United States securities has kept down one inflationary potential.

We had not had a credit expansion due to deficit financing.

The upper right-hand part of chart 5, which is the private, non-bank investors, shows an increase of \$5½ billion in the holdings of Government securities by what we call private nonbank investors. All of this increase may be credited to those individuals who have added more than \$6 billion to their holdings of series E and H savings bonds during the past 4 years.

The Treasury has put great emphasis on the widespread sale of these small-saver bonds.

Pension funds—State and local as well as corporate—have also been net buyers of Government securities, and so have short-term investors, such as foreign accounts and State and local general funds.

These increases have been enough to more than offset net sale by insurance companies and savings banks as they also have responded to the tremendous demands on them for money for mortgages and capital expenditures.

5. Maturity structure of the debt: Parallel to the question of who holds the debt is that of the distribution of the debt among maturities.

The cheapest and easiest way to borrow is usually at short term, relying first on temporarily idle funds of corporations, trust funds, foreign funds, and—when necessary—on the banks, which in their turn might borrow from the Federal Reserve System.

There is indeed a large legitimate short-term market for the Treasury to tap, particularly today when lenders of money are trying to keep liquid. The present weekly rollover of \$1.6 billion to \$1.8 billion of 91-day Treasury bills meets an important market need, is not inflationary, and does not strain the market.

I say “not inflationary” because it does not increase the total amount of bank credit.

But there are a number of reasons why short-term debt becomes undesirable beyond some reasonable amount.

First, a large body of short-term debt increases the frequency as well as the volume of Treasury financing. It may constitute an irritant at times to the smooth operation of the market for short-term funds and for corporate and municipal securities.

Also, to the extent that the anticipation, the announcement, the offering, and the digestion of new Treasury issues spreads over a large part of a year, the time available for the Federal Reserve to

take appropriate credit and monetary policy actions may be restricted.

A large volume of short-term debt adds to the liquidity of banks and businesses and others who hold short-term Government securities as practically a cash reserve. This strengthens the position of the holders, but by the same token makes them less responsive to changes in monetary policy. They can get cash readily by selling their short-term Government securities.

Also, if at any time in the future the Treasury is faced with a financing emergency, it will probably have to fall back on short-term borrowing.

It is important, therefore, that this source of funds not be depleted unnecessarily ahead of time. In that way any minor emergency which arises may be handled by selling short-term securities to the private market rather than having to use the Treasury's authority to borrow directly from the Federal Reserve System.

That is a question somebody has asked about, and I will pick it up later.

Of course, when short-term borrowing means increasing bank credit; namely, the volume of money, that is directly inflationary. It is for these reasons that any country in time of war makes a vigorous effort to sell as much of its securities as possible outside the banks as well as for a longer term.

To the extent war is financed out of taxes and savings, the worst pressure for inflation is checked.

5 a. War and postwar program through 1952: In the Treasury war-loan drives, which all of us had some part in, I am sure, of World War II, the typical package of securities included savings bonds and notes, a long-term  $2\frac{1}{2}$  percent bond, not eligible for purchase by commercial banks, a 10-year 2-percent bond, or similar bond, and also a short-term certificate and perhaps a medium-term note.

During the war, a large volume of bonds could be sold because investors had a limited number of other uses for accumulating savings. Few new mortgages were being written, and neither business nor local government units were heavy borrowers, as we saw in the chart on public and private debt.

The postwar period brought different problems. All types of borrowers began clamoring for money. Government bonds were relatively unattractive at their low pegged interest rates, and it was clear to most lenders that rates could not be held at these levels, even though the Treasury tried.

In any event, little progress was made from 1946 to 1952 in funding the debt, though there were several issues of notes and two short bonds prior to 1953.

The refunding in 1951 and 1952 of a large block of  $2\frac{1}{2}$ -percent bonds into  $2\frac{3}{4}$ -percent nonmarketable series B investment bonds with an optional exchange into 5-year notes had actually the effect of shortening the average length of the marketable debt. It was, however, the price of getting through the accord between the Treasury and the Federal Reserve, and that was worth a very substantial price.

Excluding these issues, the average maturity of the marketable debt declined by about 40 percent in the 6 years ending in 1952, largely through the passage of time.

One is reminded of the quotation from Alice in Wonderland where the Red Queen said, "You have to run very fast to stand still," and

that is true of the debt. Because every month that elapses, the maturity gets shorter if you do not do anything about it.

5 b. Program of the past 4½ years. When the new administration came in, we set a goal of selling longer-term securities and giving the debt a wider distribution whenever the market made it possible.

We redoubled our efforts to sell series E and H savings bonds widely to the people.

We began to shut down on the sale of other debt payable on demand at the option of the holders.

We began promptly the sale of long-term bonds to the market in the spring of 1953 at the interest rates necessary to sell them. I will review that 1953 issue in more detail a little later on.

In 1954 and 1955, we made substantial progress toward our objective by selling a large volume of intermediate-term securities, together with \$2¾ billion of 3 percent 40-year bonds, the longest bonds that had ever been sold since the Panama Canal issue.

In 1956 and 1957, in the midst of the current tremendous capital boon, we have sold no new bonds and only a limited amount of intermediate-term notes.

There are a number of ways of measuring the changes in the debt structure over the years. Some of them refer only to the marketable debt, such as figures on the average length of the debt. Others—more comprehensive—take into account not only the maturity distribution of the marketable debt, but also the demand character of other portions of the debt.

All of these “yardsticks” show that we have moved forward in improving the structure of the debt during the past 4½ years, especially in comparison with the record of the earlier postwar period.

6. Average maturity of the marketable debt: One measure of the structure of the debt is the average length of time that the marketable debt has to run to maturity. The amount outstanding of each security making up the marketable debt is multiplied by the number of months it still has to run.

These amounts are then added up and divided by the amount of marketable debt outstanding to give a figure on average length of maturity.

Although the average length of the marketable debt does not reflect changes in other types of debt like savings notes and savings bonds, it is still useful as a yardstick since it encompasses nearly 60 percent of the total debt outstanding, including the most volatile areas of the debt.

The average length of the marketable debt to maturity—calculated to first call date on callable bonds—amounted to 7 years and 2 months in December 1939.

By December 1946, that average had fallen to 6 years and 3 months, that is even after selling a very large amount of bonds during the war, but of course the increase in the debt was so large that we could not quite keep up with it. That figure is after excluding, to make the comparison fair, those 2½ percent long-term bonds sold in 1944 and 1945 which were exchanged for nonmarketable investment bonds in 1951 and 1952.

By December 1952, the average had fallen further, to 3 years and 10 months, compared to 6 years and 3 months in 1946.

Although the average rose above 4 years for a while during 1954 and 1955 when Treasury debt extension was most active, at the end of 1956 it was back down to 3 years and 9 months—1 month shorter than 4 years earlier.

By June 1957, the average had fallen by 2 more months.

This record indicates a loss in average length of 3 months during a period of the past 4½ years, as against a loss of 29 months during the 6 preceding postwar years. The loss since December 1952 is even less when only publicly held securities are considered, since Federal Reserve-held securities, many of longer maturity originally, are being refunded into short-term issues under the present policy.

The average length, exclusive of Federal Reserve, was 4 years and 1 month in June 1957, as compared with 4 years and 2 months in December 1952. In other words, by running very hard, we have managed to stand still on that.

Furthermore, this measure of average maturity takes no account of nonmarketable demand debt, which has proved an awkward inheritance.

7. The "floating debt": A more accurate measure of changes in the structure of the public debt from the point of view of the job of the debt manager is a comparison between the "floating debt" on the one hand and intermediate and longer term issues on the other, basing the figures on publicly held debt.

This means excluding securities held by the Federal Reserve banks and Government investment accounts, but including in the floating debt the most volatile part of the nonmarketable debt payable on demand.

The following table shows the composition of the debt from this point of view.

That is the one you want to study. It shows in detail just what these sections of the debt are. What we call the floating debt is the section section, held by the public.

(The table referred to is as follows:)

*Structure of the public debt*

[In billions of dollars]

	December 31			June 30, 1967
	1962	1963	1966	
Held by Federal Reserve banks and Government investment accounts.....	70.6	74.2	79.0	78.6
Held by the public:				
Floating debt:				
Under 1-year marketables.....	42.9	58.8	45.6	50.6
Savings notes.....	5.8	6.0		
F, G, J, and K savings bonds.....	22.6	21.0	14.9	13.1
Miscellaneous demand debt <sup>1</sup> .....	3.4	3.5	3.5	3.0
Total floating debt.....	74.6	89.3	63.9	66.7
Intermediate and longer term issues:				
E and H savings bonds.....	35.3	36.7	41.4	41.5
Investment Series B bonds.....	9.1	8.6	7.5	7.2
Marketable maturing in:				
1-5 years.....	33.3	24.9	42.3	38.8
5-10 years.....	19.8	15.5	14.2	11.3
Over 10 years.....	24.8	26.1	28.4	26.5
Total, held by the public.....	122.3	111.7	133.8	125.3
Total debt.....	267.4	275.2	276.7	270.6
Percent floating debt to total.....	27.9	32.4	23.1	24.7

<sup>1</sup> Includes investment series A bonds, depository bonds, matured debt on which interest has ceased, and debt bearing no interest.

Mr. BURGESS. The floating debt, there are the under-1-year marketables, which have gone from—

Senator KERR. If you will just slow down a little, I will try to catch up with you.

Mr. BURGESS. I am sorry.

Senator KERR. I am in the same shape you say you are. I have to run awfully fast to kind of stay even.

Would you just sort of go over that chart gradually, Mr. Secretary?

Mr. BURGESS. Well, the top line is the amount held by Federal Reserve banks and Government investment accounts. We do not have to do anything about that, because it stays put, and it is rolled over—

The CHAIRMAN. Do you have a breakdown of that? Do you know how much is held by the Federal Reserve banks?

Mr. BURGESS. The Federal Reserve is \$25 billion.

Senator KERR. \$25 billion, you said a while ago.

Mr. BURGESS. It carries on right through.

The CHAIRMAN. Have you a breakdown of the Government investment accounts?

Mr. BURGESS. The investment accounts are \$54 billion, approximately.

The CHAIRMAN. You have so much in the accounts, is that it?

Mr. BURGESS. We can give you the breakdown.

The CHAIRMAN. Is that in here?

Mr. BURGESS. No, it is not, but we will give it to you.

The CHAIRMAN. I wish you would furnish that.

Mr. BURGESS. I think we put that in the record before when we were before the committee. We will have a chart on this before we

are through. (See chart 7 in the hearings for Tuesday, July 30, p. 704.)

So the amount held by Federal Reserve and Government investment accounts has increased from \$70.6 billion to \$78.6 billion, and that is largely, if not altogether, an increase in the Government investment accounts.

The amount held by the public. Floating debt: The under-1-year maturities at the end of 1952 were \$42.9 billion. That rose in 1953, because we inherited a lot of debt maturing that year, and 1954, so we had a jump to \$58.8 billion.

That was worked down to \$45.6 billion in 1956, and is now \$50.6 billion, which is higher than it was at the end of 1952, but it is lower than it was in 1953 when you take into account the maturities that slapped us in the face in 1953 and 1954.

Savings notes, those are the 3-year notes which the Treasury used to sell to corporations and others so they could use them for taxpayments, but they were redeemable on demand. That is, a corporation could bring them around any time and get their money, or use them to pay taxes, and we terminated that because we found it to be an undesirable form of debt. But it was something we had to take care of.

The next is F, G, J, and K savings bonds. Those were the larger savings bonds, in lots as large as \$100,000, which were sold, some to the banks, some to the trusts, some to individuals. But that again proved to be a very awkward kind of savings bond because it was held by large holders who could shift their money around, and they began turning the stuff in, so that has gone from \$22.6 billion down to \$13.1 billion. We were hit with \$3 billion of that in the past year, and we had to dig up the cash to take care of it, so that was part of the floating debt. We paid that down by \$9 billion in 4 years, or a little more.

Miscellaneous demand debt: That is not as important. That is series A investment bonds, and depository bonds in banks, and a few other things like that. It does not vary much, so it is not——

Senator KERR. Which item are you talking about?

Mr. BURGESS. I am talking about the miscellaneous demand debt. It is defined in the footnote.

Senator KERR. Yes.

Mr. BURGESS. But the aggregate of the total floating debt at the end of 1952 was \$74.6 billion.

Senator KERR. That is of the floating debt held by the public?

Mr. BURGESS. That is right; yes. That rose in 1953——

Senator KERR. In order just to get the information before me so I may understand it, does this breakdown indicate——

Mr. BURGESS. Yes.

Senator Kerr (continuing). The maturity date of the bonds held by the Federal Reserve and Government investment accounts?

Mr. BURGESS. No. That would be up at the top. We would be glad to give you that.

The Government investment accounts, of course, are made up partly of marketable bonds and partly of notes, I O U's, in effect, that we issue to these different agencies. There are all kinds of different terms on them under the law. One law would specify that you pay 3 percent, 4 percent——

Senator KERR. I mean, does your report or statement anywhere show what part of them are due in not more than a year?

Mr. BURGESS. No. They are all lumped in that top figure, on the principle that they do not constitute a serious current problem.

Now, in a great emergency, they might. The unemployment trust fund, for example, in an emergency, you might have to pay out a billion or \$2 billion in a short time.

But normally, it does not constitute a problem for the debt manager to—

Senator KERR. Would you put in the record the maturity date of those bonds?

Mr. BURGESS. I would be glad to do it. We will be glad to put them in.

(See table, p. 675.)

Mr. BURGESS. So you see, in that total of the floating debt, we had practically \$75 billion. It ran up on us to \$89 billion by the end of 1953. There was nothing we could do about it. We tried to push some of it out, but those were the maturities that existed. That was reduced by the end of 1956 to \$63.9 billion, and it is up a little bit for June 30, to \$66.7 billion.

But if you will compare that with the high point, the floating debt as defined in this way, it is down more than \$20 billion from what it was in 1953; and from that point of view, the job of the debt manager is a lot easier than it was when we took over.

Here is the rest of the debt:

Intermediate and longer term issues. We put the E and H savings bonds in that. That, in a sense, is demand debt, but experience has shown it is a relatively stable figure; even with the redemptions that you had in the past 12 months, the amount of E and H bonds outstanding has continued to increase a little. While the sales are less than the redemptions, the accumulated interest is enough to take care of that, so that this year that actually has been increasing.

So from the point of view of the debt manager, that is a part of the debt that does not bother us. It is a good, solid part of the debt. That is held by millions of our people, and it is only in that way that you can get that very wide distribution.

Now, the investment series B bonds, I have referred to. Those were the 2¾ percent bonds that are convertible into 5-year notes, so that they can become short-term debt or relatively short-term debt, and about a third of the \$15 billion that were issued have been converted that way.

Then the marketables: Maturing in 1 to 5 years are up from 1952, but they are down from 1956.

The 5 to 10 years are down.

The over 10 years are up a little.

Senator KERR. The 5 to 10 years are down since 1952?

Mr. BURGESS. That is right.

Senator KERR. The 1 to 5 years are down?

Mr. BURGESS. Are up.

Senator KERR. Yes.

Mr. BURGESS. The over 10 years is up a little. That is the long-term bond area.

Now take the bottom figure, the percentage of the floating debt to the total was 27.9. It rose to 32.4 percent. It is down to 24.7 percent. So it is a little better than it was. So we have made progress in our

efforts to reduce the amount of floating debt, which the Treasury may be called upon to handle each year.

The floating debt as defined above has two basic ingredients: (1) Publicly held marketable securities maturing within 1 year—including callable bonds when they actually are taken care of; and (2) non-marketable demand debt which is payable practically on demand and is in the hands of rather large holders who move freely from one investment to another in response to changing market conditions.

Senator KERR. Where do they appear on the preceding page?

Mr. BURGESS. Nonmarketable—

Senator KERR. Demand?

Mr. BURGESS. Well, there are the savings notes and the F, G, J, and K savings bonds, those two items.

Senator KERR. They are callable on demand?

Mr. BURGESS. Well, the holder can present them; yes. We cannot call them, but he can.

Senator KERR. I mean they are redeemable at the option of the holder.

Mr. BURGESS. Yes; that is right.

We do not include series E and H savings bonds, the small saver's bonds, as part of the floating debt since they are not as sensitive to fluctuations in market interest rates and the total outstanding is quite stable in contrast to the widely fluctuating volume of other savings bonds and savings notes.

Chart 6 presents data on the "floating debt" over the last decade. This type of debt was reduced by more than \$10 billion between December 1952 and December 1956, and the figure at the end of last year was more than \$25 billion below the all-time peak in 1953—

The CHAIRMAN. Mr. Burgess, would you prepare for the committee a statement of the bonds that were owned by the Federal Reserve banks in the past 10 years, each year for the past 10 years?

Mr. BURGESS. I will be very glad to; and the types. Very glad to.

Senator KERR. And the types?

Mr. BURGESS. Yes. I will be very glad to.

(The information referred to is as follows:)

*Federal Reserve bank ownership of U. S. Government securities*

[In millions of dollars]

End of year or month	Bills	Certificates	Notes	Bonds	Total holdings	Maturity distribution <sup>1</sup>			
						Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
1946.....	14,745	7,496	355	753	23,350	22,313	832	72	133
1947.....	11,433	6,797	1,477	2,853	22,559	19,923	1,377	426	834
1948.....	5,487	6,078	791	10,977	23,333	12,426	3,258	434	7,216
1949.....	4,829	6,275	562	7,218	18,885	11,983	1,922	1,368	3,503
1950.....	1,296	2,334	12,527	4,620	20,778	16,003	1,285	962	2,508
1951.....	596	12,793	5,068	5,344	23,801	15,057	5,102	1,014	2,629
1952.....	1,341	5,061	13,774	4,522	24,697	15,613	6,655	1,070	1,358
1953.....	2,993	5,967	13,289	3,667	25,916	16,972	6,155	1,374	1,415
1954.....	2,204	13,882	6,044	2,802	24,932	19,417	3,067	1,014	1,415
1955.....	1,722	6,002	14,250	2,802	24,785	20,742	1,614	1,014	1,415
1956 (June).....	855	10,944	9,157	2,802	23,758	20,242	1,067	1,014	1,415
1956 (December).....	1,918	10,975	9,219	2,802	24,915	22,113	373	1,014	1,415
1957 (June).....	287	11,367	8,579	2,802	23,035	20,246	681	750	1,358

<sup>1</sup> Prior to December 1953, callable bonds classified according to nearest call date.

<sup>2</sup> Includes \$1,214,000,000 nonmarketable issues.

Source: Office of the Secretary of the Treasury.

Mr. BURGESS. This type of debt, the floating debt, was reduced by more than \$10 billion between December 1952 and December 1956, and the figure at the end of last year was more than \$25 billion below the all-time peak in 1953, which reflected largely the inheritance of scheduled maturities from earlier years and financing growing out of the 1953 deficit.

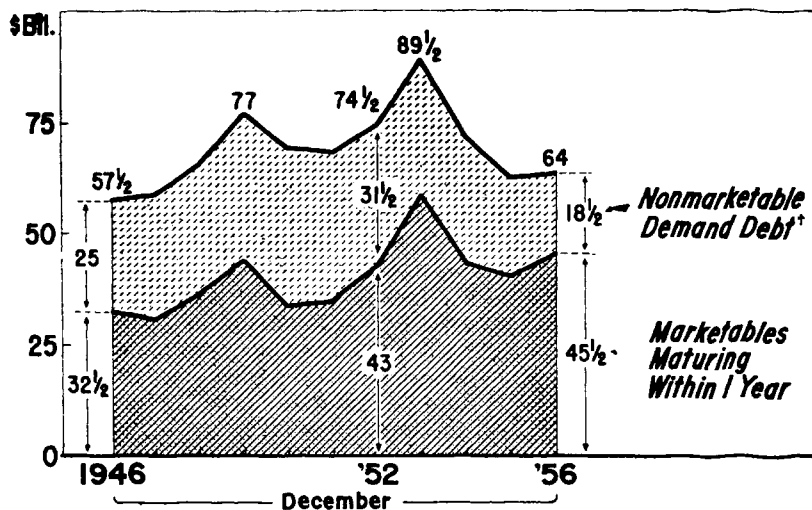
While the under-1-year marketable debt held outside Federal Reserve banks and Government investment accounts was \$21½ billion higher at the end of 1956 than in 1952, it was nevertheless \$13 billion below its all-time peak in 1953.

In contrast, this part of the floating debt rose by more than \$10 billion between 1946 and 1952, when primary reliance was placed on the issuance of short-term securities and the passage of time kept shortening the debt.

(Chart No. 6 follows:)

CHART 6

### THE FLOATING DEBT\*



\* Held outside of Federal Reserve Banks and Govt Invest. Accts.

† Excluding A to E and H Savings Bonds.

Mr. BURGESS. One of the most important ways in which the floating-debt picture has changed, as you will note from the chart, is through the reduction of nonmarketable demand debt in the hands of large investors. It has been reduced by \$13 billion since 1952.

The elimination of the sale of short-term savings notes in the fall of 1953, and the recent dropping of sales of the investment-type J and K savings bonds as of April 30, 1957, represent major steps in the reduction of the more volatile Treasury demand debt.

8. Opening up the long-term market and adding to the supply of intermediate-term securities: In the absence of extensive debt payoffs, the objective of reducing the floating debt can be accomplished only by selling more securities outside the 1-year area.

Chart 7 shows the history of Treasury financing over the past decade, year by year, in terms of the relative amounts of short term and longer term financing.

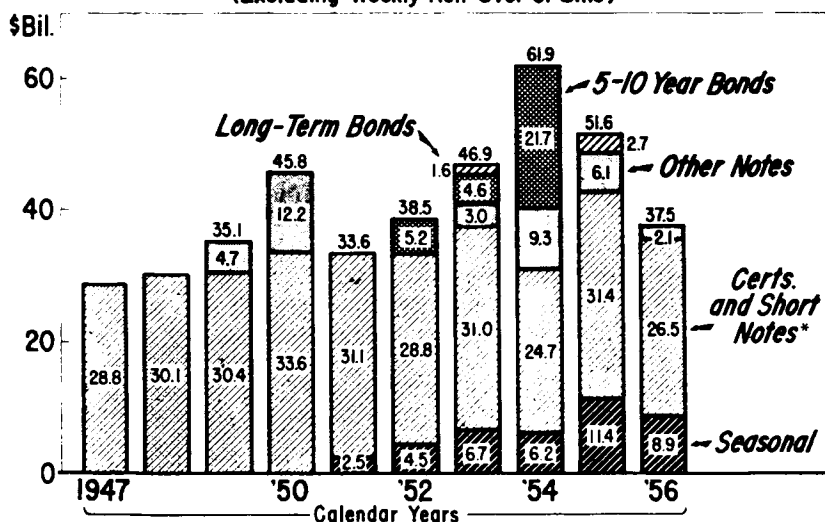
The chart also shows the seasonal borrowing which has grown during recent years—borrowing repaid out of increasingly heavy taxpayments each spring up until 1956, when the return to a more even quarterly distribution of corporate-tax payments began.

(Chart No. 7 follows:)

CHART 7

## VOLUME OF TREASURY MARKET FINANCING

(Excluding Weekly Roll-Over of Bills)



\*Notes originally 20 months or less to maturity.

Mr. BURGESS. As chart 7 shows, there was a modest amount of intermediate-term securities issued in 1949 and 1950—those are notes, \$4.7 billion in 1949 and \$12.2 billion in 1950—which helped to reduce the Treasury's financial burden in 1951.

Two short-term bonds were sold in 1952. The major efforts at debt extension, however, have been made during the past 4½ years.

Since 1952, the Treasury has sold \$4¼ billion of long-term bonds. The first of these, the 3¼s, totaling \$1.6 billion, in the spring of 1953, represented the Treasury's first long-term market issue since the end of World War II financing.

The CHAIRMAN. The \$4¼ billion includes the 1-year securities?

Mr. BURGESS. No; that \$4¼ billion is long-term bonds, more than 25 years' maturity.

The CHAIRMAN. Yes.

Mr. BURGESS. That includes the 3¼s and the 3s. The 3¼s are 25 to 30 years, and the 3s are 40 years.

Then in 1955, we sold \$2.7 billion of the 3-percent bonds of 1995, the longest Treasury bond issued since the Panama Canal bonds were issued in 1911.

This \$41½ billion of long bonds, together with the \$26½ billion of 5- to 10-year bonds issued in 1953 and 1954.

Senator KERR. What does that 5 to 10 years mean?

Mr. BURGESS. Bonds maturing 5 to 10 years.

Senator KERR. At whose option?

Mr. BURGESS. They are simply definite maturities. They would mature 6 years, 7 years, and so forth, from now.

Senator KERR. There may be in this group some 5, some 6, some 7, up to 10?

Mr. BURGESS. That is right, up to 8, 9, 10.

The \$23½ billion, by the way—

Senator KERR. I wonder if we could have a breakdown of that, Mr. Burgess.

Mr. BURGESS. It is given at the end. I put a table in which gives the whole business.

This \$23½ billion, I can correct that figure for the financing we just concluded, that becomes \$26 billion of 2- to 5-year notes issued since 1952, has thus made it possible for the Treasury to keep up with the ever-shortening public debt, and start reducing a little the annual volume of Treasury market financings.

Also, the long-term offerings gave greater breadth and depth to the free long-term Government securities market.

A complete list of marketable securities issued since January 1, 1946, which mature in more than 2 years, is shown in appendix A; and then in appendix B we have given a complete list of all the securities, except bills, we put out since we have been in.

Before every Treasury financing, we canvass the market for a long-term bond among dealers and potential buyers. In these 4½ years, I do not think we have failed to take advantage of any favorable opportunities to sell bonds successfully.

Our job in calendar 1957 is larger than in 1956, and perhaps a little above 1955. During the first half of the year we completed \$22 billion of financing. \$3 billion of that was extended beyond 3 years through the issuance of Treasury notes, so our record of debt extension in the first half of 1957 was already somewhat ahead of 1956.

On July 3, we sold \$3 billion of March 1958 tax bills for cash, that is, by inviting bids, as you know and as will be covered later, we are now completing the refunding of nearly \$24 billion of August and October maturities, more than \$14½ billion of which are held by Federal Reserve banks or Government investment accounts.

I have a little section later which reviews that whole operation, so you will have the whole picture.

We will have a December maturity, which arises from this last financing, to refund, and we will also have more seasonal tax anticipation financing before then. That is, we will sell some Treasury bills or certificates that will mature at time of taxpayments next year and can be paid off out of taxes.

This will bring our total job for 1957 to more than \$55 billion, exclusive of weekly Treasury bill offerings.

Senator KERR. And they total what?

Mr. BURGESS. They total about \$22 billion now. I will give you that exact figure. It is in that neighborhood, and I will give you, as you suggested, Senator Kerr, a complete rundown of the bills, now outstanding.

(The material referred to is as follows:)

*Treasury bills outstanding as of Aug. 1, 1957*

	Rate of interest (percent) <sup>1</sup>	Date of issue	Amount issued
<b>Treasury bills (maturity value)—series maturing:</b>			
Aug. 8, 1957.....	2.909	May 9, 1957	\$1,699,381,000
Aug. 15, 1957.....	2.895	May 16, 1957	1,700,033,000
Aug. 22, 1957.....	3.122	May 23, 1957	1,800,033,000
Aug. 29, 1957.....	3.245	May 31, 1957	1,800,524,000
Sept. 5, 1957.....	3.374	June 6, 1957	1,799,572,000
Sept. 12, 1957.....	3.256	June 13, 1957	1,799,907,000
Sept. 19, 1957.....	3.405	June 20, 1957	1,600,298,000
Sept. 26, 1957.....	3.231	June 27, 1957	1,601,643,000
Oct. 3, 1957.....	3.238	July 5, 1957	1,599,216,000
Oct. 10, 1957.....	3.171	July 11, 1957	1,599,742,000
Oct. 17, 1957.....	3.092	July 18, 1957	1,600,562,000
Oct. 24, 1957.....	3.158	July 25, 1957	1,600,512,000
Oct. 31, 1957.....	3.363	Aug. 1, 1957	1,699,862,000
<b>Total.....</b>			<b>21,901,285,000</b>

<sup>1</sup> Treasury bills are sold on a discount basis with competitive bids for each issue. The average sale price gives an approximate yield on a bank discount basis as indicated for each series.

Office of the Secretary of the Treasury, July 31, 1957.

Senator ANDERSON. Not weekly?

Mr. BURGESS. No; \$1.6 billion to \$1.8 billion per week, and it runs 90 days. So this thing, the total, is around \$22 billion.

If Federal Reserve bank holdings are omitted, the total job this year is only about \$35 billion—that is, the total job we have had to do in 1957.

These financings continue to be in competition with very heavy demands for funds in the capital markets. They require attractive rates and careful planning.

I think I will repeat what I said before, that they constitute a problem, but not a crisis, Mr. Chairman. We are not in a crisis in Government financing.

9. Encouraging thrift by selling more securities to individuals. I have already mentioned that individuals' holdings of Government securities have been growing and now stand near their all-time high.

The major factor in this growth has been the series E and H savings bonds program. The vigorous promotion of this program, aided by an improvement in terms in May 1952—I want to give credit for a very sound step taken in May 1952 to improve the savings bond program.

Senator KERR. Could that possibly have been May 1957?

Mr. BURGESS. No, sir. That is May 1952, before we came in, and the terms were improved again as soon as you gentlemen acted, in April 1957.

But vigorous promotion of this program, aided by an improvement in terms in May 1952, brought an increase of more than \$6 billion in E- and H-bond holdings during the 4 years ending December 1956.

The core of this thrift program has been the payroll savings plans, under which about 8 million workers are now buying savings bonds regularly. We estimate that approximately 40 million Americans now own \$41½ billion of these E- and H-bonds.

Some figures on E and H savings bonds may be interesting.

This table shows the growth of E and H savings bonds averages for calendar years, in billions of dollars.  
(The table referred to follows:)

*Growth of E and H savings bonds, averages for calendar years*

[In billions of dollars]

Annual averages	Cash sales and redemptions			Interest accruals	Net change in outstanding	Amount outstanding, end of period
	Sales	Redemptions	Net			
Wartime: 1941-45.....	8.5	2	6.5	0.1	6.6	30.7
Postwar:						
1946-49.....	4.2	4.1	.1	.6	.8	33.8
1950-52.....	3.5	4	-.5	1.1	.5	35.3
1953-56.....	4.9	4.5	.4	1.1	1.5	41.4

Mr. BURGESS. The left-hand column shows the period, and the right-hand figures are all in terms of the annual averages during those periods.

For example, from 1941 to 1945, which was wartime, the sales averaged \$8½ billion a year; the redemptions, \$2 billion a year, because these bonds had just been sold, and the patriotic drive was underway, so there is a net gain of \$6½ billion in that period.

The interest accruals were \$100 million.

The net change was \$6.6 billion; and at the end of the war there was \$30.7 billion of these outstanding.

From 1946 to 1949, the rate kept up pretty well; sales were \$4.2 billion; redemptions \$4.1 billion; net gain of \$100 million.

Interests accruals, 0.6—these bonds sold in the war were beginning to accrue interest more rapidly, so a net change of 0.8.

Amount outstanding, \$33.8 billion.

Then the years 1950 to 1952, 1950, 1951, and 1952, the sales dropped. That was partly the effect of the Korean conflict, and \$3.5 billion were the average annual sales, with redemptions of \$4 billion, and a loss of \$500 million a year from the sales effort.

But interest accruals were \$1.1 billion, so there actually was a gain each year of half a billion in outstandings.

Now, in the past 4 years, sales were higher, \$4.9 billion. As I said, that was due to changes in program and changes in promotion.

The redemptions were up. With more bonds outstanding, naturally you get more people redeeming them, and in the last year you had more redemptions because of the interest rate, but even so the sales were enough higher so there was a net gain per year instead of a net loss, of \$0.4 billion.

So actually, there was a net change in outstanding, an increase of \$1.5 billion a year. So the amount outstanding at the end of 1956 was \$41.4 billion.

Senator KERR. Do you have the figures down to June 30, 1957?

Mr. BURGESS. We have them, and we will be glad to put them in. They will show a further increase in outstandings of \$100 million, or something like that. The rate of increase is lower. Sales are smaller. The redemptions are larger.

(The information referred to is as follows:)

*Growth of E and H savings bonds, 1947-57*

[In billions of dollars]

Fiscal years	Cash sales and redemptions			Interest accruals	Net change in outstanding	Amount outstanding end of Period
	Sales	Redemptions	Net			
1947.....	4.3	4.4	-0.1	0.5	+0.4	30.8
1948.....	4.0	3.8	+2	.6	+8	31.6
1949.....	4.3	3.5	+7	.8	+1.5	33.1
1950.....	4.0	3.5	+5	.9	+1.4	34.5
1951.....	3.3	4.3	-1.0	1.0	( <sup>1</sup> )	34.5
1952.....	3.3	4.0	-.7	1.1	+4	34.9
1953.....	4.1	4.0	( <sup>1</sup> )	1.1	+1.1	36.0
1954.....	4.7	4.3	+3	1.1	+1.4	37.5
1955.....	5.2	4.5	+7	1.1	+1.8	39.3
1956.....	5.3	4.7	+6	1.1	+1.6	40.9
1957.....	4.8	5.2	-.6	1.1	+6	41.5

<sup>1</sup> Less than \$50 million.

Source: Office of the Secretary of the Treasury, July 25, 1957.

Mr. BURGESS. Of course, the heavy loss was in the 1956-57 period until we changed the rate. It has picked up a little, but not very much, because the interest rates have gone on up, the general market rates.

The record of savings bonds sales during the 4 years 1953-56 has been better on the average than during other periods since the end of the war. Redemptions have risen somewhat in recent years—partly because of the cashing of bonds which have reached their 10-year maturity in increasing amounts. Nevertheless, the net excess of cash sales over redemptions of these bonds was higher in 1953-56 than in either earlier postwar period.

About a year ago, as you gentlemen know, savings bond sales started to slow down under the impact of higher interest returns available in alternative forms of savings. Then, as your committee is aware, the Treasury received from the Congress authority to raise from 3 to 3 $\frac{1}{4}$  percent the overall yield on F- and H-bonds if held to maturity. The interim yields have also been increased.

Savings bonds are not sold primarily for their yield but for their security, their redeemability, and their convenience. However, the buyer must feel he is getting a fair rate. The action you took was helpful.

The savings-bond program is one of the best means we have of achieving a wider distribution of the debt and of encouraging the overall volume of savings which the country so much needs to keep pace with the tremendous demands of the people for all forms of goods and services.

In summary, then, these are the ways in which the Treasury has sought to manage the debt so as to make it less of a disrupting influence on our economy. We have not always been able to move as fast as we might like toward our long-range objective of achieving a better debt distribution, but we have reduced the floating debt and the bank-held debt and so reduced the inflationary threat which the debt carries. In addition, we have widened the sale of savings bonds and reopened the market for long-term bonds.

10. Now, let me say a word about the techniques of debt management. Before I conclude, I want to discuss with you briefly the way in which the Treasury approaches each of its debt management decisions which involve the issuance of new marketable certificates, notes, and bonds.

Each Treasury financing represents an important event in the money markets of the country. It is, therefore, essential that the Treasury take every precaution to get information from every useful source in making decisions about these operations.

In the course of exploring the facts relating to a new Government issue, the Treasury consults a great many people. We get valuable help from the Federal Reserve Board and the 12 Federal Reserve banks, with their offices throughout the country which are in contact with a large number of people and with the money and capital markets. I might add that the Federal Reserve Bank in New York is particularly helpful. They have a group of very able officers, and their help to us in deciding about Treasury issues has been invaluable, and I say that not just because I was an officer of that bank for 18 years, Mr. Chairman.

We maintain contact with the people who handle investments of commercial banks, savings banks and insurance companies, pension funds—State, municipal, corporate and other private funds—security dealers, and trust companies which have money to invest.

I may say we did not put in this statement that we also get monthly reports from banks and other principal holders of Government bonds as to their holdings, so we have a statistical series that runs back pretty well and gives us changes in the security holdings of the principal holders.

We rely upon the banks and security dealers to keep their customers informed about our offerings of securities, in addition to our public announcements. After a new issue is announced the banks and dealers do an enormous amount of writing and telephoning to their customers to tell them about the new issue. In this way, hundreds of thousands of investors are reached promptly.

The rates of interest which our securities carry are determined basically by the quotations in the Government securities market. Many millions of dollars of Government securities are bought and sold every day in the free market and the price determined in this way indicates the rates we have to pay on new issues.

Perhaps the best indication of the pricing of new Treasury issues is the record of the prices at which our issues have sold in the market on the day they were actually issued, usually a week or 10 days after the subscription books were closed.

In 1953 the Treasury put on the market almost \$44 billion of certificates, notes, and bonds—those securities on which we had to decide on a rate of interest. These issues were quoted in the market on the issue date at an average price of par and 5 and one-half thirty-seconds of a dollar per \$100 bond. Prices in the Government securities market are quoted in dollars and thirty-seconds; a thirty-second is equal to  $3\frac{1}{8}$  cents.

Senator KERR. Just as a matter of curiosity just at that point, how did that system of quotation get started?

Mr. BURGESS. I think it is this—

Senator KERR. It is the only thing that is quoted?

Mr. BURGESS. It is this way—

Senator KERR. It is not the only thing so quoted?

Mr. BURGESS. In the security market you quote halves and quarters, then you get down to eighths, then sixteenths, and they pared it even further, down to thirty seconds. It was just a splitup of the old English halves and so on.

The profit on a sale of Government securities, which usually have been a big lot, is very small in terms of fractions. Sometimes they do business on sixty-fourths.

Senator BENNETT. Mr. Chairman, to translate the \$100 and five and one-half thirty-seconds, we would have about \$100.15.

Mr. BURGESS. That is right, yes.

In 1954 we sold \$59½ billion of this type of security, and the price on those in the market on the issue date was par and eleven thirty-seconds. Money rates were going down a little. It was a more favorable market.

Since then, our pricing has worked out even closer: Exactly par on the average on \$49 billion of such issues in 1955, and par and one thirty-second on \$33 billion in 1956, and exactly par again on \$16 billion of new coupon issues in the first half of 1957. Appendix B shows these figures in detail, for each issue, what is was quoted at on the day of issuance and the first day it was quoted. And I will give you the figures on our latest 4-percent job in full, also, later.

These figures encompass the entire \$201½ billion of certificates, notes and bonds we issued from January 1953 through June 1957. The problem is to make each new issue attractive enough to sell without being too generous.

The attractiveness of a new issue is affected by such influences as the expectation of the market on interest rates and the volumes of funds purchasers have available for investment. Also large issues and longer-term issues have to have a little more margin to assure their successful sale. That is one reason the 1954 issues show a little more margin, because quite a number of those were bonds.

In addition to these coupon securities, certificates, notes, and bonds, the Treasury sells from \$1.6 billion to \$1.8 billion of 91-day Treasury bills at public auction each week and from time to time tax anticipation bills are also offered on the same bid basis; they may be 9 months, 6 months, whatever it works out.

The rates at which these securities sell are determined by the market—not by the Treasury. We have sold more than \$375 billion of securities in this way since January 1953—actually much more than we have sold with interest rates fixed by the Treasury.

The interest rates on these bills, together with the yields on purchases and sales of all types of securities in the open market, build up a pattern of interest rates which makes it reasonably clear what rate a new issue of securities has to carry to be sold successfully. The difference is usually a difference of an eighth one way or the other in your decision.

Thus, our discussions prior to a financing are not so much concerned with the rates of interest as with the question of what kind of security we should sell: a bond issue, over 5 years to maturity; an issue of notes, 1 to 5 years; or a short-term certificate, 1 year or less; or a bill—and just what maturity.

The advice we receive is frequently conflicting and the Secretary makes his decision, subject to Presidential approval on maturities over 1 year, only in the last hour before the public announcement. That is literally true.

11. Now, let me take up the  $3\frac{1}{4}$ 's that have been discussed at considerable length on the floor of the Senate and the House over a period, and also this last offering. The offering of the  $3\frac{1}{4}$ 's in 1953. This general plan of preparation for financing was followed when the Treasury offered the  $3\frac{1}{4}$  percent bonds of June 1978-83 in the spring of 1953.

This was not only the first long-term marketable bond that the Treasury had offered since 1945, but it was also the first to be put out without Federal Reserve market support for a much longer period. As you know, the Federal Reserve used to be in there supporting the market for a bond issue.

As you will remember, inflationary pressures were heavy in the last part of 1952 and early 1953, under the impact of a then record demand for money. Despite this heavy demand for private funds, we were assured that there were some funds available for investment in a long-term Government bond.

Our offering of the  $3\frac{1}{4}$ s presented as difficult a pricing problem as the Treasury has ever had to face. We had to set the interest rate on the new issue in a market in which prices were moving gradually lower—a market which was still in the process of adjusting to freer market conditions.

Our longest outstanding bond, the Victory  $2\frac{1}{2}$ s of December 1967-72, had fallen from almost three-quarters of a point above par—2.45 percent yield—to  $95\frac{1}{2}$ —2.80 percent yield—between the Federal Reserve-Treasury accord in March 1951 and the end of 1952.

Let me say that again: Before we came in, in the 2 years 1951 and 1952, the prices of the Victory  $2\frac{1}{2}$ s had fallen 5 points, so they would be priced at  $95\frac{1}{2}$  in December 1952.

Senator BENNETT. Were these the bonds that were issued in 1945?

Mr. BURGESS. That is right. December 1945, the Victory loan.

By April 8, 1953, when the  $3\frac{1}{4}$ s were announced, it had fallen to 94; that is  $1\frac{1}{2}$  points more. The big fall took place before we came in. At 94, they yielded 2.90.

Now, somebody said the other day that we did this in a  $2\frac{3}{4}$  percent market. That is just nonsense. The Victory  $2\frac{1}{2}$ s were quoted when we put out the  $3\frac{1}{4}$ s at 2.90 yield basis.

There were no long-term Treasury issues outstanding which would serve as a real guide to the interest rate such an issue should carry. The Victory  $2\frac{1}{2}$ s were  $10\frac{1}{2}$  years shorter than the new issue, and the market curve of rates, if you plot out a curve, rose as maturities lengthened. One-year money was worth about  $2\frac{3}{8}$  percents as far as Government securities were concerned, and 5-year money a little more than  $2\frac{1}{2}$  percent. I am giving you the mathematics of this.

Therefore we took the market curve on outstanding Treasury issues and extended it parallel to the curve on high-grade corporate issues, retaining, of course, a proper spread between the two types of obligations.

That curve produced a rate of 3.08 percent as of June 15, 1978, which was the call date on the new bonds, and 3.12 as of June 15, 1983, the maturity date of the new bonds.

The  $3\frac{1}{4}$  coupon would appear to offer a rate, therefore, approximately 15 basis points—15 one-hundredths of 1 percent—above the market curve, but the spread would be much less than that if you take into consideration the fact that we were issuing the bond in competition with outstanding issues available in the market at a discount, another technical point, which had a capital gains advantage for tax purposes.

The Victory  $2\frac{1}{2}$ s at 94 were as attractive to a corporate taxpayer in aftertax yield as a new hypothetical 3.10 percent issue at par would be if both were held to a 1972 maturity.

I do not know whether that is clear to you. But if you buy a discount bond, you pay your regular income taxes on the coupon, and then you pay a capital gains tax when it matures for the 5 points that you gain when it is redeemed at par. You pay only half the tax on the capital gain, so that on these quotes you will find they have to quote the outstanding bonds just on a strict yield basis, to take account of the capital gain.

This  $3\frac{1}{4}$  percent rate proved sufficient to enable the Treasury to sell \$1.2 billion of the new bonds for cash and to induce the holders of \$0.4 billion of maturing F and G savings bonds to exchange them for the new issue.

We gave all the F and G bonds maturing in 1953 the option of exchanging for the new bond, and 400 million of them took advantage of it. That was less than a third of the amount that could have.

The estimated yield spread of about 15-basis points above the market was quite modest, however, compared to the 23-basis point average spread between the 11 new high-grade corporate issues put out during 1953 and the outstanding corporate market. That is, when a corporation sells a bond in the market, a new bond, it has to pay a higher yield than the outstanding seasoned bonds. If you are doing an underwriting job you have to pay a higher yield, as you all know, and there was an average spread of 30-basis points on the 58 new high-grade corporate bonds that had been issued since January 1, 1951 in relation to the outstanding market, taking Moody's Aaa bonds as a basis.

Nevertheless, the  $3\frac{1}{4}$  percent rate was not sufficient to give a real incentive—I would like to put in the "real," because there are always some speculators around—to speculators who thought they could turn over the new issue at a profit.

The first price quotation in the market on the new  $3\frac{1}{4}$ s was par and  $\frac{1}{32}$  on April 15, 1953. That is what the market said it was worth on this bond that was supposed to be so overpriced. Trading on the new bond between that date and the issue of the bond fluctuated between a high of par and  $\frac{11}{32}$  and a low of  $99\frac{25}{32}$ .

On the issue date of May 1, the  $3\frac{1}{4}$ s were selling in the market at  $99\frac{25}{32}$ —that is at a discount—with a yield to the buyer of 3.26 percent. It was mid-July before the new  $3\frac{1}{4}$ s again rose above par.

The CHAIRMAN. Mr. Secretary, did it not go up at one time to 110? Mr. BURGESS. Yes, in 1954, but not until after it had been out a year.

The CHAIRMAN. These bonds actually sold on the market at 110 at one time?

Mr. BURGESS. In 1954, but not when we issued them.

Senator KERR. How high did they sell?

Mr. BURGESS. We will give you that. In 1954 when money was easy, they did sell at a substantial premium, but not until they had been out about a year. But when they were issued, they went to this very small—

The CHAIRMAN. Please put in the record how long they sold above par. What is the market quotation on these bonds, now?

(The material referred to is as follows:)

Following the period when the 3½s were below par in the spring of 1953 they rose above par in July 1953 and stayed above par until August, 1956, with a peak price of 111 and 28½ on August 4, 1954.

Mr. BURGESS. It is around 93 or 94.

Senator BENNETT. Mr. Chairman, I wonder if he could put into the record a chart which shows the price variation from the day they were issued until the present time?

Mr. BURGESS. I would be very glad to.

(The chart referred to is on p. 137 of the record of proceedings.)

Senator BENNETT. Let us get all that.

Mr. BURGESS. These figures demonstrate, I believe, that the 3¼ percent rate was the lowest rate at which we could possibly have sold at 25- to 30-year bond in a free market in the spring of 1953.

12. Our current refunding: This same general pattern of financing was also followed in our most recent refunding program which was announced Thursday, July 18. As you know, this offering did not involve the raising of any new cash. It was concerned solely with the refunding of four maturing issues: \$12,056 million 2¾-percent notes maturing August 1, \$3,792 million 2-percent notes maturing August 15, \$7,271 million 3¼-percent certificates maturing October 1, and \$824 million 1½-percent notes maturing October 1, \$23,943 million total maturing issues, of which more than \$14½ billion was held by Federal Reserve banks and Government investment accounts.

With an unprecedented heavy demand for funds in the private area we were convinced quite early in our studies that there was no substantial demand for long-term Government securities. The package offering that we decided upon included two certificates and a note, to be issued on August 1: A 3⅝-percent certificate maturing in 4 months (December 1, 1957), a 4-percent certificate maturing in 12 months (August 1, 1958), and a 4-percent note maturing in 4 years (August 1, 1961), but redeemable at the option of the holder in 2 years (August 1, 1959). The choice of all 3 issues was given to the holders of the August maturities but the October holders were allowed to choose only between the 2 longer issues. It did not make much sense to give an October 1 holder an option of converting into December 1, you see, only 2 months, so we let them spread it out.

This package was designed to provide a very short security for corporations and other short-term investors who want their money before the end of the year, an attractive 4-percent 1-year security for other short-term investors, and a longer 4-percent issue which would appeal to 2 somewhat different groups of buyers: (1) those who were not sure that they wanted to invest funds for as long as 4 years in case interest rates continue to rise and, therefore, liked the idea of being able to redeem at the end of 2 years, and (2) those who felt

that the present heavy demand for money is perhaps close to its peak and were anxious to get part of their portfolios invested for a longer period than 2 years at a 4-percent rate on the theory that a 4-percent rate might not be available again for a long time.

The pricing on these three issues was done in line with the outstanding market. The market pattern of yields at noon on July 18, just before the announcement was made, showed rates of approximately  $3\frac{1}{2}$  percent at the 4-month point on the curve, 3.90 percent at the 1-year point, 3.95 percent at the 2-year point, and 3.98 percent at the 4-year point.

This pricing was as close or closer to the market curve than the average pricing that the Treasury has done during the entire period of more than 6 years since the Federal Reserve-Treasury accord in 1951.

The new pricing was not, however, quite as thin as on the issues that we put out in February and May of this year, when new short-term issues fell slightly below par on their first market quotation.

The large volume was also a factor in pricing the new issues. When you are dealing with \$24 billion, you can't cut it quite as thin as you can when you have four to sell.

All three new issues showed closing bid-price quotations of par and one thirty-second on the first day of trading—Monday, July 22, I may say they went down to an even par bid Tuesday afternoon and Wednesday morning.

The operation was successful. The cash turn-in of \$1.1 billion on this refunding—these are preliminary figures—was the smallest percentage of publicly held maturities turned in for cash of any refinancing since March a year ago.

Furthermore, we succeeded in selling \$21½ billion of the new 4-year notes, again helping to keep the debt from shortening.

When we term this a successful operation we do so with full recognition that this refunding alone has added one-tenth of 1 percent to the computed interest rate on the entire public debt, with an increase of about \$250 million in our computed annual interest charge.

More than one-half of this added interest comes back directly to the Treasury since \$14½ billion of the \$24 billion maturity was held by the Federal Reserve banks and 90 percent of their net earnings are returned to us.

The remainder of approximately \$100 million does not represent a net addition to the Federal budget since a substantial share of it will be paid back to the Treasury in taxes.

We would prefer to do our borrowing at lower rates. Naturally, any debtor would. We fully recognize, however, that this is one of the costs to the American taxpayers of a monetary and credit policy which is the primary bulwark against the loss of untold billions of dollars through inflation.

I have presented the background of the  $3\frac{1}{4}$  percent bond issue and the recent financing to illustrate the point that the Treasury does not force rates up, as sometimes stated. It has always been our policy to sell our securities at the lowest interest rates at which the maturities offered can be sold.

Before I read the next paragraph, let me say that the appendixes A and B will give you the complete information about the offerings.

The first one, appendix A, going back to 1946, and showing the amounts of each issue of securities that was put out beyond the one-year maturity—these public issue securities, 2 to 5 years, 5 to 10, and over 10.

And the other, appendix B, shows every issue of marketable securities other than Treasury bills that have been put out by this administration.

(Appendixes A and B follow:)

# APPENDIX A

## Treasury offerings of intermediate and long-term marketable securities, January 1946-August 1957

[In millions of dollars]

### 2 TO 5 YEARS

Date subscription books were opened	Date of issue	Description of security			Period to maturity		Amount issued			Yearly totals
		Percent	Type	Date	Years	Months	Cash	Exchange	Total	
1946 1										
1947 1										
1948 1										
1949 Dec. 5	Dec. 15	1 3/4	Note	Mar. 15, 1954	4	3		4,675	4,675	12,219
1950 Feb. 17	Mar. 15	1 1/2	Note	Mar. 15, 1955	5			5,365	5,365	
1950 Dec. 4	Dec. 15	1 3/4	Note	Dec. 15, 1955	5			6,854	6,854	
1951 1										
1952 1										
1953 Sept. 2	Sept. 15	2 7/8	Note	Mar. 15, 1957	3	6		2,997	2,997	2,997
1954 May 4	May 17	1 1/2	Note	Feb. 15, 1959	4	9	2,205	2,897	5,102	
1954 Sept. 23	Oct. 4	1 1/2	Note	May 15, 1957	2	7 1/2	4,155		4,155	
1955 Feb. 1	Feb. 15	2	Note	Aug. 15, 1957	2	6		3,792	3,792	6,075
1955 Nov. 28	Dec. 1	2 1/2	Note	June 15, 1958	2	6		2,283	2,283	
1956 Mar. 15	Dec. 1	2 7/8	Note	June 15, 1958	2	6		2,109	2,109	
1957 Feb. 4	Feb. 15	3 1/2	Note	May 15, 1960	3	3		1,464	1,464	5,634
1957 Mar. 18	Feb. 15	3 1/2	Note	May 15, 1960	3	3	942		942	
1957 May 6	May 1	3 3/8	Note	Feb. 15, 1962	4	9 1/2		647	647	
1957 July 22	Aug. 1	4	Note	Aug. 1, 1961 1/2	4		100	2,481	2,581	
Total							7,402	35,564	42,966	

### 5 TO 10 YEARS

1946 1										
1947 1										
1948 1										
1949 1										
1950 1										
1951 1										
1952 Feb. 18	Mar. 1	2 1/2	Bond	Mar. 15, 1957-59	7	1 1/2		927	927	5,172
1952 June 16	July 1	2 1/2	Bond	June 15, 1958	5	11 1/2	4,245		4,245	
1953 Feb. 2	Feb. 15	2 1/2	Bond	Dec. 15, 1958	5	10		620	620	
1953 Oct. 28	Nov. 9	2 1/2	Bond	Sept. 15, 1961	7	10	2,239		2,239	4,607
1953 Nov. 18	Feb. 15	2 1/2	Bond	Dec. 15, 1958	5	10		1,748	1,748	

See footnotes at end of table.

## Treasury offerings of intermediate and long-term marketable securities, January 1946–August 1957—Continued

## 5 TO 10 YEARS—Continued

[In millions of dollars]

Date subscription books were opened	Date of issue	Description of security			Period to maturity		Amount issued			Yearly totals
		Percent	Type	Date	Years	Months	Cash	Exchange	Total	
1954—Feb. 1.....	Feb. 15	2½	Bond.....	Nov. 15, 1961...	7	9	-----	11, 177	11, 177	} 21, 738
Aug. 3.....	Aug. 15	2½	Bond.....	Nov. 15, 1960...	6	3	-----	3, 806	3, 806	
Nov. 22.....	Dec. 15	2½	Bond.....	Aug. 15, 1963...	8	8	-----	6, 755	6, 755	
1955 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1956 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1957 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	-----	-----	-----	-----	-----	-----	6, 484	25, 033	31, 517	-----

## OVER 10 YEARS

1946 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1947 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1948 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1949 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1950 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1951 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1952 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1953—Apr. 13.....	May 1	3½	Bond.....	June 15, 1978–83...	30	1½	1, 188	418	1, 606	1, 606
1954.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1955—Feb. 1.....	Feb. 15	3	Bond.....	Feb. 15, 1995.....	40	-----	-----	1, 924	1, 924	} 2, 745
July 11.....	Feb. 15	3	Bond.....	Feb. 15, 1995.....	40	-----	821	821	821	
1956 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
1957 <sup>1</sup> .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	-----	-----	-----	-----	-----	-----	2, 009	2, 342	4, 351	-----

<sup>1</sup> None.<sup>2</sup> Redeemable in 2 years (Aug. 1, 1959) at option of holder.<sup>3</sup> Issued in special allotment to Government investment accounts.<sup>4</sup> Preliminary.

# APPENDIX B

Market prices of each new marketable Treasury issue on first date quoted and on date of issue,<sup>1</sup> January 1953–August 1957

Issue		Maturity	Amount issued (millions)			First quote		Issue date quote	
Percent	Type		Cash	Exchange	Total	Date	Price <sup>1</sup>	Date	Price <sup>2</sup>
1953									
2½	Certificate.....	Feb. 15, 1954.....		\$8, 114	\$8, 114	Feb. 2, 1953	100.03	Feb. 16, 1953	100.05
2½	Bond.....	Dec. 15, 1958.....		620	620	Feb. 2, 1953	100.03½	Feb. 16, 1953	100.06
2½	Bond.....	June 15, 1978-83.....	\$1, 188	418	1, 606	Apr. 15, 1953	100.09	May 1, 1953	99.29
2½	Certificate.....	June 1, 1954.....		4, 858	4, 858	May 20, 1953	100.00	June 1, 1953	99.30
2½	Tax certificate.....	Mar. 22, 1954.....	5, 902		5, 902	July 7, 1953	99.31	July 15, 1953	100.01
2½	Certificate.....	Aug. 15, 1954.....		2, 788	2, 788	Aug. 5, 1953	100.03½	Aug. 17, 1953	100.04
2½	Certificate.....	Sept. 15, 1954.....		4, 724	4, 724	Sept. 2, 1953	100.04½	Sept. 15, 1953	100.08
2½	Note.....	Mar. 15, 1957.....		2, 997	2, 997	Sept. 2, 1953	100.04½	Sept. 15, 1953	100.09
2½	Bond.....	Sept. 15, 1961.....	2, 239		2, 239	Oct. 29, 1953	100.28	Nov. 9, 1953	100.24
1½	Note.....	Dec. 15, 1954.....		8, 175	8, 175	Nov. 18, 1953	100.09	Dec. 1, 1953	100.08
2½	Bond.....	Dec. 15, 1958 <sup>1</sup> .....		1, 748	1, 748	Nov. 18, 1953	100.11	Dec. 1, 1953	100.11
Total.....				9, 329	34, 442		100.05½		100.05½
1954									
1½	Certificate.....	Feb. 15, 1955.....		7, 007	7, 007	Feb. 1, 1954	100.12	Feb. 15, 1954	100.14
2½	Bond.....	Nov. 15, 1961.....		11, 177	11, 177	Feb. 1, 1954	100.12	Feb. 15, 1954	100.24
1½	Certificate.....	May 17, 1955.....		3, 886	3, 886	May 5, 1954	100.11½	May 17, 1954	100.09
1½	Note.....	Feb. 15, 1959.....	2, 205	2, 897	5, 102	May 5, 1954	100.15½	May 17, 1954	100.08
1	Tax certificate.....	Mar. 22, 1955.....	3, 734		3, 734	July 22, 1954	100.02	Aug. 2, 1954	100.02
1½	Certificate.....	Aug. 15, 1955.....		3, 558	3, 558	Aug. 3, 1954	100.11	Aug. 15, 1954	100.11½
2½	Bond.....	Nov. 15, 1960.....		3, 806	3, 806	Aug. 3, 1954	100.12	Aug. 15, 1954	100.19
1½	Note.....	May 15, 1957.....	4, 155		4, 155	Sept. 24, 1954	100.01	Oct. 4, 1954	100.00
1½	Certificate.....	Dec. 15, 1955 <sup>1</sup> .....		4, 919	4, 919	Nov. 22, 1954	100.06	Dec. 15, 1954	100.02
1½	Certificate.....	Dec. 15, 1955.....		5, 359	5, 359	Nov. 22, 1954	100.06	Dec. 15, 1954	100.02
2½	Bond.....	Aug. 15, 1963.....		6, 755	6, 755	Nov. 22, 1954	100.06	Dec. 15, 1954	100.11
Total.....				10, 094	49, 364		100.09		100.11
1955									
1½	Note.....	Mar. 15, 1956.....		8, 472	8, 472	Jan. 28, 1955	100.04	Feb. 15, 1955	100.02
2	Note.....	Aug. 15, 1957.....		3, 792	3, 792	Jan. 28, 1955	100.04	Feb. 15, 1955	100.00
8	Bond.....	Feb. 15, 1955.....		1, 924	1, 924	Jan. 28, 1955	100.11	Feb. 15, 1955	100.06
1½	Tax certificate.....	June 22, 1955.....	3, 210		3, 210	Mar. 23, 1955	100.00	Apr. 1, 1955	99.31
2	Note.....	Aug. 15, 1956.....	2, 532	3, 174	5, 706	May 4, 1955	99.31½	May 17, 1955	100.00
1½	Tax certificate.....	Mar. 22, 1956.....	2, 202		2, 202	July 11, 1955	99.31½	July 18, 1955	100.02

See footnotes at end of table.

## APPENDIX B

Market prices of each new marketable Treasury issue on first date quoted and on date of issue<sup>1</sup>, January 1953-August 1957—Continued

Percent	Issue Type	Maturity	Amount issued (millions)			First quote		Issue date quote	
			Cash	Exchange	Total	Date	Price <sup>2</sup>	Date	Price <sup>3</sup>
1955									
3	Bond.....	Feb. 15, 1955 <sup>4</sup>	\$821		\$821	July 11, 1955	100.03	July 20, 1955	100.00
2	Tax certificate.....	June 22, 1955		\$1,486	1,486	July 20, 1955	100.01½	Aug. 1, 1955	99.31½
2	Note.....	Aug. 15, 1955 <sup>4</sup>		6,841	6,841	July 20, 1955	100.02	Aug. 1, 1955	99.29
2½	Tax certificate.....	June 22, 1955	2,970		2,970	Oct. 4, 1955	99.31	Oct. 11, 1955	99.30½
2½	Certificate.....	Dec. 1, 1955		9,083	9,083	Nov. 28, 1955	99.31	Dec. 1, 1955	99.31
2½	Note.....	June 15, 1955		2,283	2,283	Nov. 28, 1955	99.31	Dec. 1, 1955	99.31
	Total.....		11,735	37,055	48,790		100.01½		100.00
1956									
2½	Certificate.....	Feb. 15, 1957		7,219	7,219	Mar. 5, 1956	100.03½	Mar. 5, 1956	100.03½
2½	Note.....	June 15, 1955 <sup>4</sup>		2,109	2,109	Mar. 5, 1956	100.03½	Mar. 5, 1956	100.03½
2½	Note.....	Aug. 1, 1957		12,056	12,056	July 16, 1956	99.31½	July 16, 1956	99.31½
2½	Tax certificate.....	Mar. 22, 1957	3,221		3,221	Aug. 7, 1956	99.29	Aug. 15, 1956	99.28
3¼	Tax certificate.....	June 24, 1957		1,312	1,312	Nov. 19, 1956	100.00	Dec. 3, 1956	100.02
3¼	Certificate.....	Oct. 1, 1957		7,271	7,271	Nov. 19, 1956	100.00	Dec. 3, 1956	100.03
	Total.....		3,221	29,967	33,188		100.00½		100.01
1957									
3½	Certificate.....	Feb. 14, 1958		8,414	8,414	Feb. 4, 1957	100.01	Feb. 15, 1957	100.01
3½	Note.....	May 15, 1960		1,464	1,464	Feb. 4, 1957	100.01	Feb. 15, 1957	100.04
3½	Certificate.....	Feb. 14, 1958 <sup>4</sup>	2,437		2,437	Mar. 19, 1957	99.29½	Mar. 28, 1957	99.30
3½	Note.....	May 15, 1960 <sup>4</sup>	942		942	Mar. 19, 1957	99.31½	Mar. 28, 1957	100.02½
3½	Certificate.....	Apr. 15, 1958		2,351	2,351	May 6, 1957	99.29	May 6, 1957	99.29
3½	Note.....	Feb. 15, 1962		647	647	May 6, 1957	99.29	May 6, 1957	99.29
3½	Certificate.....	Dec. 1, 1957	100	9,969	10,069	July 23, 1957	100.01	Aug. 1, 1957	( <sup>5</sup> )
4	Certificate.....	Aug. 1, 1958	100	10,462	10,562	July 23, 1957	100.01	Aug. 1, 1957	( <sup>5</sup> )
4	Note.....	Aug. 1, 1961	100	2,481	2,581	July 23, 1957	100.01	Aug. 1, 1957	( <sup>5</sup> )
	Total through August.....		3,679	35,688	39,367		100.00½		100.00
	Total, January 1953-August 1957.....		38,058	186,516	224,574		100.04		100.04½

<sup>1</sup> Marketable certificates, notes, and bonds; excludes Treasury bills, and notes issued solely in exchange for nonmarketable 2½-percent investment bonds, series B.

<sup>2</sup> Closing bid quotations as reported by the Federal Reserve Bank of New York.

<sup>3</sup> Reopening of existing issue.

<sup>4</sup> Issued in special allotment to Government investment accounts.

<sup>5</sup> Preliminary.

<sup>6</sup> Not available.

Mr. BURGESS. Now, in conclusion, I would like to present a further series of background charts to outline the particular problems we consider. What I have shown you here is just the beginning, Mr. Chairman. This is a sort of market analysis of our product and the potential buyers. I believe these charts are one of the best means of giving this committee an understanding of the basis for our financing decisions.

Mr. Mayo, who is the head of our Debt Analysis Section will present these charts, with your permission, and will no longer be an anonymous member of our team.

The CHAIRMAN. Mr. Secretary, we have 10 minutes.

Can you make an effective presentation of part of them in that time?

Mr. BURGESS. I do not believe it will be long enough for him to finish, but he can start and be interrupted, Mr. Chairman.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 11:35 a. m., the committee recessed, to reconvene at 10 a. m., Tuesday, July 30, 1957.)



# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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TUESDAY, JULY 30, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long, Gore, Martin, Williams, Flanders, Malone, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury;

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Mr. Mayo will explain the charts in connection with the testimony of Mr. Burgess.

Mr. MAYO. Gentlemen, as Mr. Burgess mentioned yesterday, the job of managing the debt involves a great many problems which are essentially problems of marketing.

Like the seller of most anything, we have to take a good look at the market for our securities. We have to study where the competition is and what other things people are interested in buying as well as our securities.

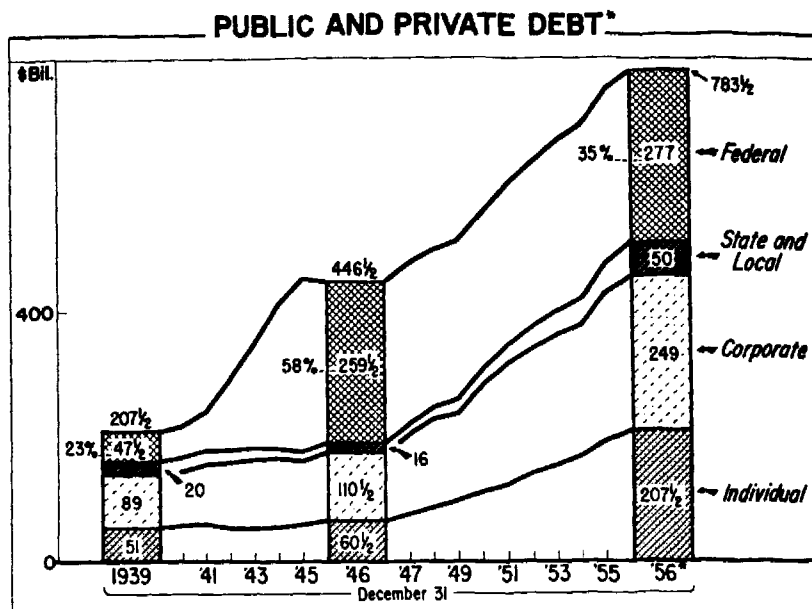
We have to look at the alternative uses of funds, and we have to study rather carefully the various investors to whom we think we can sell Government securities.

We have a group of slides here today to show you, much as we show some of the groups that come into the Treasury.

We will start out with a chart on the public and the private debt, which Mr. Burgess used in his presentation yesterday, to emphasize again, once more, the importance of the Federal debt in the entire debt structure of the United States.

Just taking the right-hand bar of chart 1, in summary, we see what the Federal debt was at the end of the calendar year 1956, accounting for about 35 percent of the total public and private debt in the United States, \$277 billion, as against \$50 billion of State and local debt, \$250 billion, approximately, for corporate debt, and a somewhat smaller amount for individual debt.

Chart 1



\*Gross debt

Office of the Secretary of the Treasury

B-1172-A-10

This, in a sense, is a statement of our competition in terms of the other products that are on the market for investors to buy with whatever funds they have available.

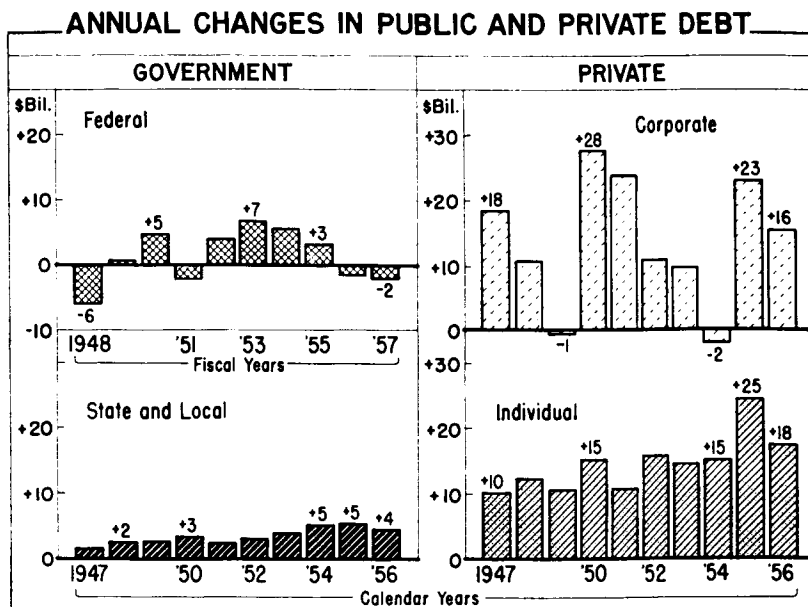
The Federal Government, however, is the largest single borrower of funds of any group of debtors—much less any single borrower in the country.

Therefore, the judgments that the Secretary has to make on the management of the debt are judgments which have quite an effect in the capital markets and in the money markets.

We want to look next at these various segments of the debt in terms of the annual changes that have taken place over the last decade.

We can see here, first of all, on the left-hand side of chart 2, the Federal debt, the changes that have taken place in each of the fiscal years from fiscal 1948 through fiscal 1957, showing debt payoff by the Federal Government in fiscal 1948 as a result of a sizable budget surplus, showing some debt increases as a result of the Korean war period and getting down again to the balanced budgets of the last 2 years when we have had debt reduction of approximately \$2 billion in each of the last 2 years. Debt reduction has been a little more this year than last as the Treasury paid some debt out of cash balances as well as out of budget surplus.

Chart 2



This is a picture, then, of Federal debt reduction in the last 2 years as contrasted to increases in the other segments of the debt outstanding. In other words, in the overall, the Federal Government has been reducing the supply of securities that are available during these years, whereas the supply of other types of securities and loans and other investments has been increasing.

State and local debt went up \$4 billion in 1956, as against \$5 billion in 1954 and 1955, which were all-time records. So, as Mr. Burgess mentioned yesterday, during the last 3 years State and local governments have added approximately \$15 billion to their total debt outstanding.

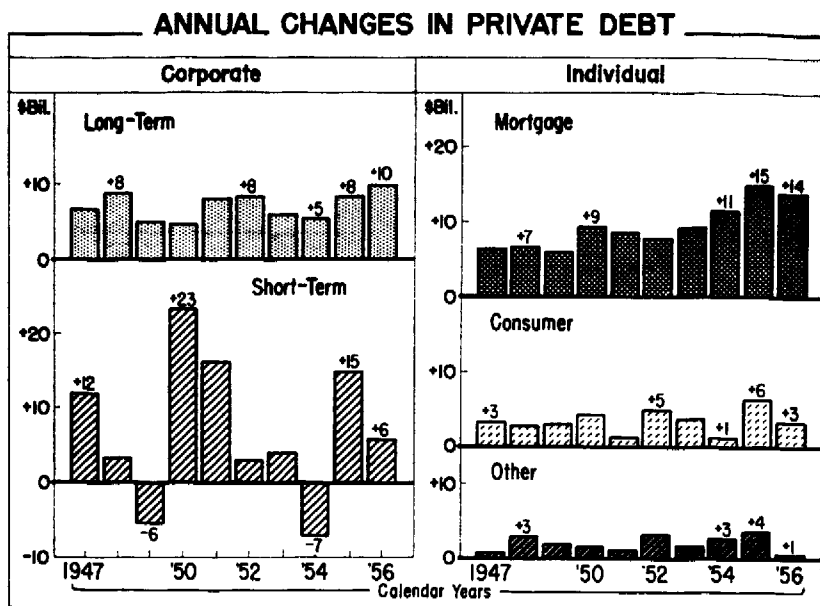
For corporations, there has been a more violent movement from period to period here in the changes in the debt outstanding. These corporation figures, as we will see on succeeding charts, include both long and short obligations, but in the aggregate we find that the \$16 billion of debt increase in 1956 was somewhat lower than the increase in 1955. Both years were a little lower than the 2 peak years around the time of the Korean attack.

For individual debt, again the 1956 increase was somewhat lower than in 1955. All of these changes from 1955 to 1956 represent some effect, in one way or another, of the tightening of credit conditions as they apply to the various borrowings, and yet, credit conditions which still leave a substantial volume of new indebtedness being incurred.

Going to the next chart (chart 3) we have the breakdown, first, of corporate debt; and, second, of individual debt.

On the left-hand side, up here we have the long-term debt owed by corporations, essentially their securities that they float in the open market—the net of new issuances over retirements.

Chart 3



Office of the Secretary of the Treasury

8-1956-1

We find that as far as these long-term securities are concerned, 1956 was an all-time high. It was a bit higher than in 1955.

As far as short-term debt is concerned, however, the increases in 1956 were quite a bit less than they were in 1955, largely because of the smaller expansion of bank loans in 1956, and some reduction of tax liabilities.

Tax liabilities enter into the short-term liability picture, of course, of the corporations, and are part of their outstanding debt.

As far as individuals are concerned, there are three main components of the debt: Mortgage debt of individuals, mostly nonfarm residential mortgages but including some farm and unincorporated business mortgages, increased somewhat less, again, in 1956 than in 1955.

Senator KERR. How can you tell by that what the increase was?

Mr. MAYO. Well, I believe you have in front of you, Senator, a little booklet which has —

Senator KERR. I am looking at it, and getting more confused by the minute.

Mr. MAYO. You are? Sorry.

Well, the increase in mortgage debt for individuals during the calendar year 1956 is shown on the last digit on the upper right-hand side of the chart.

Senator KERR. Does that mean it was \$14 billion increase?

Mr. MAYO. Yes, sir. That is exactly what it means.

Senator KERR. In other words, in each one of these blocks here, it represents the amount of increase for that calendar year?

Mr. MAYO. That is exactly right.

Senator KERR. Very good.

Mr. MAYO. The other two components of individual debt are consumer debt and miscellaneous debt.

Consumer debt hit an all-time peak, as far as the annual increases again are concerned, during the calendar year 1955.

Senator BENNETT. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator BENNETT. Is that consumer installment debt, or does that include some consumer monthly credits?

Mr. MAYO. That would include charge accounts and all other types of consumer debt, as well as installment debt; that is correct.

Senator KERR. Do you have a chart later which shows the current total of all of these, but which would also reflect on the one hand the increase for the year, and on the other hand the retirements for the year?

Mr. MAYO. These are the net changes, Senator Kerr, and the amounts outstanding are on the very first chart, which show the total amount outstanding. These are the same figures that the Secretary used in his statement.

Senator KERR. In other words, then, this means that for individual mortgage debt, the overall total was \$14 billion greater at the end of the year?

Mr. MAYO. Yes; that is correct.

Senator KERR. But I would have to go back to chart 1 to find out what that overall total is?

Mr. MAYO. Yes; that is right.

Senator KERR. All right.

Senator MARTIN. Mr. Chairman.

In response to Senator Bennett's question as to charge accounts, does that mean charge accounts of all kinds, grocery stores and furniture stores?

Mr. MAYO. Yes, sir; the milk bill or anything like that, as well as anything that you owe on a specific interest-bearing sort of account.

Senator MARTIN. Very well.

Mr. BURGESS. Which is somewhat estimated, Senator. You do not have very precise figures. You make an intelligent guess at it, in part.

Senator MARTIN. Yes.

Mr. MAYO. I might say parenthetically here that all of these figures involve estimates all the way through.

We know a lot of these things better 10 years afterwards than we do now. Some of them we never know exactly what the totals do amount to.

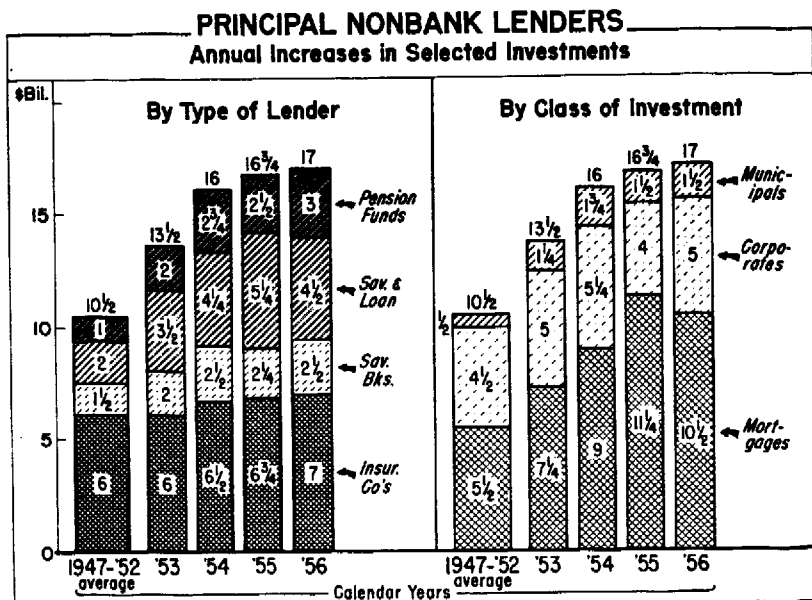
But we do see that on the mortgage debt and on the consumer debt and on the miscellaneous debt, in all three categories, you have less of an expansion in 1956 than in 1955.

We have looked at the principal types of indebtedness now, the gross public and private debt item; in other words, what you might call the competing types of available investments in the market.

Now let us look for a moment at the principal nonbank lenders, who account for a large share of the funds, as intermediaries which are invested in these mortgages, these corporate securities, and these municipal securities, as they come on the market.

We have set up here in chart 4, then, the insurance companies, the savings banks, the savings and loan associations, and the pension funds, which are the four biggest institutional investor groups in the nonbank area.

Chart 4



Office of the Secretary of the Treasury

C-1030

We find that in the calendar year 1956, these investors, largely as a result of the reinvestment of individual savings, put about \$17 billion into mortgages, into corporate securities, and into State and local securities.

In addition to these amounts, there were investments, of course, directly by those individuals who bought corporate securities and State and local securities directly in the market. This chart covers just those that flow through the institutions.

Senator KERR. An explanatory question there.

Mr. MAYO. Yes, sir.

Senator KERR. Does that mean in 1956, neither of these groups invested any money in governments?

Mr. MAYO. This is the total that they invested, sir, in these three particular types of securities or investments. Some of the money which has gone into these types of investments was actually provided by their selling some governments.

Senator KERR. As I understand it this is the increase in selected investments?

Mr. MAYO. Yes, sir.

Senator KERR. I take it, then, that this does not mean that they did not buy any governments.

Mr. MAYO. That is correct, sir.

Senator KERR. All right.

Mr. MAYO. We will have a chart a little later on which will show essentially for this same group, Senator, the way their governments have been running.

Senator KERR. Their shifts in position.

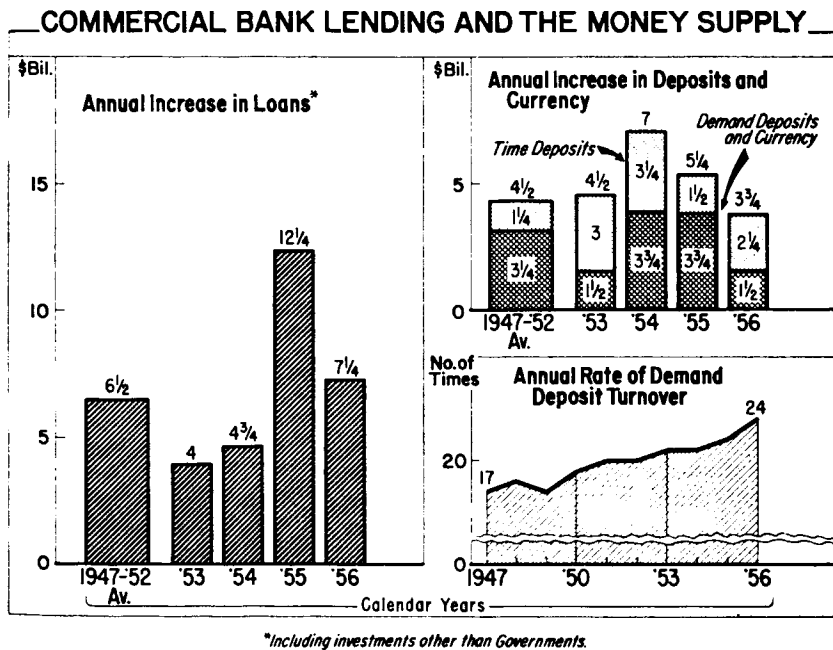
Mr. MAYO. Yes.

Senator KERR. All right, then.

Mr. MAYO. This, then, is the primary source of what you might call financial intermediary buying of all types of investments in this country, outside of the commercial banking system.

The next chart (chart 5) does essentially the same thing for the banks. This is handled in a different way, of course.

Chart 5



Office of the Secretary of the Board

C-1031

We have on the left-hand side of this chart the annual increase in commercial bank lending by calendar years, starting with the average for the 1947-52 period, and then showing each year from 1953, 1954, 1955, and 1956.

Nineteen hundred and fifty-five was the big year in terms of increases in bank loans, as we came out of, as Secretary Humphrey has called it, a rolling readjustment period in 1954. In 1955 there was quite an expansive force in the economy which led to a tremendous increase in bank loans.

The increase in bank loans—and again this is bank credit other than governments—some of this was provided through the sale of

governments and some of it was provided through, in effect, an increase in the money supply.

You have, then, a much smaller increase in the calendar year 1956 than you did in 1955 on bank loans. This is an increase which is not far different from the dollar amount of increase in the 1947-52 average.

Moving over to the right side of this chart, we have shown, first of all, these dark bars which denote the demand deposits and currency, really what we call active money supply, and the changes in those. Again, these are all in terms of changes.

The changes in the money supply in the 1947-52 period, on the average were \$3¼ billion a year. In 1953 the money supply went up by only a billion and a half; in 1954, it went up by \$3¾ billion; in 1955, when it went up by \$3¾ billion again; and in 1956, it went up by \$1½ billion, the same as in 1953.

So you had a bigger increase in 1954 and 1955—partly during a period when money conditions were easier—in the money supply, thereby making it less necessary to increase the money supply during the calendar year 1956 than otherwise would have been true.

The top part of the bars show the time deposits of the commercial banks. We have put them on top, simply to note that if you add all of the deposits and currency together, you have a picture which is a little different from that just on the straight money supply, in that time deposits have been growing more rapidly in commercial banks during recent years than they did during, say, the 1947-52 period.

This, then, is the supply of money.

We have in the lower right side of chart 5 figures on the rate of turnover of money. These are figures based on the bank debits figures that are collected by the Federal Reserve, which can be worked up to show an annual rate of demand deposit turnover during a given year.

In other words, a dollar passed from hand to hand, through checking accounts, about 17 times on the average in 1947.

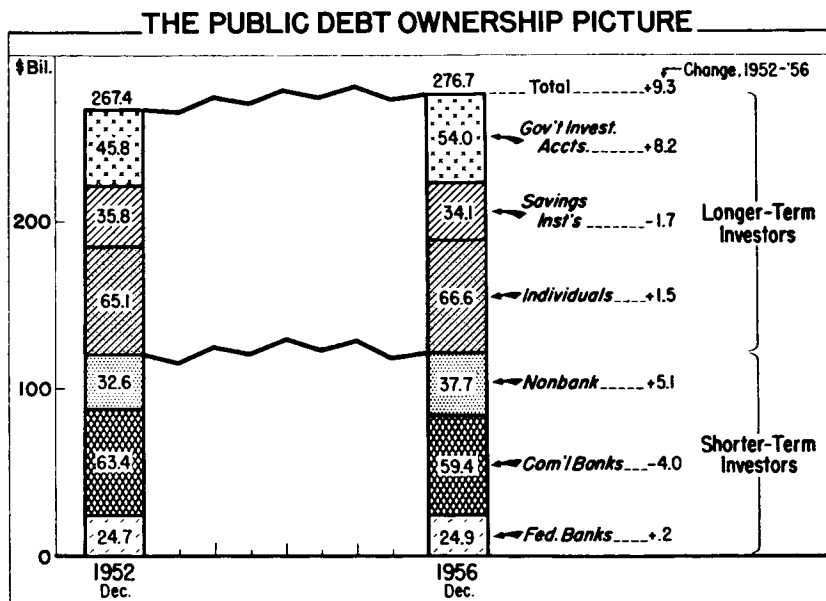
In 1956, the dollar passed from one hand to another approximately 24 times during the year. In other words, it turned over every 2 weeks, so to speak.

To the extent, then, that you have an increase in the rate of turnover of your demand deposits, you have another factor in addition to just the supply of money on hand that will enter into your inflationary pressure problem.

Now we have looked at the picture, in the broad sense, of all of the different types of investments. I would like to shift now specifically to the public debt ownership picture.

This is the picture on chart 6. Just to take two dates to keep it relatively simple, we have taken the end of 1952 and the end of 1956. We put down here the total debt, of course, which, as we know, has gone up by \$9.3 billion during the last 4 years on net balance, having reached a peak about 2 years ago.

Chart 6



Office of the Secretary of the Treasury

6-1522

We see, first of all, that of that \$9.3 billion, \$8.2 billion of the increase was accounted for by the social-security fund, and I will have a chart, Mr. Chairman, in a moment which will show a breakdown of the Government investment accounts as of this date.

We find most of the increase, then, in the Federal debt was in effect taken by the Government investment accounts.

We find that these savings institutions we were talking about a moment ago, the insurance companies, the savings banks, and so forth, decreased their holdings by \$1.7 billion during this period.

Senator KERR. Do you have the breakdown as to how that was between the three groups?

Mr. MAYO. Yes, sir. That will be on a chart which will be up in just a couple of minutes.

Senator KERR. All right.

Mr. MAYO. As far as the rest of what you might call longer term investors are concerned, we see that individuals added about \$1.5 billion to their direct holdings of the debt, just about offsetting, then, this decline in the savings institutional group.

Moving, then, to the shorter term investors, there has been a shift there among the types of investors.

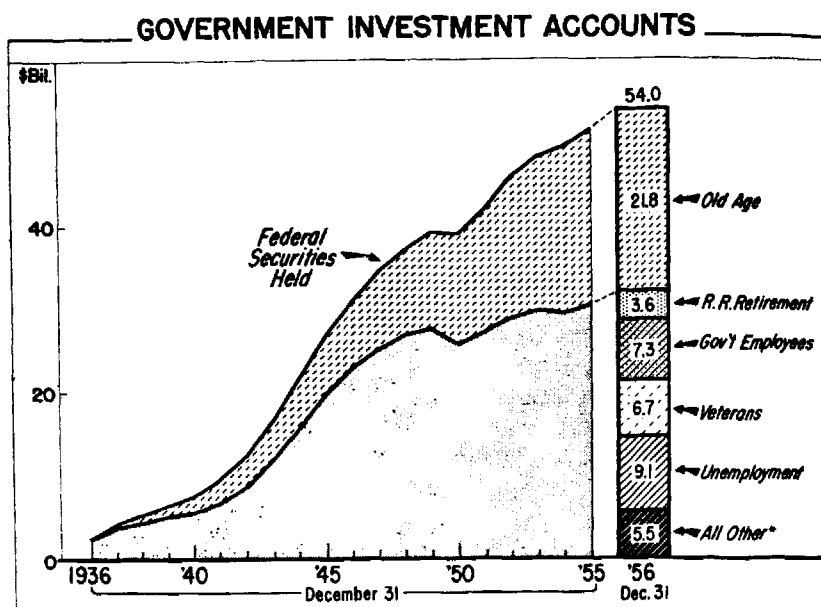
Commercial bank holdings of the debt have gone down by \$4 billion during this period of 4 years.

Federal Reserve bank holdings were up nominally, \$0.2 billion.

Nonbank investors in the short-term area, like corporations and so forth, have provided a primary source of funds for short-term Federal borrowing during this period, and they have added \$5 billion to their holdings of Governments during these 4 years.

For the detail on these particular investors we turn, first of all, on Government investment accounts. Here on chart 7 is the story as to how the Government accounts investment in Government securities—and practically everything they have in the way of assets is in Government securities—has grown over a period of the last 20 years.

Chart 7



\*Principally F.D.I.C. and Postal Savings.

Office of the Secretary of the Treasury

9-1283-1

We had, of course, just the beginnings of the social-security fund, and even of the civil service retirement fund, back in the middle thirties. The Treasury now has a total of about \$54 billion in these funds, the largest single share of which is in the old-age and survivors insurance trust fund—social security.

There is \$3.6 billion in the railroad retirement account. We have an amount shown here of \$7.3 billion in the Government employees' retirement fund, and another \$6.7 billion in the veterans' life insurance funds. That includes the World War I veterans' insurance—the United States Government life fund—and it includes the World War II fund—the national service life insurance fund.

Then we have the unemployment trust fund, where the money that the States have accumulated for unemployment benefits that they may have to pay someday are piling up in reserves and are invested in Federal securities by the Federal Government.

We also have various other trust accounts and Government agencies, like the Federal Deposit Insurance Corporation, Postal Savings, Federal Savings and Loan Insurance Corporation, and so forth, that are also invested in Government securities.

So you have this basic breakdown, then, of the Government investment accounts.

Senator MARTIN. Mr. Chairman.

I think it would be mighty interesting if you could give us the breakdown of all others.

Mr. MAYO. Yes, sir.

Senator MARTIN. I mean it is very interesting to me.

Mr. MAYO. I do not have the exact detail right with me, but we can put it in the record.

Senator MARTIN. I understand you can supply it. That is all right.

Mr. MAYO. Right.

(The information referred to is as follows:)

*Holdings of U. S. Government securities by other Government investment accounts, Dec. 31, 1956*

[In thousands of dollars]

Office of Alien Property, Department of Justice-----	\$3, 184
Employees life insurance fund-----	3, 070
Individual Indian trust funds-----	34, 165
FHA insurance funds-----	462, 002
Special trust account for payment of pre-1934 Philippine bonds-----	6, 226
Canal Zone postal savings-----	6, 750
Federal Deposit Insurance Corporation-----	1, 830, 000
Federal Savings and Loan Insurance Corporation-----	257, 690
United States postal savings system-----	1, 632, 053
Ainsworth library fund, Walter Reed General Hospital-----	10

District of Columbia funds:

Redevelopment program, Redevelopment Land Agency-----	302
Sanitary sewage works fund-----	2, 932
Teachers' retirement and annuity fund-----	29, 036
Relief and rehabilitation of District of Columbia workmen-----	110
General fund-----	39, 701
Highway fund-----	9, 975
Motor vehicle parking fund-----	1, 487
Miscellaneous trust fund-----	150

Total----- 83, 692

Food and Agriculture Organization of United Nations-----	1, 200
General Post fund, Veterans' Administration-----	2, 910
Hospital fund, U. S. Army, Office of Surgeon General-----	2, 275
Relief and rehabilitation of longshoremen and harbor workers-----	772
National Institute of Health gift fund-----	81
Pershing Hall memorial fund-----	199
Preservation of birthplace of A. Lincoln, National Park Service-----	63
Merchant marine memorial chapel fund-----	424
National park trust fund-----	20
U. S. Naval Academy museum fund-----	1
Comptroller of the Currency-----	5, 640
Office of Naval Records and Library fund-----	44
Library of Congress fund-----	46
U. S. Naval Academy general gift fund-----	102
Banks for cooperatives-----	42, 463
Federal home-loan banks-----	1, 027, 810
Federal Housing Administration-----	14, 165
Federal intermediate credit banks-----	59, 524
Federal National Mortgage Association-----	21, 867
Panama Canal Co-----	15
Production Credit Corporation-----	39, 802

Total----- 5, 538, 266

The CHAIRMAN. Could you give at this point the interest rates paid in these different trust accounts?

Mr. MAYO. Yes; we would be glad to.

As you know, on the old age and a number of the more important ones, they are fixed right in the statute as enacted by the Congress. On others, the actuarial basis of the fund as determined by the Congress becomes the base for investment.

The CHAIRMAN. You do not have that information now?

Mr. MAYO. Not exactly. We will be glad to put it in.

(The information referred to is inserted facing this page.)

Senator FLANDERS. Mr. Chairman, there is an asterisk here, which perhaps Senator Martin has seen, which says "All other" is principally FDIC and postal savings.

Senator MARTIN. I see.

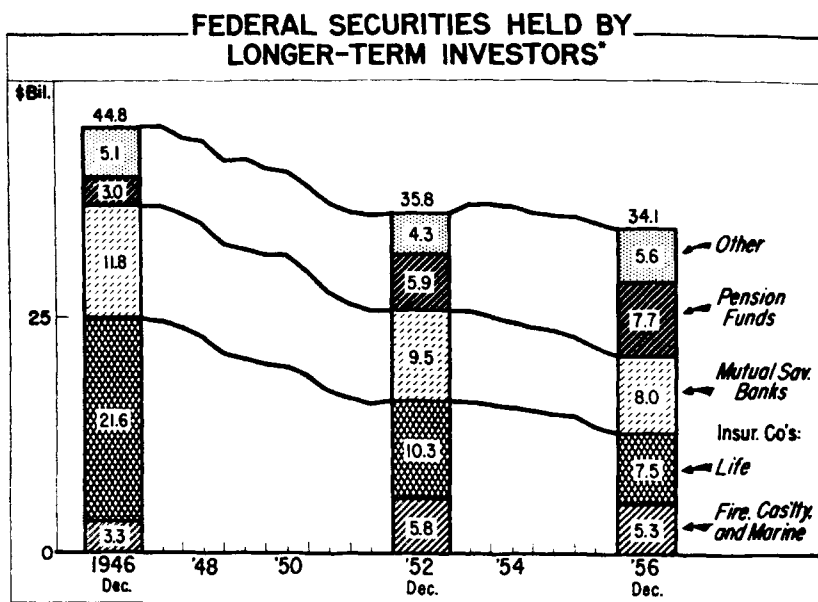
Senator FLANDERS. That gives a clue as to what it consists of.

Senator MARTIN. I did not see it.

Mr. MAYO. Shifting now from the Government accounts to the other longer term Government investors in our picture, this is a chart which I think Senator Kerr might particularly be interested in (chart 8) with reference to what has happened to the longer term investors over the past decade.

Senator KERR. Yes.

Chart 8



\*Nonbank excluding individuals.

Office of the Secretary of the Treasury

8-1280-4

Mr. MAYO. We have shown 3 bars here, with the wavy lines between, to show for these 5 types of investors what has happened to the longer term investors in their holdings of Government securities since the end of 1946.

As we will remember from the earlier discussions we have had, during the war most of these institutions investors really had no other place to put their funds except in Federal securities, and so there was

## STATEMENT OF THE PUBLIC DEBT, JUNE 30, 1957

Title	Author- izing act	Tax status	Rate of interest	Date of issue	Redeemable (See footnote 1)	Payable	Interest payable	Amount issued	Amount retired	Amount outstanding
<b>INTEREST-BEARING DEBT</b>										
<b>Special Issues:</b>										
Canal Zone, Postal Savings System:										
Series 1960 and 1961 (notes).....	(a)	(g)	2%	Various dates: From Feb. 1, 1956..	After 1 year from date of issue.	June 30, 1960 and 1961..	June 30, Dec. 31	\$400,000.00		\$400,000.00
Civil service retirement fund:										
Series 1958 (certificates).....	(a)	(g)	2 1/2%	June 30, 1957	On demand	June 30, 1958	June 30	5,706,946,000.00		5,706,946,000.00
Series 1959 to 1962 (notes).....	(a)	(g)	2 1/2%	do.	After 1 year from date of issue.	June 30, 1959 to 1962	do.	740,000,000.00		740,000,000.00
Series 1963 to 1967 (bonds).....	(a)	(g)	2 1/2%	do.	do.	June 30, 1963 to 1967	do.	925,000,000.00		925,000,000.00
Federal Deposit Insurance Corporation:										
Series 1957 to 1961 (notes).....	(a)	(g)	2%	Various dates: From Dec. 1, 1952..	do.	Dec. 1, 1957 to 1961	June 1, Dec. 1	855,700,000.00	\$138,200,000.00	717,500,000.00
Federal disability insurance trust fund:										
Series 1958 (certificates).....	(a)	(g)	2 1/2%	June 30, 1957	On demand	June 30, 1958	June 30, Dec. 31	257,883,000.00		257,883,000.00
Series 1959 to 1962 (notes).....	(a)	(g)	2 1/2%	do.	After 1 year from date of issue.	June 30, 1959 to 1962	do.	30,000,000.00		30,000,000.00
Series 1963 to 1967 (bonds).....	(a)	(g)	2 1/2%	do.	do.	June 30, 1963 to 1967	do.	37,500,000.00		37,500,000.00
Federal home loan banks:										
Series 1958 and 1959 (notes).....	(a)	(g)	2%	Various dates: From June 30, 1953..	do.	June 30, 1958 and 1959	do.	40,400,000.00	500,000.00	39,900,000.00
Series 1957 (certificates).....	(a)	(g)	2 1/2%	June 30, 1957	On demand	December 31, 1957	do.	10,100,000.00		10,100,000.00
Federal Housing Administration:										
Armed Services Housing Mortgage Insurance fund:										
Series 1960 and 1961 (notes).....	(a)	(g)	2%	Various dates: From Oct. 21, 1955..	After 1 year from date of issue.	June 30, 1960 and 1961	do.	3,600,000.00	400,000.00	3,200,000.00
Housing Insurance fund--Series 1960 and 1961 (notes).....	(a)	(g)	2%	From July 20, 1955..	do.	do.	do.	3,950,000.00	1,650,000.00	2,300,000.00
Mutual Mortgage Ins. fund--Series 1958 to 1960 (notes).....	(a)	(g)	2%	From Mar. 19, 1954..	do.	June 30, 1958 to 1960	do.	51,400,000.00	24,979,000.00	26,421,000.00
National Defense Housing Ins. fund--Series 1959 to 1961 (notes).....	(a)	(g)	2%	From Aug. 19, 1954..	do.	June 30, 1959 to 1961	do.	4,700,000.00	2,980,000.00	1,720,000.00
Section 220 Housing Ins. fund--Series 1959 and 1961 (notes).....	(a)	(g)	2%	From Aug. 20, 1954..	do.	June 30, 1959 and 1961	do.	850,000.00	300,000.00	550,000.00
Section 221 Housing Ins. fund--Series 1959 (notes).....	(a)	(g)	2%	Aug. 20, 1954..	do.	June 30, 1959	do.	750,000.00		750,000.00
Servicemen's Mortgage Insurance fund--Series 1959 to 1961 (notes).....	(a)	(g)	2%	Various dates: From Aug. 20, 1954..	do.	June 30, 1959 to 1961	do.	1,800,000.00		1,800,000.00
Title I Housing Ins. fund--Series 1958 to 1961 (notes).....	(a)	(g)	2%	From Mar. 1, 1954..	do.	June 30, 1958 to 1961	do.	2,350,000.00	900,000.00	1,450,000.00
Title I Insurance fund--Series 1959 and 1960 (notes).....	(a)	(g)	2%	From Aug. 20, 1954..	do.	June 30, 1959 and 1960	do.	43,400,000.00		43,400,000.00
War Housing Ins. fund--Series 1961 (notes).....	(a)	(g)	2%	From July 18, 1956..	do.	June 30, 1961	do.	14,350,000.00	6,850,000.00	7,500,000.00
Federal old-age and survivors insurance trust fund:										
Series 1958 (certificates).....	(a)	(g)	2 1/2%	June 30, 1957	On demand	June 30, 1958	do.	14,962,885,000.00		14,962,885,000.00
Series 1959 to 1962 (notes).....	(a)	(g)	2 1/2%	do.	After 1 year from date of issue.	June 30, 1959 to 1962	do.	2,000,000,000.00		2,000,000,000.00
Series 1963 to 1967 (bonds).....	(a)	(g)	2 1/2%	do.	do.	June 30, 1963 to 1967	do.	2,500,000,000.00		2,500,000,000.00
Federal Savings and Loan Insurance Corporation:										
Series 1958 to 1961 (notes).....	(a)	(g)	2%	Various dates: From June 30, 1953..	do.	June 30, 1958 to 1961	do.	124,190,000.00	21,500,000.00	102,690,000.00
Foreign service retirement fund:										
Series 1958 (certificates).....	(a)	(g)	4%	June 30, 1957	On demand	June 30, 1958	June 30	21,281,000.00		21,281,000.00
Series 1958 (certificates).....	(a)	(g)	3%	do.	do.	do.	do.	1,108,000.00		1,108,000.00
Government life ins. fund--Series 1958 (ctfs.).....	(a)	(g)	3 1/2%	do.	do.	do.	do.	1,200,427,000.00		1,200,427,000.00
Highway trust fund:										
Series 1958 (certificates).....	(a)	(g)	2 5/8%	do.	do.	do.	June 30, Dec. 31	404,444,000.00		404,444,000.00
National service life insurance fund:										
Series 1958 to 1962 (notes).....	(a)	(g)	3%	Various dates: From June 30, 1953..	After 1 year from date of issue.	June 30, 1958 to 1962	June 30	5,570,310,000.00		5,570,310,000.00
Postal Savings System--Series 1960 (notes).....	(a)	(g)	2%	From Oct. 17, 1955..	do.	June 30, 1960	June 30, Dec. 31	61,200,000.00	56,400,000.00	4,800,000.00
Railroad retirement account--Series 1958 to 1962 (notes).....	(a)	(g)	3%	From June 30, 1953..	do.	June 30, 1958 to 1962	June 30	3,475,108,000.00		3,475,108,000.00
Unemployment trust fund:										
Series 1958 (certificates).....	(a)	(g)	2 5/8%	June 30, 1957	On demand	June 30, 1958	June 30, Dec. 31	7,995,644,000.00		7,995,644,000.00
Veterans special term insurance fund:										
Series 1958 (certificates).....	(a)	(g)	2 5/8%	do.	do.	do.	June 30	34,082,000.00		34,082,000.00
Total special issues.....								47,081,736,000.00	254,500,000.00	46,827,237,000.00

## AUTHORIZING ACTS:

<sup>a</sup> Sept. 24, 1917, as amended.<sup>i</sup> Aug. 5, 1909, Feb. 4, 1910, and Mar. 2, 1911.

## TAX STATUS:

<sup>k</sup> These issues being investments of various Government funds and payable only for the account of such funds have no present tax liability.<sup>l</sup> Redeemable at the option of the United States on and after dates indicated, except where otherwise stated. In case of Treasury bonds and Treasury bonds, Investment Series B-1975-80, now outstanding, such bonds may be redeemed only on interest dates, and 4 months' notice of redemption must be given.

quite a pileup of Federal securities, somewhat of a demand character, as far as the institution was concerned, by the end of the war.

We find, then, that this group held close to \$45 billion of Government securities at the end of 1946, consisting of \$3 billion, starting at the bottom of the chart, by fire, casualty and marine insurance companies; \$21.6 billion by life-insurance companies; \$11.8 billion by mutual savings banks; pension funds of \$3 billion; and \$5.1 billion for miscellaneous investors, which includes savings and loan associations, a small amount held by dealers and by eleemosynary institutions of one kind or another—nonprofit institutions.

Senator KERR. Are the commercial bank holdings shown on some other chart?

Mr. MAYO. Yes. This just shows longer term investors, and we will have figures on the commercial banks in a moment.

Senator KERR. Yes.

Mr. MAYO. Between 1946 and 1952, there was a decline of \$9 billion, in the aggregate, in the holdings of Government securities by these investors. That decline was concentrated in life-insurance companies, which went down by over 50 percent during that period of time.

Again, this reflected a combination of circumstances. These investors were under considerable pressure, in the expansion of the post-war economy, to put their funds to work in industry, and in building new houses, and so forth, and were gradually trying to liquidate Government securities to provide the funds that they needed in excess of the volume of current savings that were coming in from individuals on life-insurance premiums and savings deposits, and so forth.

You had then, in combination with that, the fact that during much of this period, these investors could sell their Government securities without any great fear of loss, at least a loss under par, because up until 1951, of course, there was a supported market for Government securities, supported by the Federal Reserve at levels of par or above.

From 1952 to 1956, there has been a continued liquidation of Government securities by these longer term investors, but it has been much more moderate. They have gone down \$1.7 billion in the last 4 years. They actually went up a little bit in 1953, partly as they had funds available temporarily to put into the new Treasury 3¼'s when they were offered.

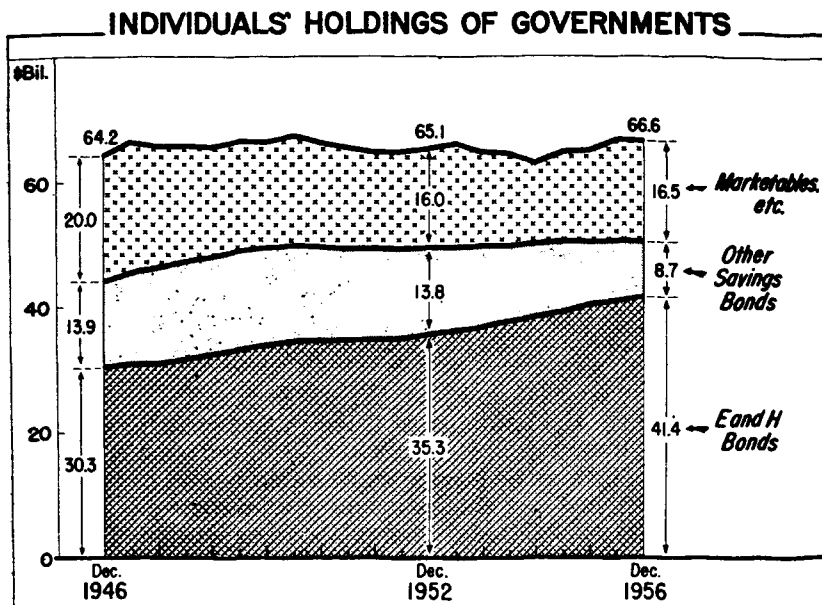
On net balance, however, the holdings are somewhat lower now than they were 4 years ago.

Again, life-insurance companies account for the bulk—in fact, more than all—of the decrease during this period.

Savings-bank holdings have also declined. The pension funds have increased. I should go on back, on pension funds, to mention that this has been an important source of long-term money to be invested in Governments during the last 10 years in terms of the rapid growth of both corporate and State and local pension funds. Both of them are included here.

The Federal pension funds, of course, were already included on the preceding chart.

Shifting now to the other big group of longer term investors, we have the individual holdings of Government securities shown on chart 9.



Office of the Secretary of the Treasury

9-1249-9

We see the part played here, graphically, by the E and H savings-bond program which Mr. Burgess described yesterday, showing that at the end of World War II we had about \$30 billion of E- and H-bonds outstanding. Most of the people who were looking at that at the end of the war, including many of us in the Treasury, were convinced that the total would go down in the early postwar period as people spent their money to catch up on the things that were short during the war.

And some people did cash their bonds, it is true, but on balance they bought even more. So that by 1952, savings bonds increased by another \$5 billion, and another \$6 billion was added up to December of 1956.

This increase has permitted, therefore, the total holdings of Government securities by individuals to remain fairly stable over this entire decade, because what individuals were doing was to decrease their holdings of marketable securities, during the first half of this period, and to decrease their holdings of F- and G-bonds as they matured during the second half of this period.

So when you balance them all out with this general increase in E- and H-bonds, you find that total holdings at the end of 1956, of \$66.6 billion, are fairly close to an alltime high.

Senator KERR. May I ask a question there?

Mr. MAYO. Yes, sir.

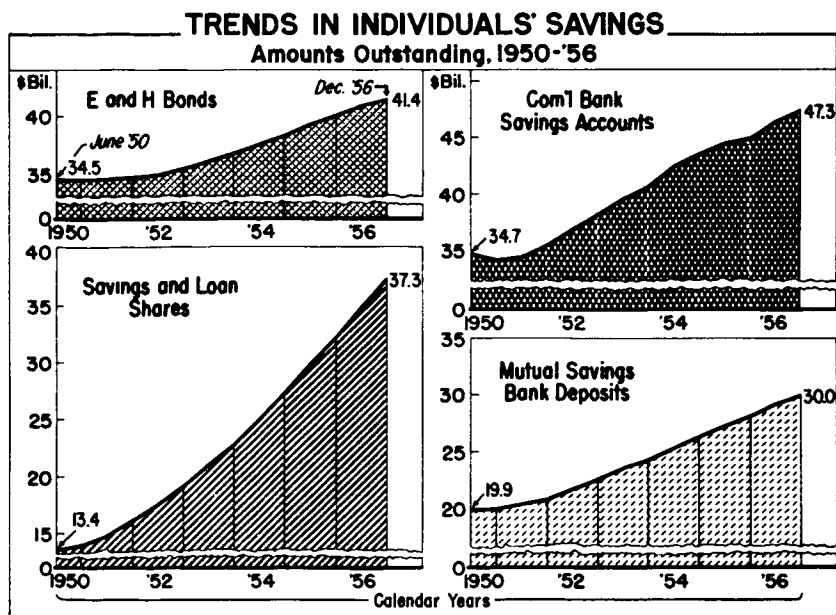
Senator KERR. The \$41.4 billion of E- and H-bonds is figured, I presume, on the basis of their redeemable value at the end of 1956?

Mr. MAYO. That is exactly right. That includes the accrued interest as well as the cash people put in in the first place.

One of the objectives that the Treasury stresses in connection with the savings-bond program is that it is not just selling E- and H-bonds in order to divert savings from other forms of investment. Rather, what the Treasury is trying to do and has succeeded to a large extent, is to encourage a larger volume of overall savings which we need so much to finance the capital expansion that we are witnessing in this country.

E-bonds and H-bonds have grown gradually during this period, as we saw in the preceding chart. They went up from \$34½ billion at the time of the Korean attack, to \$41.4 billion at the end of December, 1956 (chart 10).

Chart 10



Office of the Secretary of the Treasury

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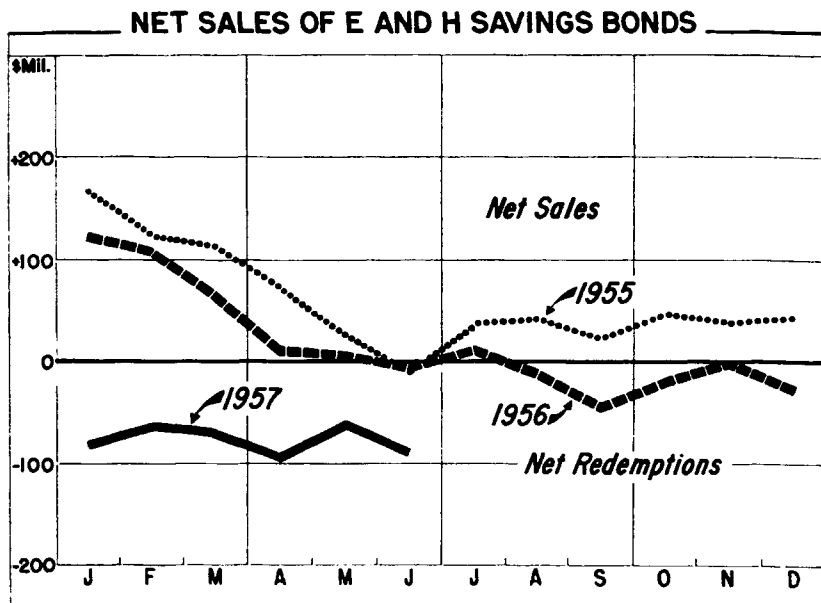
Now, commercial bank savings accounts also stood at about \$34½ billion on that same date, in June 1950, but they have gone up much more rapidly than savings bonds. They have gone up to \$47.3 billion at the end of 1956, and are somewhat above that now.

Mutual savings banks, to go around the circle here on the chart, shows also a fairly rapid increase in their savings accounts outstanding—up about 50 percent; but the most dramatic increase of all, of course, as we all well know, has been in the savings and loan industry, where their savings accounts outstanding were only \$13.4 billion in June of 1950, growing to \$37.3 billion by December of 1956.

In connection with the E- and H-bond program, as we all are well aware, there was a deterioration in sales, quite apart from the usual seasonal downturn during the year, during 1956 and into early 1957. This chart (chart 11) shows the monthly excess of cash sales over cash redemptions when it is a positive figure on the chart, or the

monthly excess of net redemptions over sales when it is a negative figure on the chart, month by month, starting with January 1955, and going on through that year, going through 1956 and on to June 1957.

Chart 11



Office of the Secretary of the Treasury

8-1317-2

The 1957 trend has, in effect, been reversed now in terms of its relationship to the 1955 and the 1956, which were gradually moving on downward.

The increase in rate which took place in the spring of this year, effective February 1, has stabilized the relationship of sales and redemptions, so that net sales are no longer going downhill.

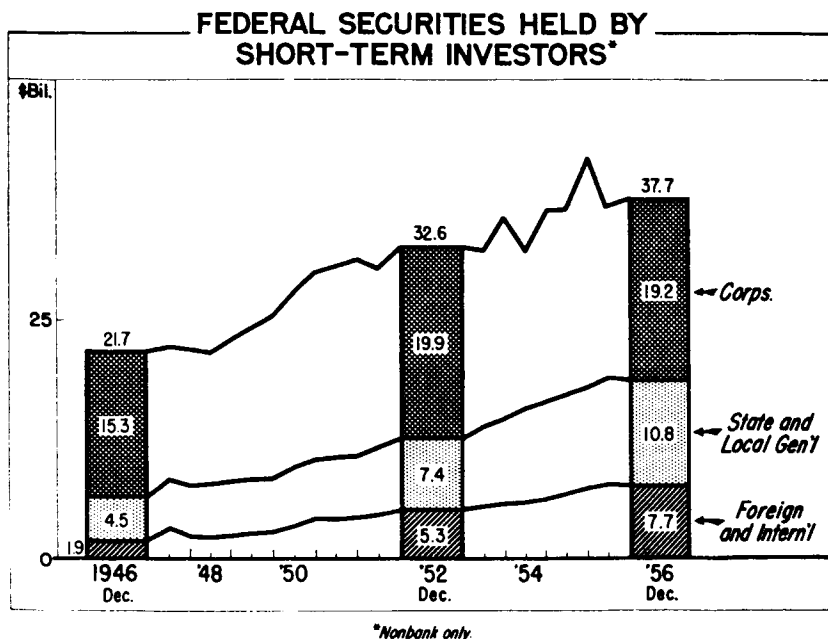
On the basis of the figures through June, at least, the program has not really started to go uphill again, but we are hoping that soon these figures will begin to get back up to the point where the E- and H-bond cash sales will be at least equal to the cash redemptions.

Now we have covered the long-term investors and the kind of markets we have there. For the institutional investors, these markets seem to be somewhat limited because they are still in the process of liquidating holdings to put money into mortgages and corporate securities. There is still a market, however, in some magnitude for pension trusts and, more importantly, for individuals.

As far as the short-term investors are concerned—this chart (chart 12) again is outside of the banks—we have seen a growing market during the last decade for Federal securities on the part of non-financial corporations like the automobile companies, the steel companies, the oil companies, and, in fact, some even in retail and whole-

sale trade. There has been a pickup of Government securities by these corporations largely to cover their tax liabilities as they tend to fund them in advance of payment to the Treasury.

Chart 12



They build up some funds, also, for other short-term needs in anticipation of dividends or construction payments, or if they sell a new corporate issue and do not need the money right away, it may be invested in Government securities.

We have, then, this growth in the top bars of the chart that has been fairly substantial over the years, but not so much growth the last couple of years.

As a matter of fact, those total figures on short-term investors which reached a peak in 1955, are a reflection of corporations themselves. They had about \$23 billion of Governments as of December 1955. They had, under the impact of a tighter money situation, they had about \$4 billion less in the way of Government securities at the end of 1956 than they did a year earlier.

Going down the scale, we find that State and local governments also have piled up some holdings of Government securities. These are apart from their pension funds, as they, too, float their securities—as, for instance, a big turnpike issue—in the market and then will invest some of it in Government securities until it is needed for construction purposes.

We have also had an increase in the Government securities held by international accounts, like the Monetary Fund, the World Bank, and so forth. More importantly, the holdings by foreign central banks and commercial banks in Government securities have grown.

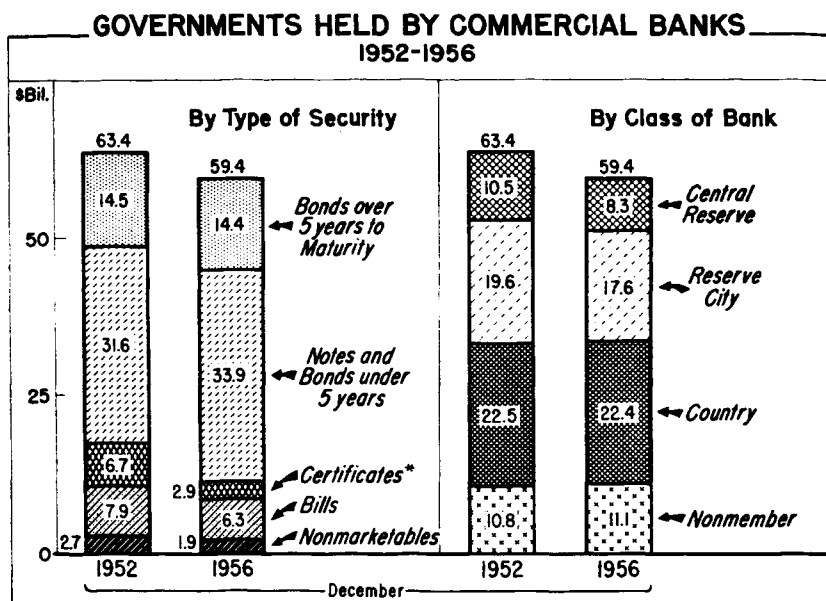
That has tended to level out during the last year, only because of the Monetary Fund's holdings of non-interest-bearing notes going down some as the fund paid out some of its money during the last year.

Now we are getting to commercial banks on chart 13. We have covered all of the other investors.

Typically, the Treasury has tried to consider the commercial bank investment in Governments as somewhat of a residual proposition. It is not always possible, of course, but traditionally the Treasury has preferred to do its borrowing out of savings of individuals either directly or indirectly, or savings of corporations, rather than borrowing from the commercial banks, which would tend to create additional money.

We have here a comparison from 1952 to 1956, on the governments held by commercial banks. As we noted earlier, they went down by about \$4 billion during those 4 calendar years.

Chart 13



\*Includes notes originally 14 months or less to maturity.

Office of the Secretary of the Treasury

8-1316

We have split the picture here on chart 13 two different ways, because both from the standpoint of the type of security that the banks hold, and the class of bank that is involved, these figures have quite an importance to the Treasury as sellers of Government securities.

We find on the left-hand side of the chart, then, the breakdown of commercial bank holdings by type of security. As far as the longer securities are concerned, at the top of the chart, in both 1952 and 1956 commercial banks held about \$14.5 billion of their holdings

of governments in terms of securities maturing in 5 years or more.

Commercial banks traditionally, though, have invested more in the intermediate and shorter term area. It is only the outlying banks, really, with a high proportion of time deposits, that tend to hold more of the longer term securities.

You had some movement upward in the notes and bonds under 5 years held by the commercial banks since 1952. There was a movement downward, however, in the volume of very short-term obligations held by the banks during these 4 years, well, both from the standpoint of the certificates which run a year to maturity, and your shorter term bills, mostly the 90-day bills.

As far as the class of bank is concerned, we find that the central Reserve city banks in New York and Chicago, and the other Reserve city banks throughout the Federal Reserve districts, are the banks which have accounted for the change in holdings.

Senator KERR. May I inquire there?

Mr. MAYO. Yes, sir.

Senator KERR. Are these central Reserve city banks, Federal Reserve banks?

Mr. MAYO. No, sir. These are commercial banks, they are private banks.

Senator KERR. What do you mean by "central Reserve"?

Mr. MAYO. This is a classification by the Federal Reserve Board according to the three classes of member bank reserve requirements. Central Reserve cities have the highest proportion of reserves required against deposits. That is New York and Chicago.

Senator KERR. I thought their reserve requirements had been reduced to a point lower than the country banks.

Mr. MAYO. No. They are still higher.

Senator KERR. They are still higher?

Mr. MAYO. They are still higher. They have been reduced, you are correct, but not quite as far as the others yet.

Then the second group—

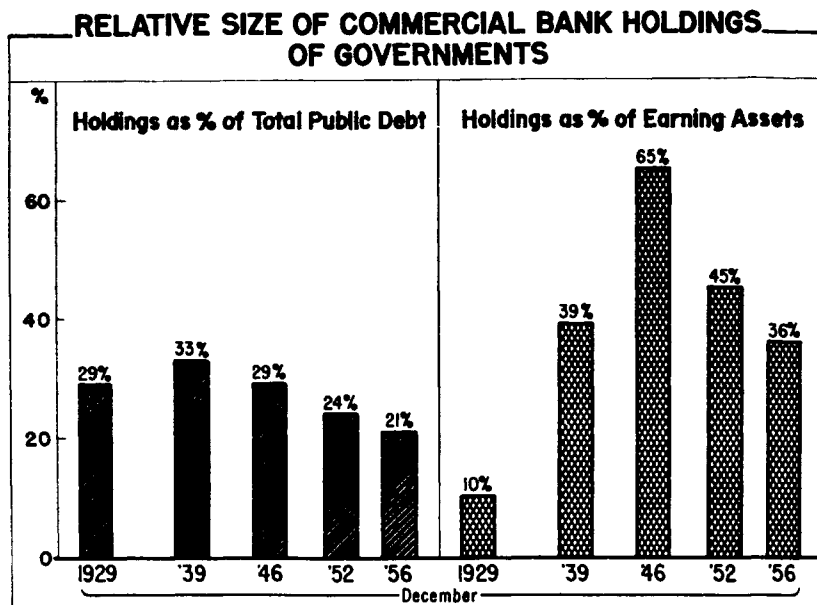
Senator KERR. These, instead of being elements of the Reserve System, are members of the Reserve System?

Mr. MAYO. Yes, sir; that is exactly right.

Senator KERR. All right.

Mr. MAYO. You have then what we call country banks, the banks outside of the cities in which the 12 Federal Reserve banks are located show considerable stability in their holdings of Government securities during the last 4 years, a stability which is also true of the non-member banks—the banks that are State banks that are not members of the Federal Reserve System.

In relation to the entire picture of the public debt, and in relation to the entire picture from a banker's standpoint, of the earning assets of the banking system, here are some additional figures which we thought might be interesting to you.



Office of the Secretary of the Treasury

8-1314

Looking at the holdings of Government securities by the commercial banks first from the standpoint of the Treasury we have these bars on the left side of the chart. They show that in 1929, 29 percent of the public debt was held by the commercial banks. That went up to 33 percent by 1939, down to 29 percent again at the end of the war, down to 24 percent at the end of 1952, and 21 percent in December 1956. Although it is not on the chart the 21 percent is also true for June 1957.

Thus, from the Treasury's standpoint, there has been less dependence in recent years on the commercial banks in providing funds to the Treasury.

On the right-hand side of the chart, here again looking at the same set of figures from the standpoint of the banker's asset position, we find that back in 1929, only 10 percent of bank earning assets, were in Governments.

That rose to 65 percent in 1946. It was actually as high as 70 percent in early 1946.

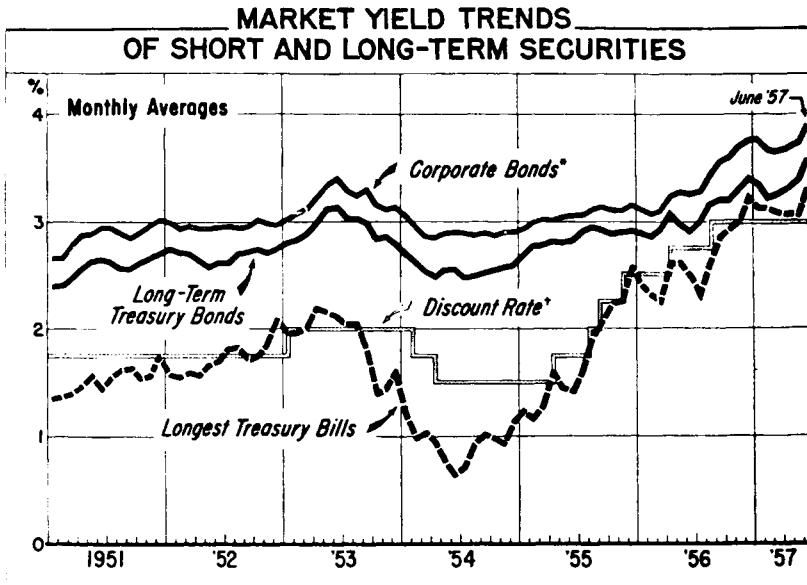
It has now declined to about 36 percent in December of 1956, and it was 34 percent at the end of June 1957.

We have examined in some detail the various investor classes and the problems that we have in competition with other types of investments.

In the last analysis, this competition with other types of investment, competition for available funds in the market, is reflected in the market place in terms of interest rates—and prices, of course, which are just the other side of interest rates—on Government securities and on other types of investments.

Chart 15 is designed to show, first of all, the Treasury long-term bond averages, over the period since early 1951 when the Federal Reserve-Treasury accord freed the market.

Chart 15



\*Moody's Aaa.    \*Federal Reserve Bank of New York.

There was a movement upward to the peak in 1953 in terms of yields; a movement downward—I am talking now about this solid black line, the second from the top—a movement downward in 1954, with a movement upward again to the present time.

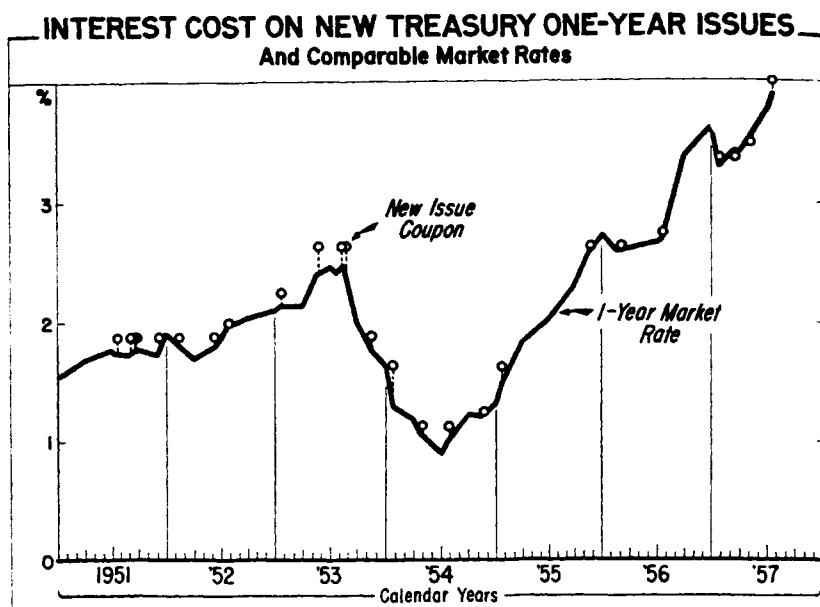
You can see also on this chart the similar movement again reflecting the same basic factors in the market place, of corporate bonds during the same periods, going up to a peak in 1953, down again the following year, and on up to the present levels of the Moody's AAA corporate average on which this is based.

On the short-term end of the market, the chart shows Treasury bills, which, in a sense, is the purest interest rate in the market. It is the product of a regular weekly phenomenon where market bidding provides the actual rate that the Treasury has to pay on those securities.

We have compared that with the Federal Reserve discount rate over a period of years.

Now, when we take the interest curve which is provided by the bill rates plus the transactions in the market that are going on every day in other short-term issues, and we come up with a market curve for 1-year money on chart 16.

Chart 16



The Treasury 1-year market rate is shown on the solid line on this chart.

We have put against that 1-year market rate the actual interest coupon rates on each of the new Treasury certificates that have been put out since 1951, just to make the comparison between each new certificate—say it is  $1\frac{1}{8}$  percent,  $2\frac{1}{8}$  percent or  $3\frac{1}{4}$  percent, or whatever it happens to be. That is charted against the market curve at that time, and we find that the average spread is in the neighborhood of one-eighth of 1 percent.

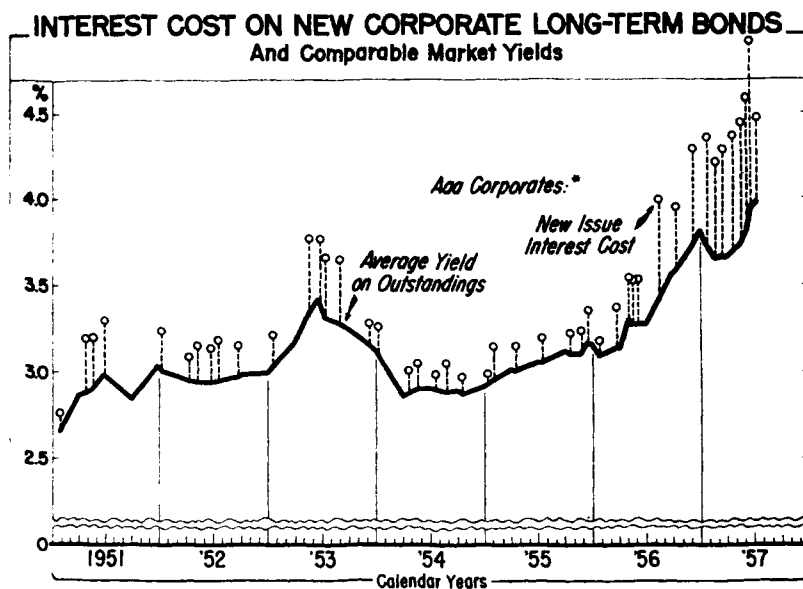
That is true for most of the individual issues along the way, too. They were a little higher at the peak in 1953. They were a little under the market in the spring of 1957.

Our most recent 4-percent offering, over to the right on the chart represented a spread from the market curve of about 10 basis points; in other words, one-tenth of 1 percent. That is just about the same as—in fact actually a little less than—the average for the issues over this entire period.

It is not possible to do this same sort of comparison for longer term Treasury issues, because they have been too infrequent and there really is not a market curve, as Mr. Burgess explained yesterday, that will give you a precise comparison.

We have, however, made a comparison in chart 17—on the basis of Moody's Aaa bond averages on the corporate bonds over the last 6 years, by charting here as a solid black line market yields on the outstanding corporate issues, the seasoned issues.

Chart 17



\*Moody's Investors Service.

C-1032-1

We have compared each one of the 58—although we have about 45 of them on here—Aaa new issues put out by corporations for \$10 million or more, during this same 6½ years, and we come up with the conclusion that there has been average spread of about 30 basis points over the period of the last 6 years, as far as new corporate issues are concerned, in comparison to the curve.

Senator FLANDERS. Mr. Chairman, I would like to get clearly in my mind what this word "spread" means.

Does this mean that those corporate bonds were offered at a higher price than the going rate?

Mr. MAYO. They were issued at a higher yield—

Senator FLANDERS. Yield.

Mr. MAYO (continuing). Than the going rate, in order to sell them. In other words, that is part of the process of putting a security on the market, the underwriting of a security.

Senator FLANDERS. If they were offered at a higher yield than the going rate of yield, would they yield a premium in the market after they had been issued?

Mr. MAYO. They might for a short period of time. It will vary with the specific issue. Typically, a new issue has to yield something of a premium to start with, to make it go, so to speak.

Senator FLANDERS. Yes.

Senator BENNETT. Mr. Chairman.

Am I to understand from the comparison of these last two charts, then, that the Treasury is suggesting that it has been able to hit the market better on the nose with less of a spread than those who have issued corporate stocks?

Mr. MAYO. Yes, I think that is a correct conclusion.

Senator KERR. That is the purpose of the charts.

Mr. MAYO. Yes. [Laughter.]

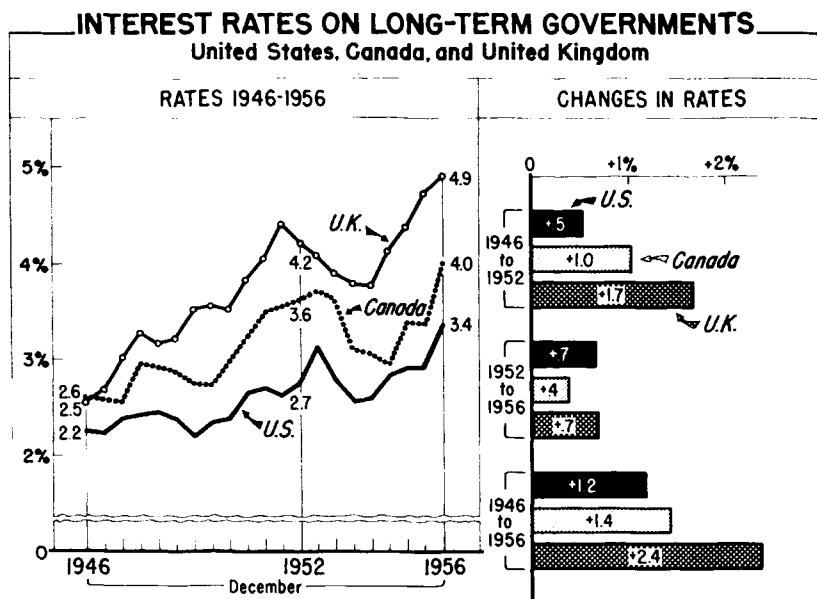
As Mr. Burgess indicated yesterday, on the 3 $\frac{1}{4}$ 's which the Treasury issued in 1953 the spread was approximately 15 basis points, which is about half the average spread for this entire group of corporate securities.

I might add that on the 3's the Treasury put out in 1955, the spread was even less than that—perhaps a shade under 10 basis points.

We have three charts to finish up, which I want to show to illustrate factually here what has happened in terms of a comparison of interest rates in the United States, in Canada, and in the United Kingdom during the last decade, taking those countries as being the closest that you can pick in terms of the nearness to our own economic situation. Also these are typically three of the very lowest interest rate countries in the world.

We find here, first of all in chart 18, a comparison of the interest rates on long-term governments in the three nations.

Chart 18



Office of the Secretary of the Treasury

B-1345

Going back to 1946, the United States long-term rate was 2.2 percent. This is the rate in the market. The Canadian long-term rate was 2.5 percent. The British rate was 2.6 percent.

By 1952, all of the rates—

Senator KERR. Was that not just the other way?

Mr. MAYO. Pardon, sir?

Senator KERR. Was that not just the other way?

Mr. MAYO. You mean on the Canadian—

Senator KERR. The United Kingdom was 2.5, and Canada was 2.6.  
Mr. MAYO. I am sorry. You can read my chart better than I can, sir.

Senator KERR. That is right, is it not?

Mr. MAYO. That is right, sir.

By 1952, however, there were increases in all three nations. The largest increase took place in the United Kingdom; the smallest States, which during most of this period was still in a period of supported markets for longer term securities.

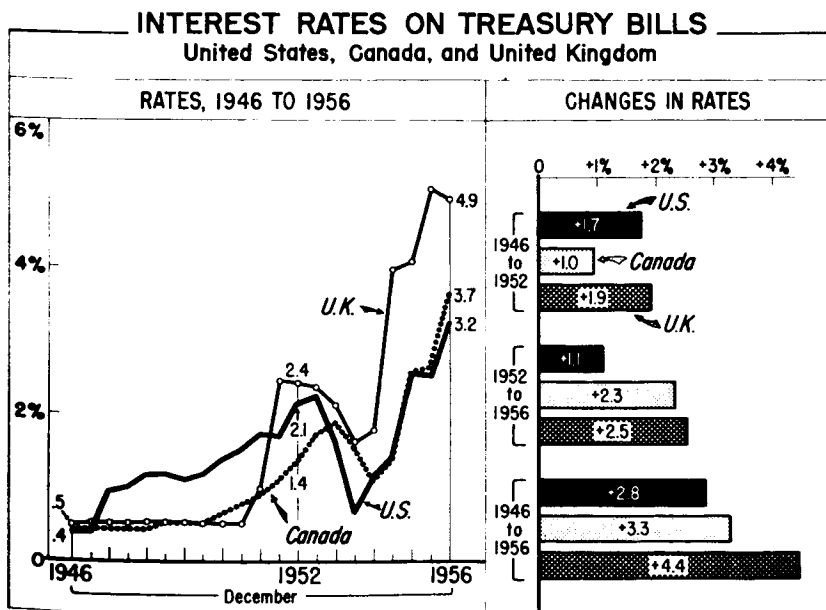
From 1952 to 1956, the increase in the United States, with the markets being free from Federal Reserve support, showed more of an increase than was the case in Canada, and just about the same as was the case in the United Kingdom.

So if you add up the 2 periods and take the decade as a whole—those are the 3 bottom bars on the chart—you find that the rate went up by 1.2 percent, in other words, from 2.2 to 3.4 percent, in the United States.

It went up 1.4 percent in Canada, from 2.6 to 4 percent, and it went up 2.4 percent in the United Kingdom, from 2.5 to 4.9.

We have a similar chart on Treasury bills (chart 19). Here the picture is a little different in terms of the two periods of time, but the net conclusion is about the same. All of the rates were quite low in 1946, around three-eighths to one-half of 1 percent for all 3 countries.

Chart 19



The rate on bills was freed a little earlier in the United States than in either Canada or in the United Kingdom, so that the bill rate started to move up in this country earlier than in the other two countries.

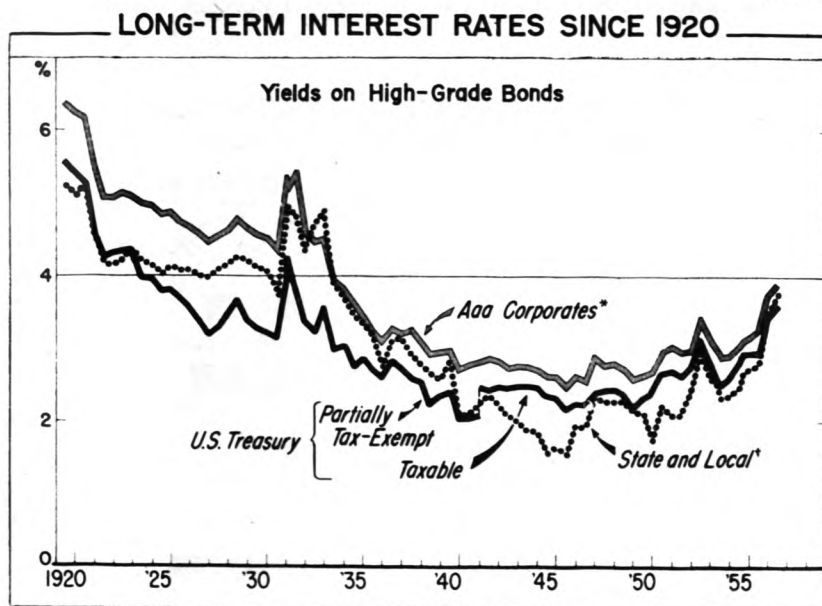
For the 1946 to 1952 period as a whole, however, you have an increase of 1.7 percent in the United States bill rate, 1 percent in the Canadian bill rate, and 1.9 percent in the United Kingdom rate. The United Kingdom rate jumped fairly quickly toward the end of that period.

From 1952 to 1956, the United States rate, having already been freed, showed very little change relative to the other 2 countries: 1.1 percent in the United States; double that, or 2.3 percent in Canada; and 2.5 percent in the United Kingdom.

So far the entire decade, again you see that the bill rate in the United States went up by 2.8 percent, the Canadian rate by 3.3 percent the United Kingdom rate by 4.4 percent. Again, the United States is the lowest of the 3 countries, as well as showing the smallest of the 3 increases.

The final chart—chart 20—shows the interest rate patterns of Treasury long-term issues, of high grade corporate long-term issues, and of high-grade municipal securities, over the period from 1920 to June 1957.

Chart 20



\*Moody's Investors Service

\*Standard and Poor's Municipal Average

All of them show essentially a reflection of the same market conditions. They tend to move together.

There is a jump in the Treasury curve, of course, as Treasury issues became taxable in the early 1940's. But basically, this movement is a single movement—downward for many years, from the early twen-

ties down through World War II, and then a broad movement upward from 1946 up to the present time, but with current rates still well below the average levels for these interest rates during the 1920's.

We have, then, through these charts, attempted to show you just a little of what we call the market environment, Mr. Chairman, relating to the problems of managing the debt.

Thank you for your patience.

The CHAIRMAN. You have made a very informative statement. Thank you very much.

Mr. Burgess?

**STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY  
OF THE TREASURY—Resumed**

Mr. BURGESS. Thank you for your patience.

The CHAIRMAN. That was a very good statement.

Mr. Burgess, I first want to ask some questions in regard to the recent offering of government bonds, because I think interest rates attaching to the sale of those refunding bonds is going to have a very profound effect on all interest rates, not only of the Federal Government, but on local and State government bonds and those of individuals and corporations.

As I understand it, you offered \$23.9 billion and sold \$22.8 billion.

Mr. BURGESS. Yes, that is in round figures. We will have the precise figures, within a narrow margin, today.

The CHAIRMAN. Of this \$22.8 billion sold to previous owners, \$8.1 billion was owned by the public.

Senator KERR. Were taken by the public.

The CHAIRMAN. Were taken by the public.

Mr. BURGESS. Yes, taken by the public.

The CHAIRMAN. In other words, approximately 34 percent of the issue was taken by the public; and the balance was taken by the Federal Reserve System.

Mr. BURGESS. That is right.

Senator KERR. And Government accounts.

Mr. BURGESS. And Government accounts.

The CHAIRMAN. You say in your prepared statement that the Federal Reserve System took it. I thought that was a mistake.

Mr. BURGESS. Well, it is mostly Federal Reserve. There is a little held by Government accounts.

The CHAIRMAN. How much was taken by the Federal Reserve?

Mr. BURGESS. Almost all was Federal Reserve.

The CHAIRMAN. Now, when the Federal Reserve takes an offer made to them, they accept it without question, as I understand it.

Mr. BURGESS. Yes. We, of course, have conferred with them in advance about the terms of every issue. We never put out an issue without consulting them.

The CHAIRMAN. They never refuse to take their share, whatever that may be?

Mr. BURGESS. They never have, so far.

The CHAIRMAN. All right.

Now, suppose this entire issue had been offered to the public, what would have been the result?

Mr. BURGESS. Well, of course, we only offered the public bonds for replacement of what they already had.

The CHAIRMAN. I understand.

Mr. BURGESS. This was a refunding.

The CHAIRMAN. It was not taken in full; it was 12 percent short. It was not oversubscribed; it was 12 percent short.

Mr. BURGESS. That is right, but there is always some cash holdout on a refunding.

The CHAIRMAN. For the sake of argument and an understanding of what you think of the situation, suppose the entire issue had been offered to the public at the same rates?

Mr. BURGESS. Do you mean, suppose we asked the public to buy \$24 billion of Government securities at one crack?

The CHAIRMAN. Yes.

Mr. BURGESS. Well, the only way you could sell that is by selling a very large amount to the banks and having the Federal Reserve give them the reserves to do it, and you would have to pay a good rate and work it out ahead of time.

The CHAIRMAN. Would the public have bought the issue without any pressure?

Mr. BURGESS. I think, to parallel that, one would have to go back to what we did in the war loan drives, where we had issues that were about that size. If you are going to sell that many Government securities at one time, you have to organize it, you have to have publicity, you have to have conferences ahead of time, you have to offer types of securities adapted to each investor.

We actually did it in the war loan drives, but it is a very large amount of money to absorb into our economy at once.

The CHAIRMAN. My question is: At the interest rates you offered in this proposal, would the public have taken all of the \$24 billion, or would it have taken \$20 billion? As it was, the public did not take the \$9 billion available publicly; it was 12 percent short.

Mr. BURGESS. Well, Mr. Chairman, of course those holders of \$9 billion of our securities included a good many people who bought those securities with the idea that they would take cash when they matured; that is, they had some sort of a need for cash the 1st of August, or the middle of August, so they planned, when they bought them, to take the cash when they matured. There were a good many of those people.

Many of them sold what we called their rights; that is, sold their maturing issue to somebody else in the 3 days that the books were open. So that, while there may have been 2 or 3 billion dollars of holders who wanted to take cash, a large part of them moved their securities on to somebody else who was interested in buying the issue.

The CHAIRMAN. Would you venture a guess as to what would have happened if this amount of bonds were offered to the public?

Mr. BURGESS. I could not imagine anything more stupid than making an offer of \$24 billion worth of bonds to the public at one crack.

The CHAIRMAN. You would have to offer them if they matured and you had to refund them.

Mr. BURGESS. If the public held \$24 billion.

The CHAIRMAN. Yes.

Mr. BURGESS. And then you offered all of them——

The CHAIRMAN. What I am getting at is, if the public had held the \$14 billion that the Federal Reserve held in this instance, what would you have done? You had to refund them. It is not a matter of voluntary action on your part. They come due August 1, August 15, October 1.

Mr. BURGESS. That is right.

The CHAIRMAN. So if the Federal Reserve had not happened to own that \$14 billion, what would you have done?

Mr. BURGESS. You mean if the Federal Reserve had turned them all in?

The CHAIRMAN. No. I mean if the Federal Reserve had not owned these particular bonds you were trying to refund, and you had to sell them to the public, what would have happened?

Mr. BURGESS. Then you would assume the public would have held all of the maturing issues, is that not right, Senator? We have to make some assumption. Is this a net increase in the public debt of—

The CHAIRMAN. The public debt is two-hundred-and-seventy-odd billion dollars.

Mr. BURGESS. Yes.

The CHAIRMAN. And the Federal Reserve owns \$25 billion; is that correct?

Mr. BURGESS. Yes.

The CHAIRMAN. That is not quite 10 percent.

Mr. BURGESS. That is right.

The CHAIRMAN. You cannot assume that, in refunding all of these bonds, the Federal Reserve will own 60 percent each time, as it did in this case.

Mr. BURGESS. They do not in most of the issues, of course.

The CHAIRMAN. The point I am trying to get clear in my mind is, what would have happened if you had not had the Federal Reserve to take 60 percent of these bonds at this time?

Mr. BURGESS. I am trying to get at what we have to assume for our problem, Senator.

The CHAIRMAN. Assume the Federal Reserve was not in the picture; what would you have done?

Mr. BURGESS. All right. Let us assume all of the \$24 billion was held outside of the Federal Reserve, maturing—

The CHAIRMAN. Yes.

Mr. BURGESS. In that case, you would have had to offer something you felt was attractive to the holders of the \$24 billion.

The CHAIRMAN. Would the rates you offered have been attractive?

Mr. BURGESS. I have some doubt whether you could have moved that large an amount successfully at these rates. I think you might have had to sweeten them up a little. But I think with these rates you would have gotten—

The CHAIRMAN. In other words, if the Federal Reserve had not bought 60 percent, you would have had to offer these bonds at interest rates higher than 4 percent?

Mr. BURGESS. Very likely. I would not want to—

The CHAIRMAN. That indicates, then, that it will be necessary to continue increasing interest rates?

Mr. BURGESS. No, I would not take that leap, Senator. I do not think that follows from the preceding premises.

The CHAIRMAN. But you have a vast amount of bonds coming due in the future, have you not?

Mr. BURGESS. Yes, sir. We have very few, however, as large as this. Mostly they are staggered along and spaced in somewhat smaller amounts, and—

The CHAIRMAN. You think, though, that the interest rates would have been higher in the present case if all of them had been going to the public?

Mr. BURGESS. Yes. I think that is a very remote contingency, because I do not conceive of our being stupid enough to have a \$24 billion maturity at one time in the hands of the public.

The CHAIRMAN. I cannot understand your statement about stupidity. These bonds are coming due. It is not your choice to issue them. They come due. The people can demand them.

Mr. BURGESS. Oh, yes. But we fix the maturities of these issues, that is, the Treasury did, over a period in the past, and we tried to distribute our maturities along so you would not be encountered with impossible jobs.

The CHAIRMAN. But, without the Federal Reserve System buying the bonds, you would be in a bad fix?

Mr. BURGESS. The Federal Reserve System is an essential part of our whole mechanism.

The CHAIRMAN. The Federal Reserve only owns less than 10 percent of the debt.

Mr. BURGESS. Yes. This is more than half of the Federal Reserve securities that were turned over in this one operation.

The CHAIRMAN. How much refunding will you have to do next year?

Mr. BURGESS. It is somewhere around \$50 billion.

Have you the figures there, Mr. Mayo?

The CHAIRMAN. The Federal Reserve may be in there.

Mr. BURGESS. This is for calendar 1958?

The CHAIRMAN. Yes.

Mr. BURGESS. Would you like me to put that in the record, Senator?

The CHAIRMAN. I would like to have the figure now, because I think this is quite important. If we have to depend on the Federal Reserve System to buy these bonds, we ought to know it now.

Mr. BURGESS. We are dependent upon the Federal Reserve System, Senator.

The CHAIRMAN. But they own less than 10 percent of the bonds.

Mr. BURGESS. Yes. But they own the short-term maturities that keep turning around.

The CHAIRMAN. These are not short-term bonds, necessarily while the requested information is being gathered, let me ask whether you can recall any instance in the past when bonds were refunded at a 100 percent increase in interest rates?

Mr. BURGESS. Over the maturing issue?

The CHAIRMAN. Yes.

Mr. BURGESS. I think we can find occasions. I do not recall one offhand.

The CHAIRMAN. Those notes that matured August 15, you offered a 100 percent increase in interest rates.

Mr. BURGESS. That is right.

The CHAIRMAN. And those maturing October 1, which were  $1\frac{1}{2}$  percent, you offered more than 100 percent.

Mr. BURGESS. That is right. But we offered the market rate.

The CHAIRMAN. Market rate?

Mr. BURGESS. That is what they are selling at in the market.

The CHAIRMAN. You made the market rate.

Mr. BURGESS. No. We took the market rate, and we put them right on the market.

The CHAIRMAN. But you did not sell them on the market. You sold only 32 percent on the market.

Mr. BURGESS. Well, the amount in the hands of the public was the only one that was—

The CHAIRMAN. In other words, I am trying to get your judgment on—

Mr. BURGESS. Yes.

The CHAIRMAN (continuing). And it is generally agreed that you are an expert.

Mr. BURGESS. Thank you, sir.

The CHAIRMAN. Did you not offer these bonds at a minimum rate? Can we not look forward to an increase in interest rates under this system?

Mr. BURGESS. Well, sir, I do not think the system is what determines it. It is a problem of what is going to happen in our economy. And that, anybody can take a whirl at.

The CHAIRMAN. Will you get and present tomorrow morning, for the record, any other instance in our history where we had to offer more than a 100 percent increase in the interest rate to refund Government bonds?

Mr. BURGESS. Be very glad to, yes.

(The material referred to follows:)

#### INTEREST RATES ON MATURING ISSUES AND NEW ISSUES

The interest rate on a maturing issue has nothing to do with the interest rate that a new refunding issue might carry. The interest rate on the maturing issue reflects market conditions at the time it was put out and if interest rates have moved up in the meantime the maturing issue will be selling at a discount now in the market. For example, the 4 issues which we are now in the process of refunding bore coupons of  $1\frac{1}{2}$ , 2,  $2\frac{3}{4}$ , and  $3\frac{1}{4}$  percent, and at the end of June 1957 had market yields of 4.02, 3.78, 3.87, and 3.48 percent, respectively. These interest rates are indicative of the market rates for the short period which these issues had yet to run. Also, differences in the original length to maturity between the maturing issue and the new issue may make a material difference between the coupon rates on the two issues even though interest rates remain unchanged.

There have been 3 instances in the last 2 years where the Treasury has put out new issues at double or more than double the rate on the maturing issue. In December 1955, 1 of the 2 maturing issues was a  $1\frac{1}{4}$  percent certificate. One of the two new issues was a 2½ percent certificate, and the other a 2½ percent note. Again in May 1957, a 1½ percent note was replaced by 2 new issues. One of them a  $3\frac{1}{2}$  percent certificate; the other a 3½ percent note. In our current refunding, as you have pointed out, 1 of the maturing issues was a 2 percent note, and 1 of the new issues is a 4 percent note. (All of these figures excluded the maturing exchange notes which were originally issued at a nominal  $1\frac{1}{2}$  percent coupon rate in exchange for  $2\frac{3}{4}$  percent investment series B bonds.)

Examples also can be cited where a maturing issue was replaced by a new issue yielding only one-half as much—or even less. In May 1954, for example, 3 of the 4 maturing issues bore interest rates of  $2\frac{3}{4}$  percent,  $2\frac{1}{4}$  percent, and

2½ percent coupons, and 1 of the 2 new issues was a 1½ percent certificate. In August 1954, both of the 2 maturing issues bore 2½ percent coupons, and 1 of the 2 new issues was a 1½ percent certificate.

As a matter of fact, from the standpoint of the success of the various offerings cited above in terms of cash paid out by the Treasury, we find that the refundings in which there were issues where the new coupon was half or less of the old coupon were more successful than those where the new issue coupon had doubled.

There have also been occasions when the interest rate on a new issue of Treasury bills has been more than double the rate of the issue it replaced—an issue which was put out only 3 months earlier. There were four occasions, for example, in September and October 1947 where this was true.

The CHAIRMAN. Have you determined how much of the debt comes due next year?

Mr. BURGESS. Over the coming year we have about \$50 billion of securities maturing.

The CHAIRMAN. What is the average interest rate?

Mr. BURGESS. That is exclusive of the turnover of Treasury bills.

The CHAIRMAN. I say, what is the interest rate at present on the \$52.8 billion?

Mr. BURGESS. The December 1 maturities, 3½%. The February 14 maturities are 3¾%. March 15, 2½%. March 24 are tax anticipation bills. They were sold at 3.48.

The CHAIRMAN. Well now, what percent of those bonds does the Federal Reserve own?

Mr. BURGESS. Those tax anticipation bills?

The CHAIRMAN. I mean of this \$52 billion you just mentioned.

Mr. BURGESS. They have \$21.1 billion, including a little in Government investment accounts. It is mostly in Federal Reserve.

The CHAIRMAN. They have \$21 billion coming due next year; they have just taken \$14 billion of the present issue; they have only \$25 billion in all? That needs some explanation.

Mr. BURGESS. Practically their whole portfolio rolls over within a year. The \$14 billion all comes due again by next October.

The CHAIRMAN. When the recent offering was made, I read in the New York Times: "Many creditors spurn United States 4 percent bid."

Well, as I estimate it, if this Federal debt should be financed on a 4 percent basis, as the years go on, the interest would cost \$11 billion a year as compared to \$7.3 billion now.

Mr. BURGESS. That is about right, Senator.

The CHAIRMAN. In other words, increasing the interest rate of the Federal debt would cost taxpayers \$4 billion a year; am I correct?

Mr. BURGESS. May I make the qualification I made yesterday, and point out that to the extent this interest is paid to the Federal Reserve System, their net earnings, 90 percent of their net earnings come back to us.

The CHAIRMAN. That is less than 10 percent.

Mr. BURGESS. We also collect in taxes a very substantial amount from the earnings on Government securities.

The CHAIRMAN. Mr. Burgess, I cannot agree with a contention that we are justified in raising interest rates because interest is taxable.

Mr. BURGESS. Senator, please do not misunderstand me.

The CHAIRMAN. By that principle, it would be good for a man or a corporation to spend all the money he has because he would have to pay a part any profit in taxes.

Mr. BURGESS. Senator, I am not trying to justify high rates, please, we are not trying to justify low or high rates. We are not working for either one.

The CHAIRMAN. In addition to other reasons why such a contention cannot be justified, you have got an inflationary question involved; but I shall come back to that later. Certainly high interest rates are not justified because part of it paid back in taxes.

Mr. BURGESS. That is not a good reason for it; no, sir.

The CHAIRMAN. One of the things I disapproved of in your statement yesterday, was what appeared to be an effort to justify these high interest rates on that ground; and to justify the high Federal debt because everybody else had gone into debt—because the localities and States had doubled their debts, and because the individuals had increased their debt.

I think the whole situation is dangerous. We have increased our total debt in 4 years from \$600 billion to \$800 billion.

Instead of the Federal Government taking the position that it is trying to do what the people are doing, if possible, it should be an example to the rest of us. That would be the sound position.

Mr. BURGESS. Well, sir, I was not trying to paint a moral judgment and trying to justify it. I was simply trying to paint the economic picture. And I certainly agree with you, we ought to pay down the debt, and pay it down faster.

The CHAIRMAN. I will not attempt to read what you said yesterday, but it seemed to me that you were trying to justify the Federal debt on the grounds that everybody else was going into debt.

Mr. BURGESS. No, sir; I had no such intention.

The CHAIRMAN. The total debt is of great concern to me.

Then you will agree with me that even at 4 percent, and you were only able to sell these bonds at 4 percent only because the Federal Reserve took 60 percent of it, we have a potential annual increase in Federal interest costs of \$4 billion?

Mr. BURGESS. That goes just a little further than I admitted, Senator. I approved your mathematics, but the probability, I would not quite agree to.

The CHAIRMAN. Well, I imagine that a year ago you did not think you would double the interest rates on these refunding bonds.

Mr. BURGESS. No, sir. I was very much disappointed.

The CHAIRMAN. You did not think when you issued 3¼, 25-year bonds—

Mr. BURGESS. Twenty-five to thirty year bonds.

The CHAIRMAN. Just 3 years ago, that you would then have to pay 4 percent on a 1-year bond today, did you?

Mr. BURGESS. No; I did not.

The CHAIRMAN. Well, your judgment in the future—

Mr. BURGESS. Makes that 3¼ look pretty good, does it not, Senator?

The CHAIRMAN. I do not think so. But you cannot say this is just not going to happen because we do not think it will happen. Everything is tending toward higher interest rates, inflation. I know you are as much alarmed as we are.

Mr. Humphrey testified a number of times that it was impossible to sell long-term bonds. Will you explain why it is impossible to sell long-term bonds?

Mr. BURGESS. Well, he said, at the moment.

The CHAIRMAN. Why is it at the moment impossible to sell more than 1-year or 2-year bonds?

I have not yet gotten, incidentally, the breakdown of these different purchases. How much were the 1-year, 4 percent, and how much were the 2-year? What are the amounts?

Mr. BURGESS. Two billion dollars went into the 4-month issue at 3½ percent—other than Federal Reserve.

The CHAIRMAN. Where is that in your statement?

Mr. BURGESS. That is on the last table, appendix B.

The CHAIRMAN. Two billion went into the short-term.

Mr. BURGESS. In all \$9,969 million went into the December certificates; \$2 billion of that was taken by the public.

Of the 4 percent, 1-year certificate, \$10,562 million was taken, of which the public took \$3.7 billion.

And the 4-year, 4-percent note was taken altogether by the public.

The CHAIRMAN. You had better call that a 2-year note. It can be cashed in in 2 years.

Mr. BURGESS. \$2,581 million by the public on that.

The CHAIRMAN. \$2,581 million?

Mr. BURGESS. \$2,581 million; yes.

Well, sir, the difficulty of selling long-term Government bonds is simply that the lenders of money, whose position Mr. Mayo has very thoroughly charted, are under enormously heavy pressure for funds. The life insurance companies are having offered to them corporate securities, mortgages, at very attractive rates; the savings banks are having mortgages offered to them more than they can absorb; savings and loan associations have their resources thoroughly absorbed by the mortgages they make.

There just is not any volume of long-term funds seeking investments, and the borrower is seeking the lender, and under those circumstances if the Government were to try to sell long-term bonds, you would have to offer a competitive rate that would be very high.

You could not justify offering Governments at a rate so competitive that these people would take it instead of the things they are absorbing.

So that they simply do not want long-term Government bonds. They regard Government bonds as a secondary reserve at the moment. The demands of their customers are so great that they are trying to meet them as their first responsibility.

The CHAIRMAN. What is your definition of a long-term bond and a short-term bond? How many years?

Mr. BURGESS. Well, that is anybody's taste. I think certainly the 3¼ and the 3's are long-term bonds, 25 or 30 years, or 40 years. A 10-year bond, one could debate. The 5-year bond is certainly a short-term bond.

The dividing line may be somewhere around 10 years.

The CHAIRMAN. What would you say was the definition of your bond that you issued a day or so ago?

They were short-term bonds, of course, the entire issue the other day, were they not?

Mr. BURGESS. They were not bonds, Senator. Technically, they were certificates and notes.

The CHAIRMAN. It does not make any difference what you call them. Mr. BURGESS. They were short term; yes, sir.

The CHAIRMAN. Short term. And actually, 2 years, because they could be redeemed.

In your testimony yesterday, you said:

When short-term borrowing means increasing bank credit \* \* \* that is directly inflationary. It is for these reasons that any country in time of war makes a vigorous effort to sell as much of its securities as possible outside the banks as well as for a longer term. To the extent war is financed out of taxes and savings, the worst pressure for inflation is checked.

Mr. BURGESS. That is right.

The CHAIRMAN. I am one who thinks inflation—I think Federal Reserve Chairman Martin made a similar statement—is the No. 1 problem in this country. Yet you are issuing short-term bonds, which you say are directly inflationary, and I think—

Mr. BURGESS. Well, may I say this: If we issued bonds to the banks to a point where it increased the volume of money, it would be directly inflationary. We have not done that. Bank credit invested in Government securities has not gone up.

The CHAIRMAN. Banks can buy these short-term bonds, can they not?

Mr. BURGESS. Well, they can buy them. But we have distributed enough outside the banks so the volume of bank investments in Governments has not gone up.

The CHAIRMAN. What you said, then, yesterday is not exactly accurate, is it?

Mr. BURGESS. I said there is a tendency.

The CHAIRMAN. No. You made the statement it was directly inflationary. You did not say it was a tendency.

Mr. BURGESS. I said when you increase bank credit. What page was this on?

The CHAIRMAN. Page 13 of your prepared statement. [Reading:]

\* \* \* when short-term borrowing means increasing bank credit \* \* \*

The banks, I assume, can buy these bonds on the market, can they not, no matter whether it is a refunding operation or not?

Mr. BURGESS. I do not see just which reference you have.

The CHAIRMAN. It is in the middle of page 13.

Mr. BURGESS. Oh, yes. I say:

when short-term borrowing means increasing bank credit \* \* \* that is directly inflationary.

Well, we have not, with our borrowing, increased bank credit, so that our borrowing this time is not inflationary.

The CHAIRMAN. If you issue short-term notes or certificates, can the banks not buy them if they choose?

Mr. BURGESS. They can, yes; they can. We try to keep a pretty careful survey of the owners, and try to avoid an issue which will increase bank credit.

And, so far as the figures show, bank investments in United States Government securities have not increased.

The CHAIRMAN. I want to ask you some questions about inflation a little later. Meanwhile, I want to ask you this: What effect do you think this 4 percent minimum rate that you have now established is

going to have on the \$525 billion of private debt when that is refinanced?

In other words, the corporations and individuals, as I understand it from your statement yesterday, owe \$525 billion.

Mr. BURGESS. That is right.

The CHAIRMAN. In current refunding operation you have made a very substantial increase in interest rates even to the extent of doubling them. To what extent is that going to increase interest rates on these other debts that are coming due day by day—

Mr. BURGESS. Well, in the first place, Senator—

The CHAIRMAN. Which in many instances must be refunded?

Mr. BURGESS. Yes. I want to make it very clear that we have not pushed this interest rate up. We have simply recognized an existing rate which is determined in the market by the supply and demand.

Now, the fact that the Treasury publicly has to put that rate on its securities undoubtedly has some influence on rates, I concede that, of course. People look to the Treasury and see what rate they put on; even though it is simply a recognition of the market, it has some effect on money rates.

The CHAIRMAN. In other words, you had to meet a condition that you think existed.

Mr. BURGESS. That is right, to meet a condition.

The CHAIRMAN. I am not arguing about that part of it. I want to know, in your judgment, what effect it will have.

I am going to request the Securities and Exchange Commission to furnish information concerning interest rates on corporate issues of \$10 million or more during the first half of 1957.

(The information referred to was subsequently received and appears as follows:)

SECURITIES AND EXCHANGE COMMISSION,  
DIVISION OF TRADING AND EXCHANGES,  
Washington, D. C., August 2, 1957.

HON. HARRY F. BYRD,  
*Chairman, Committee on Finance,*  
*United States Senate, Washington, D. C.*

DEAR SENATOR BYRD: In reply to your letter of July 31, 1957, I am enclosing tables showing a chronological list of corporate bond issues registered with the Commission since January 1, 1957, in excess of \$10 million. We understand from Mr. Bell that this list will serve your purposes. The data shown include maturity dates, issue dates and interest rates. In addition, since your interest appears to be along the line of cost to the issuer, we are including data on the offering price.

We do not have any information on the extent to which these issues were taken.

Should you have any further questions in connection with these tables, Mr. Natrella, of this division, will be very glad to answer them.

Sincerely yours,

PHILIP A. LOOMIS, Jr., *Director.*

Enclosure.

*Corporate issues of bonds, notes, and debentures of \$10,000,000 or more which become effective under the Securities Act during the 1st half of 1957*

Effective date	Issue	Principal amount	Interest rate	Price	Date of issue	Date of maturity
Jan. 3	Seovill Manufacturing, debentures	\$10,000,000	Percent 4¼	\$98.50	Jan. 1, 1957	Jan. 1, 1982
7	Standard Oil, sinking fund debentures (Ohio)	25,000,000	4¼	100.00	do	Do.
7	Idaho Power, 1st mortgage bonds	20,000,000	4½	100.00	do	Jan. 1, 1987
8	Interstate Oil Pipe Line, sinking fund debentures	25,000,000	4¼	100.00	do	Do.
8	Aluminum Company of America, sinking fund debentures	125,000,000	4½	100.00	do	Jan. 1, 1982
8	New England Telephone & Telegraph, debentures	35,000,000	4¾	102.388	do	Jan. 1, 1986
9	Pacific Power & Light, 1st mortgage bonds	12,000,000	5¾	102.643	do	Jan. 1, 1987
9	Sears Roebuck Acceptance, debentures	50,000,000	4¾	99.20	do	Feb. 1, 1972
10	Niagara Mohawk Power, convertible debentures	46,224,200	4¾	100.00	Feb. 1, 1957	Do.
14	Household Finance, sinking fund debentures	30,000,000	4¾	99.03	Jan. 15, 1957	Jan. 15, 1977
15	Louisiana Power & Light, 1st mortgage bonds	20,000,000	4¾	101.25	Jan. 1, 1957	Jan. 1, 1987
17	Oklahoma Gas & Electric, 1st mortgage bonds	20,000,000	4½	101.155	do	Do.
21	Southwestern Gas & Electric, 1st mortgage bonds	10,000,000	4¾	101.00	do	Do.
22	Pacific Gas & Petroleum, 1st and refunding mortgage bonds	35,000,000	4½	100.00	Dec. 1, 1956	Dec. 1, 1986
22	Pacific Petroleum Ltd., subordinate debentures	15,000,000	5	104.00	Jan. 1, 1957	Jan. 1, 1977
23	American Machine & Foundry, convertible subordinate debentures	12,725,800	5	100.00	Feb. 1, 1957	Feb. 1, 1977
23	Atlantic City Electric, 1st mortgage bonds	10,000,000	4½	101.656	Jan. 1, 1957	Jan. 1, 1987
29	Mountain States Telephone & Telegraph, debentures	35,000,000	4¾	101.277	Feb. 1, 1957	Feb. 1, 1988
29	American Brake Shoe, sinking fund debentures	12,000,000	4½	100.00	do	Feb. 1, 1982
30	May Stores Realty, general mortgage bonds	25,000,000	5	99.50	do	Feb. 15, 1977
Feb. 4	Public Service of Oklahoma, first mortgage bonds	12,000,000	4¾	99.25	do	Feb. 1, 1987
5	Colorado Fuel & Iron, sinking fund debentures (convertible)	19,903,300	4¾	100.00	Jan. 31, 1957	Jan. 31, 1977
5	Carrier, subordinated debentures (convertible)	18,000,000	4¾	101.50	Feb. 1, 1957	Feb. 1, 1982
5	Douglas Aircraft, convertible subordinated debentures	27,900,000	4	101.50	do	Feb. 1, 1977
7	Phillips Petroleum, convertible subordinated debentures	171,720,200	4¾	100.00	Feb. 25, 1957	Feb. 15, 1987
8	R. H. Macy & Co., convertible subordinated debentures	12,281,100	5	100.00	Feb. 1, 1957	Feb. 1, 1977
13	Potomac Electric Power, debentures	30,000,000	4¾	102.62	Feb. 15, 1957	Feb. 15, 1982
13*	Trans-Canada Pipe Lines, subordinated debentures	20,833,300	5.60	100.00	Jan. 1, 1957	Jan. 1, 1987
18	New England Power, first mortgage bonds	10,000,000	4¾	102.00	Feb. 1, 1957	Feb. 1, 1987
19	Southern California Edison, first and refunding mortgage bonds	37,500,000	4¾	100.00	Feb. 15, 1957	Feb. 15, 1982
26	Illinois Bell Telephone, 1st mortgage bonds	40,000,000	4¾	101.384	Mar. 1, 1957	Mar. 1, 1988
27	United Gas, 1st mortgage bonds	35,000,000	4½	102.259	do	Mar. 1, 1977
27	Consolidated Edison of New York, convertible debentures	54,827,500	4½	100.00	Feb. 15, 1957	Feb. 15, 1972
28	Commercial Credit, Subordinated notes	25,000,000	4½	98.06	Mar. 1, 1957	Mar. 1, 1977
Mar. 5	Columbus & Southern Ohio Electric, 1st mortgage bonds	16,000,000	4½	101.489	do	Mar. 1, 1987
5	Texas Eastern Transmission, 1st mortgage pipe line	40,000,000	4¾	99.50	do	Mar. 1, 1977
6	Southern Counties Gas of California, 1st mortgage, series B	15,000,000	4¾	101.412	do	Mar. 1, 1982
11	Minnesota Power & Light, 1st mortgage bonds	12,000,000	4¾	102.75	do	Mar. 1, 1987
12	Commonwealth Edison, 1st mortgage, series S	50,000,000	4¾	100.00	do	Do.
12	Pioneer Natural Gas, sinking fund debentures	12,500,000	5½	100.25	do	Mar. 1, 1977
13	Dresser Industries, subordinate debentures (convertible)	20,000,000	4¾	100.00	do	Do.

See footnotes at end of table.

*Corporate issues of bonds, notes, and debentures of \$10,000,000 or more which become effective under the Securities Act during the 1st half of 1957—Con.*

Effective date	Issue	Principal amount	Interest rate	Price	Date of issue	Date of maturity
			<i>Percent</i>			
19	Appalachian Electric Power, 1st mortgage bonds	29,000,000	4%	101.22	Mar. 1, 1957	Mar. 1, 1967
20	Public Service Electric & Gas, debenture bonds	50,000,000	4%	101.372	do	Mar. 1, 1977
26	American Telephone & Telegraph, debentures	250,000,000	4%	101.214	Apr. 1, 1957	Apr. 1, 1986
Apr. 1	I-T-E Circuit Breaker, convertible subordinate debentures	10,000,000	4½	100.00	do	Apr. 1, 1982
2	Western Massachusetts Electric, 1st mortgage, series C	12,000,000	4½	101.426	do	Apr. 1, 1987
2	The Flintkote, sinking fund debentures	10,000,000	4½	101.00	do	Apr. 1, 1977
9	Aluminum Company of Canada, sinking fund debentures	125,000,000	4½	102.00	do	Apr. 1, 1980
9	Sears Roebuck Acceptance, subordinate debentures	25,000,000	4%	99.00	do	May 1, 1977
16	Transcontinental Gas Pipe Line, 1st mortgage pipeline	50,000,000	5	100.63	do	Apr. 1, 1977
23	Northwestern Bell Telephone, debentures	30,000,000	4½	101.00	May 1, 1957	May 1, 1980
23	Lone Star Gas, sinking fund debentures	30,000,000	4%	101.00	Apr. 15, 1957	Apr. 15, 1982
24	United Artists, convertible subordinate debentures	10,000,000	6	100.00	May 1, 1957	May 1, 1960
24	Northern Natural Gas, sinking fund debentures	30,000,000	4½	99.50	do	Nov. 1, 1976
May 1	Laclede Gas, 1st mortgage bonds	10,000,000	4½	101.817	do	May 1, 1982
7	Cincinnati Gas & Electric, 1st mortgage bonds	25,000,000	4½	99.25	do	May 1, 1987
8	Potomac Edison, 1st mortgage bonds	14,000,000	4%	101.715	do	Do.
9	Alabama Power, 1st mortgage and collateral trust bonds	14,500,000	4%	101.50	do	Do.
13	Central Maine Power, 1st and general mortgage bonds	18,000,000	4½	102.799	do	Do.
14	New York State Electric & Gas, 1st mortgage bonds	25,000,000	4%	101.55	do	Do.
15	Florida Power & Light, 1st mortgage bonds	15,000,000	4%	102.046	do	Do.
17	General Telephone, convertible debentures	44,520,000	4½	100.00	June 1, 1957	June 1, 1977
20	Public Service Company of Colorado, 1st mortgage bonds	30,000,000	4%	100.00	May 1, 1957	May 1, 1987
21	Acme Steel, sinking fund debentures	22,000,000	4½	99.00	June 1, 1957	June 1, 1977
21	New York Telephone, refunding mortgage bonds	70,000,000	4½	101.755	May 15, 1957	May 15, 1991
22	Interstate Power, 1st mortgage bonds	20,000,000	5	100.00	May 1, 1957	May 1, 1987
27	Tennessee Gas Transmission, 1st mortgage pipeline bonds	50,000,000	5½	100.00	June 1, 1957	July 1, 1977
28	National Fuel Gas, sinking fund debentures	15,000,000	5½	101.363	do	June 1, 1982
June 4	Boston Edison, 1st mortgage bonds, series F	25,000,000	4½	101.55	do	June 1, 1987
4	Northern States Power, 1st mortgage bonds (Wisconsin)	10,000,000	4%	100.00	do	Do.
5	General Telephone of California, 1st mortgage bonds, series K	20,000,000	5	100.00	do	Do.
6	Columbia Gas System, debentures, series II	20,000,000	5½	101.363	do	June 1, 1982
6	Georgia Power, 1st mortgage bonds	15,500,000	5½	102.29	do	June 1, 1987
10	Metropolitan Edison, 1st mortgage bonds	19,000,000	4½	101.50	do	Do.
11	Commercial Credit, notes	75,000,000	5	100.00	do	June 1, 1977
11	Consolidated Natural Gas, debentures	25,000,000	4½	101.085	do	June 1, 1982
12	Michigan Wisconsin Pipe Line, 1st mortgage pipeline bonds	30,000,000	6½	102.889	June 15, 1957	June 15, 1977
17	Fairbanks Morse, convertible subordinated debentures	15,000,000	5%	100.00	June 1, 1957	June 1, 1972
17	Michigan Consolidated Gas, 1st mortgage bonds	30,000,000	6½	103.216	July 1, 1957	July 1, 1982
18	Texas Eastern Transmission, debentures	15,000,000	6	98.50	June 1, 1957	June 1, 1977
18	Southern Bell Telephone & Telegraph, debentures	70,000,000	5	102.32	do	June 1, 1986
19	Montana-Dakota Utilities, debentures (convertible)	10,000,000	4½	101.00	do	June 1, 1977

See footnotes at end of table.

*Corporate issues of bonds, notes, and debentures of \$10,000,000 or more which become effective under the Securities Act during the 1st half of 1957—Con.*

Effective date	Issue	Principal amount	Interest rate	Price	Date of issue	Date of maturity
24	Delaware Power & Light, 1st mortgage and collateral trust bonds	15,000,000	<i>Percent</i> 5	101.375	July 1, 1957	July 1, 1987
24	Household Finance, sinking fund debentures	40,000,000	5	99.00	.....do.....	July 1, 1982
25	Chance Vought Aircraft, subordinated debentures (convertible)	12,500,000	5¼	100.00	.....do.....	July 1, 1977
25	Puget Sound Power & Light, 1st mortgage bonds	20,000,000	6¼	103.459	.....do.....	July 1, 1987
26	Barium Steel, convertible subordinated debentures	10,000,000	5½	100.00	June 15, 1957	June 15, 1969
26	Southern California Gas, 1st mortgage bonds, series C.....	35,000,000	5¾	101.807	July 1, 1957	July 1, 1983

<sup>1</sup> Price to security holders.

<sup>2</sup> Foreign company.

Source: Securities and Exchange Commission, Division of Trading and Exchanges, Aug. 2, 1957.

Mr. BURGESS. I think these things—this money situation is allowing the natural forces to work, which ought to result in some restraint on the inflationary situation.

That is, as money becomes a little more difficult to obtain, a little more expensive, there are some people who hold back on their borrowing or refrain from going ahead and borrowing, so that there is a tendency—

The CHAIRMAN. Mr. Burgess, I cannot reconcile that statement with what you said on page 13 of your prepared statement, because we are going to short-term certificates right straight down the line. We are going to 1-year and less, as I see it.

If what was offered last week is an example of what we are to be confronted with next year when we have another \$50 billion to refinance—

Mr. BURGESS. It is a constant problem to try to keep the debt shoved along and avoid short-term borrowing. We have at least held our own on it, and I think we have improved the situation over these years now.

The CHAIRMAN. By what line of reasoning do you argue that high interest rates are deflationary?

Mr. BURGESS. Well, sir, there is a great deal of history on that point. All over the world, it has been recognized that credit restraint, of allowing the rate to have its natural influence, does tend to restrain inflation.

It certainly has happened in this country before, and it has happened in many cases abroad. It is just admitting that nature has a way of gradually compensating for these things.

The CHAIRMAN. Take a corporation which is in a competitive position whereby it can pass the high interest rates on to the consumer, does that not increase the cost of the consumer's purchases from that company?

Mr. BURGESS. There are two ifs there, Senator, and one is, can it pass it on to the consumer? And anybody in competitive business knows that is quite a problem.

The other is how large a factor the interest rate is; and I think Mr. Humphrey's figures showed pretty conclusively that interest rates are a very small element in the cost of doing business.

The CHAIRMAN. Why is it such a large element, then, in the Federal Government? The interest rate in the Federal Government would be increased nearly 60 percent if you put it up to 4 percent, which apparently now is the minimum with these new issues.

Mr. BURGESS. Yes.

The CHAIRMAN. The increase in Federal costs would be an increase of \$4 billion, from \$7 billion to \$11 billion, and that certainly is a very substantial increase.

Mr. BURGESS. That is assuming, over a period of years, that this rate does go through the whole fabric.

The CHAIRMAN. You think, then, that increasing interest rates is a way to combat inflation; is that the idea?

Mr. BURGESS. Well, I think there are two things: One is ease in getting money, and another is interest rates. When there is a terrific demand for money, it is a little difficult to get money, and interest rates do rise.

I think that is nature's way of tending to correct an overuse of money.

The CHAIRMAN. Will you not be forced, though, next year and the year following—certainly in that period—to continue to issue short-term certificates or notes, whatever they may be?

Mr. BURGESS. Well, sir, I hope not.

The CHAIRMAN. Because if you issued a long-term one, at 4 or 5 or 6 percent, or whatever the costs may be, then there would be no way to obtain this readjustment which you say may come when money becomes cheaper.

Mr. BURGESS. Yes.

The CHAIRMAN. Is that not the way things are shaping up; you are going to short-term financing almost exclusively in the few years ahead?

Mr. BURGESS. I do not think so, sir. There is a saying about markets that even great trees seldom reach the sky. I do not think we can assume the present trend is what is going to continue over the next few years. Nobody knows what it will be, Senator.

The CHAIRMAN. Then to make it clear what you think of today—these trees may or may not reach the sky. As of today, in your judgment, you could not have sold these bonds at 4 percent of the entire issue had gone to the public?

Mr. BURGESS. I think it is very doubtful.

The CHAIRMAN. All right.

I want to talk a little about inflation. I hope you are disturbed about it as much as I am.

Inflation began, as you know, in 1941. It was stabilized in 1951 or 1952, and remained stable until the early part of 1956. We lost 48 cents in that first period, and we have lost more than 2 cents of the value in the second period.

The Library of Congress, which collates this information and puts it in proper form, advises me that in the month of June the inflation was 3 times as much, or rather, the dollar declined 3 times as much, percentage-wise, as it did in the month of May; in other words, it declined three-tenths of 1 cent in 1 month.

And the cost of living in June went up more than twice as much, percentage-wise, as in May: 0.2 percent as compared to 0.5 percent.

This is a very alarming situation, especially as no one, to date has

said what caused this new inflation, and no one has presented a program to stop it.

Mr. Humphrey, as able as he is, said he could not definitely say what caused this new inflation.

We know inflation occurred in the 1940's. We had huge deficit spending. We had large increases in wages, and we had a shortage of goods. Together these made for this inflation which reduced the value of the dollar 48 cents in about 12 years.

But that precise combination of factors does not seem to exist now; there is no material shortage of goods in this country that I know of. We had balanced budgets for the last 2 years. But from April 1956 to April 1957 the value of the dollar dropped 2 cents. That was a great loss. It was 4 percent of a 50-cent dollar.

The drop is continuing, if these figures are correct, and I think they are correct—they come from the Bureau of Labor Statistics as interpreted by the Library of Congress. The value of the dollar went down, and the cost of living went up again in May and again in June. I shall insert the figures, as follows:

*Consumer Price Index and purchasing power of the dollar*

[1939 equals 100]

Calendar year	Consumer prices		Purchasing power of dollar	
	Price index (1939=100)	Percent change	In cents (1939=100)	Change (in cents)
1939.....	100.0	-----	100.0	-----
1940.....	100.8	+0.8	99.2	-0.8
1941.....	105.9	+5.1	94.4	-4.8
1942.....	117.3	+10.8	85.3	-9.1
1943.....	124.6	+6.2	80.3	-5.0
1944.....	126.6	+1.6	79.0	-1.3
1945.....	129.5	+2.3	77.2	-1.8
1946.....	140.4	+8.4	71.2	-6.0
1947.....	160.8	+14.5	62.2	-9.0
1948.....	173.1	+7.6	57.8	-4.4
1949.....	171.4	-1.0	58.3	+ .5
1950.....	173.1	+1.0	57.8	- .5
1951.....	186.9	+8.0	53.5	-4.3
1952.....	191.1	+2.2	52.3	-1.2
1953.....	192.6	+ .8	51.9	- .4
1954.....	193.3	+ .4	51.7	- .2
1955.....	192.8	- .3	51.9	+ .2
1956:				
Average.....	195.6	+1.5	51.1	- .8
January.....	192.9	-----	51.8	-----
February.....	192.9	-----	51.8	-----
March.....	193.1	+ .1	51.8	-----
April.....	193.4	+ .2	51.7	- .1
May.....	194.3	+ .5	51.5	- .2
June.....	195.6	+ .7	51.1	- .4
July.....	197.0	+ .7	50.8	- .3
August.....	196.6	- .2	50.9	+ .1
September.....	197.1	+ .3	50.7	- .2
October.....	198.1	+ .5	50.5	- .2
November.....	198.3	+ .1	50.4	- .1
December.....	198.7	+ .2	50.3	- .1
1957 (6 months):				
January.....	199.0	+ .2	50.2	- .1
February.....	199.8	+ .4	50.0	- .2
March.....	200.2	+ .2	49.9	- .1
April.....	200.8	+ .3	49.8	- .1
May.....	201.3	+ .2	49.7	- .1
June.....	202.4	+ .5	49.4	- .3

I think that is a very alarming situation. I would like to ask you, what is your judgment as to why this new inflation has started, and what you think should be done to stop it, if it is possible to do it?

I think you will agree with me, Mr. Burgess, when I say if this goes on for 5 or 10 years and we lose 2 cents in the value of the dollar each year and get down to a 25-cent dollar, this country would be in serious condition, would it not?

Mr. BURGESS. I agree with you. And, like you, I am disturbed by it.

The CHAIRMAN. What is your opinion as to what has caused this new inflation?

Mr. BURGESS. Well, Mr. Humphrey put a memorandum in, but everybody thinks of it in his own words.

I think this movement is a continuation of what has happened since the war.

The CHAIRMAN. Let me interrupt you there, Mr. Burgess. It is not a continuation, because there was a period there of 3 years when it was practically stable.

Mr. BURGESS. A continuation of some of the forces, let me say.

The CHAIRMAN. Mr. Humphrey thought loss of the purchasing power of the dollar was the best definition of inflation; is that not right?

Mr. BURGESS. I think so. The other definition runs back to the pressures and the causes of inflation.

The CHAIRMAN. I know, but I am talking about the results, whether or not we have inflation.

Mr. BURGESS. The results are in the price level.

The CHAIRMAN. It was stationary in 1953, 1954, 1955, and part of 1956. So it is not a continuation of the conditions that existed.

Mr. BURGESS. I was about to point out what I meant there.

Some of these elements in the index that are now rising are evidently a reflection of past causes. It is not just what happens immediately.

You take rents. Rents are controlled during a period of war, and people are very slow to take off the controls, and rents have been rising lately—not for something that has happened this year, but because of the long lag that they have in reflecting things which have happened before.

These past influences include the building boom in 1955, which increased the price of houses.

You take medical care. Nothing has happened in the past few months to make that increase, and yet it has gone up, simply because that is one of those laggard indexes that reflects rather slowly the basic inflationary causes that grew out of the war.

Personal care is another one of those things.

So you have got a certain element of lag.

Of course, in this last index for June, you have an increase in food prices, which is a reflection of a little comeback after a long decline in food prices.

So I say this is partly a question of lag. I think it is partly a question of the costs, rising costs. That is out of my field, but that is an important element there.

And then I believe the third cause here is that we have had, since the war, and particularly in recent years, we have had a veritable capital boom in this country, not a boom in buying individual commodities that you go out in the market for, but a boom in building utility plants and roads and schools.

The CHAIRMAN. When did that boom start?

Mr. BURGESS. I think it began after the war, with the fact that you had 5 years of war when these normal things were not done, and there was a shortage, and we started catching up. And we have done it in a series of waves.

It has happened all over the world, and in certain respects it is a very fine thing, because it is a rebuilding of the industrial plant, making it more efficient.

The CHAIRMAN. You say this new inflation was not reflected in the purchasing power of the dollar until 12 years after the war?

Mr. BURGESS. I think it was partially reflected in the years immediately following the war. Of course, then came Korea in 1950, which launched us on a large new military program, which involved huge capital expenditures, and that was added to this desire to remake the country.

All of these things put together—

The CHAIRMAN. Remake what country?

Mr. BURGESS. This country.

The CHAIRMAN. Remake it how?

Mr. BURGESS. Rebuilding it.

The CHAIRMAN. We are trying to remake foreign countries. I did not know we were trying to remake this country.

Mr. BURGESS. We are trying to rebuild them, too, Senator.

The CHAIRMAN. But those conditions you mentioned existed long before this new inflation started. I am talking about the new inflation.

Mr. BURGESS. Yes. But I think this is of a piece. I do not think this is just something separate that happened because somebody did something in 1954 or 1956. These are underlying causes that have been working and have broken out again.

And it is the fact that this capital boom is more accentuated in the past few years. The amount of new issues offered on the security markets is running this year \$2 billion ahead of last year.

Now, that represents a great deal of construction; building construction, as a whole, is higher than in any previous year in our history, if my figures are correct.

And there is not a shortage of metal or of wheat or any of those things, but a shortage of utility plants, and of tankers, and of factories, and of office buildings, that we are trying to rebuild all at once in a tremendous mass.

The CHAIRMAN. You mean investment in business enterprises is greater now than it was in the past several years?

Mr. BURGESS. Yes, sir. The figures, that the Department of Commerce works out, the amount of expenditures, capital expenditures—

The CHAIRMAN. You might get those for the record, but I believe you will find they are about the same as they have been.

Mr. BURGESS. Well, it is \$38 billion for this year, and \$3 billion or \$4 billion ahead of last year, and it is higher than they were before, Senator.

The CHAIRMAN. Let us get them.

(The information referred to is as follows:)

*Economic indicators, June 1957: Expenditures for new plant and equipment*

[Billions of dollars]

Period	Total <sup>1</sup>	Manufacturing			Mining	Transportation		Public utilities	Commercial and other <sup>2</sup>
		Total	Durable goods	Nondurable goods		Railroads	Other		
1939.....	\$5.51	\$1.94	\$0.76	\$1.19	\$0.33	\$0.28	\$0.36	\$0.52	\$2.08
1947.....	20.61	8.70	3.41	5.30	.69	.89	1.30	1.54	7.49
1948.....	22.06	9.13	3.48	5.65	.88	1.32	1.28	2.54	6.90
1949.....	19.28	7.15	2.59	4.56	.79	1.35	.89	3.12	5.98
1950.....	20.60	7.49	3.14	4.36	.71	1.11	1.21	3.31	6.78
1951.....	25.64	10.85	5.17	5.68	.93	1.47	1.49	3.66	7.24
1952.....	26.49	11.63	5.61	6.02	.98	1.40	1.50	3.89	7.09
1953.....	28.32	11.91	5.65	6.26	.99	1.31	1.56	4.55	8.00
1954.....	26.83	11.04	5.09	5.95	.98	.85	1.51	4.22	8.23
1955.....	28.70	11.44	5.44	6.00	.96	.92	1.60	4.31	9.47
1956.....	35.08	14.95	7.62	7.33	1.24	1.23	1.71	4.90	11.05
Seasonally adjusted annual rates									
1956—First quarter.....	\$32.82	\$13.45	\$6.57	\$6.88	\$1.13	\$1.25	\$1.65	\$4.56	\$10.78
Second quarter.....	34.49	14.65	7.38	7.27	1.28	1.22	1.63	4.61	11.10
Third quarter.....	35.87	15.78	8.20	7.58	1.26	1.20	1.79	5.08	10.76
Fourth quarter.....	36.46	15.81	8.21	7.60	1.28	1.23	1.76	5.27	11.11
1957—First quarter.....	36.89	16.12	8.09	8.03	1.35	1.42	1.52	5.72	10.76
Second quarter <sup>3</sup> .....	37.33	16.84	8.66	8.18	1.27	1.42	1.78	5.98	10.04
Third quarter <sup>3</sup> .....	37.89	16.42	8.50	7.92	1.27	1.63	1.90	6.42	10.25

<sup>1</sup> Excludes agriculture.

<sup>2</sup> Commercial and other includes trade, service, finance, communications, and construction.

<sup>3</sup> Estimates based on anticipated capital expenditures as reported by business in late April and May 1957.

NOTE.—Annual total is the sum of seasonally unadjusted expenditures; it does not necessarily coincide with the average of seasonally adjusted figures, which include adjustments, when necessary, for systematic tendencies in anticipatory data.

These figures do not agree with the totals included in the gross national product estimates of the Department of Commerce, principally because the latter cover agricultural investment and also certain equipment and construction outlays charged to current expense.

Detail will not necessarily add to totals because of rounding.

Sources: Securities and Exchange Commission and Department of Commerce.

Mr. BURGESS. So all these booms come in separate packages. We all remember them. 1920 was a commodity inflation. 1929 was a security inflation. And I think this one, if you can characterize it, was a capital goods inflation, underlying which is an enormous armament expenditure in this country which has used a great deal of the same kind of labor and materials and ingenuity and money that is used in a capital boom.

So you impose a capital boom on a huge armament program, and this is what you have got.

This is my own personal way of putting it. And that has happened in other countries, wherever you go.

The CHAIRMAN. You agree, of course, that when inflation starts, it is difficult to stop?

Mr. BURGESS. That is right.

The CHAIRMAN. In 1942, we lost 9 cents of the purchasing power of the dollar.

Mr. BURGESS. Yes.

The CHAIRMAN. In 1946, we lost 6 cents. In 1947, we lost 9 cents, and so forth.

Mr. BURGESS. That is right.

The CHAIRMAN. What would be your remedy or your proposal—we all recognize we have got inflation; there is no question about that, is there?

Mr. BURGESS. That is right.

Well, sir—

The CHAIRMAN. The question now is what to do to stop it. What would be your plan?

Mr. BURGESS. I think the Government's first responsibility is to follow fiscal and monetary policies which have worked in the past. That means giving the Federal Reserve the responsibility of watching monetary policy, and letting nature work there.

I think in the area of fiscal policy, we have a great responsibility for keeping our budget in balance, and better than balance. I think a larger surplus than we have today would be extremely helpful.

The Government cannot do it alone. Proper fiscal and monetary policy are guides, they are the largest single factors in dealing with this thing, but I think our people through the country have a responsibility.

There are a great many people borrowing a tremendous amount of money that they are spending, and I think as people through the country understand it—

The CHAIRMAN. Would a part of your program be an increase in interest rates to combat inflation?

Mr. BURGESS. I do not think the Treasury or the Federal Reserve needs to or should deliberately go out and increase rates, but I think they ought to let the forces of nature work in the money markets.

The CHAIRMAN. Do you believe that increasing interest rates, no matter how, is inflationary or deflationary?

Mr. BURGESS. I think it is deflationary, clearly. I think history gives ample demonstration of that.

The CHAIRMAN. Then you believe that increasing interest rates is a means of combating inflation?

Mr. BURGESS. I believe that rising interest rates which are caused by natural forces, the force of supply and demand, are a very powerful factor in restraint over a period. It does not work right off. But over a period, it tends to restrain the borrower and the lender, makes the lender more selective, makes the borrower a little more careful.

The CHAIRMAN. Do you not believe one of the best ways to combat inflation would be to pay something on the public debt?

Mr. BURGESS. Yes, sir.

The CHAIRMAN. Then you would not have the interest rate to pay.

Mr. BURGESS. That is right.

The CHAIRMAN. I cannot exactly follow your reasoning as to why increasing interest rates is a way to combat inflation in all instances, because much of the interest paid is passed on to the consumers, just as wage increases are passed on, and so forth.

Do you have any comment to make on the argument which has been made from time to time, that a tight money, a tight credit policy restricts the availability of funds for small business without having much impact on large business?

Mr. BURGESS. Yes, sir, I will be very glad to comment on it briefly. I think it would be very helpful if you would call someone from the Department of Commerce who has made an extended study of those figures, to present the data to you.

I recognize, Senator, that people are hurt, that some people are hurt by tight money, there is no question about it, and the man who is hurt most is the marginal person whose credit is least good. And there are many of the smaller people who are hurt.

I think that has been greatly exaggerated, sir. I think that our evidence of it is found in the operation of our Small Business Administration.

We have set up a program there to make loans to small businesses that found themselves in difficulty and unable to get credit. That agency has made a substantial amount of loans. But the interesting thing to me is that they find so relatively few cases who come to them in distress and for assistance.

Back of that, I know something about the country's banking system. I think there has been a very conscious and successful attempt by the banks of the country to take care of small business and give them the credit they need.

I know the institution I was connected with in New York, with over 70 branches throughout New York, has given instructions to its branches to take care of the small-business people. The branch business is a small-business operation. If they do not make loans to small business, they do not make loans.

The average bank through the country is a small bank making loans to small business, and their loans are up. They have not decreased their loans.

So my belief is that while many people have been hurt, inevitably people get hurt in our competitive American way of life, that is the way we do business here, where people get hurt, and get hurt more at a time like this than at other times.

But generally speaking, the small business of America is doing very well, as shown by the fact there is continued increase in the number of firms doing business.

The CHAIRMAN. You mentioned a few moments ago that the increased expenditures in capital outlays were a cause of inflation. Do you regard a high interest rate policy as a fair way to reduce private expenditures and curb inflation?

Mr. BURGESS. Yes, sir. I think it is one of the ways.

I am thinking not just of the interest rate, but the fact that your demand for credit is large in respect to your savings and your supply, means that the lenders are more cautious and careful, regardless of the rate, and keep a constant pressure on the situation.

They are selective, and the person who borrows has to justify his loan a little more carefully.

Now, it does not happen right off, unless you carry it to a point where you break the markets. Then it happens very quickly. You can have a panic and drop this thing off. But over a period, these pressures do work, sir.

The CHAIRMAN. And you think the capital outlays have been too great; that it would have been better if we did not have as many investments?

Mr. BURGESS. I think it would be better if we had a little less, yes, sir. We have gone at it a little harder than we had the savings and the funds to manage with.

The CHAIRMAN. Do you think we have the market for the products of these new industries?

Mr. BURGESS. Well, I suspect that some people are overoptimistic about their markets. That is a very hard thing for anybody to analyze, but it almost always happens when you have a period of very rapid growth of business and plants, and so forth, that you find some people have gone ahead too fast, and it does not do any harm to hold back at times like that a bit, and be selective and make people prove their case.

The CHAIRMAN. Secretary Humphrey said that "creeping inflation" is a very difficult thing to stop. I assume you agree with that.

Mr. BURGESS. I certainly do; yes, sir.

The CHAIRMAN. Is it not true that if the prices of farm products had not fallen between 1952 and 1955, that we might have had considerable inflation in those years? The average of farm and non-farm prices would have been higher in the beginning, and this would have been further magnified in the cost of living.

I go back to the more recent period when we had a stable dollar. Was that the result of farm prices?

Mr. BURGESS. Yes, sir, I think that is so. The decline in food prices partly offset increases in some other items.

The CHAIRMAN. Was any of the stability of the dollar from 1952 to 1955 due to any action of the administration, or was it due to natural causes?

Mr. BURGESS. Well, sir, I think it was both. I think our fiscal and monetary policies helped. I think the fact we cut Government spending by \$10 billion was a restraint on this inflation.

The CHAIRMAN. What about putting back \$10 billion; what is effect of that? They cut it in the first 2 years \$9 billion; and in the last 2 or 3 years Federal expenditures have been increased \$10 billion.

Mr. BURGESS. Not that—

The CHAIRMAN. I remember that previously you made some remark about that before the Senate Finance Committee.

Mr. BURGESS. I think it would have been better if our expenditures had not increased quite so fast.

The CHAIRMAN. I think you gave a specific figure that day, if I recall it.

Mr. BURGESS. That was a little rash. [Laughter.]

The CHAIRMAN. Secretary Wilson, I believe, said that inflation added \$5 billion to the cost of the defense program since 1955.

Mr. BURGESS. I think he might equally have said that the defense program added over \$5 billion to inflation. It was a defense program we had to have, but the imposition of that huge burden on our economy, and we have had to carry it, the pressure of it has been inflationary.

The CHAIRMAN. We have inflation, nobody questions it, and apparently nothing is being done about it.

The expenditures are being budget at higher levels. I think the Congress is cutting appropriations probably \$5 billion or \$6 billion, Yet the Budget Director apparently intends to only reduce expenditures by \$1 billion.

What is the thinking in the administration? You are a higher official in that area. Are administration officials concerned about the inflation?

Mr. BURGESS. Yes, sir, they are.

The CHAIRMAN. What are they doing about it, or what do they have in mind?

Mr. BURGESS. They are, if I may judge by how they treat our Department, they are trying to keep us down just as low as they can.

The CHAIRMAN. But they are not succeeding. The record I quoted showed that in June, we had the largest inflation in recent months.

Just a few more questions.

Should the Federal Reserve Board be independent of the administration in its determination of monetary policy, in all circumstances?

Mr. BURGESS. I think the answer is "Yes," sir, but with a qualification, that the Federal Reserve System is a part of the Government, and I think it has a responsibility of consultation with the other agencies of Government, and the other agencies of Government have a responsibility for consultation with it, which we have tried to follow.

The CHAIRMAN. I can confer with each one of my 95 colleagues in the Senate, but that does not mean we agree. That does not mean I can tell them what to do or they can tell me what to do.

Mr. BURGESS. That is correct.

The CHAIRMAN. What is your idea about it?

Mr. BURGESS. I think the final decision should be with somebody, and it should be with an independent body.

The CHAIRMAN. You think the Federal Reserve System should be independent of the administration?

Mr. BURGESS. Yes, sir, I think they should have that decision.

The CHAIRMAN. Does a democratic government have any recourse against mistakes in policy which might be committed by a Federal Reserve Board?

Mr. BURGESS. Well, yes, sir. The Congress always has control. The Congress can walk in and change the Reserve System if they wish. The Reserve System, under the law, reports to the Congress, so the responsibility is there.

The CHAIRMAN. You mean Congress can do it by legislation?

Mr. BURGESS. They can always do that.

After some of our previous difficulties, there have been inquiries, as you know, into the Reserve System, in 1921 and other periods.

The CHAIRMAN. When it comes to tax reduction, what index would you suggest to determine a proper tax reduction? Would that be a certain amount of surplus, or a certain amount of unemployment, or to surplus after payment on the public debt? What would be the measure?

Mr. BURGESS. Well, sir, that is a pretty wide question. I have my own ideas.

The CHAIRMAN. There are three parts to it. Take them one at a time.

Mr. BURGESS. I think first off, the first guide to tax reduction is whether you have got the money to do it with. That is, if you have a surplus that is big enough so you can cut taxes and still have a good surplus.

The amount of surplus you would want depends a little on the situation. At a time like this, an inflationary time, I think we ought to be retiring a piece of debt that is good-sized.

I would say that was the primary guide for tax reduction, which was whether you could afford it.

You would, of course, have regard to the state of the economy, and you would not make your big reduction in taxes just at a time when you had a big inflationary bulge on.

Similarly, you would not stage a big increase in taxes when you are in the middle of an economic depression, if you can avoid it.

But my main guide would be the state of the surplus.

The CHAIRMAN. Do you think taxes can be increased without risking diminishing returns?

Mr. BURGESS. No, sir. I think you always run that risk whenever you increase taxes.

The CHAIRMAN. Do you think this economy of ours can continue to pay \$110 billion out in all taxes—Federal, State, and local—each year?

Mr. BURGESS. Well, it is a very strong economy, and is very fruitful. I think that if it does so, it will grow less rapidly and be less sound than if the tax bill were less.

The CHAIRMAN. I pointed out to Mr. Humphrey that if we went back to 1955 (the level of prosperity of that year) would we lose \$13 billion in tax revenue. He said that would be approximately the loss. Do you agree with that?

Mr. BURGESS. I would not attempt to answer that, Senator, because I simply have not studied that carefully enough.

The CHAIRMAN. He said that was correct.

Now, would you regard business conditions of 1955 as a serious recession?

Mr. BURGESS. Yes, sir, I would.

The CHAIRMAN. In other words, we have got to go up and up in order to—we could not continue on the level of what we thought was a very high business level 2 years ago without having serious consequences?

Mr. BURGESS. Well, these things get built in. That is the trouble.

The CHAIRMAN. Do you believe that the prosperity of any nation in the history of the world has ever continuously gone up and up? Have there not been peaks and valleys along the way?

Mr. BURGESS. There have always been dips and valleys.

The CHAIRMAN. What will happen to us when we have a dip back to 1955 and lose \$12 billion to \$13 billion of revenue and the deficit which would result?

Mr. BURGESS. Well, it would be very hard to estimate. It would not be comfortable.

The CHAIRMAN. I am sure it would not.

What is the best economic index for indicating the effect of business conditions upon Federal revenue? That has been in dispute. Would it be the gross national product, or national income, or something else?

Mr. BURGESS. I think the national income rather than gross national product, but that is not a very well-informed answer.

The CHAIRMAN. That is not in your line?

Mr. BURGESS. I do not do that estimating.

The CHAIRMAN. There are some other questions I had in mind. I have been considerably disturbed about the authorizations to spend from public-debt receipts, which I understand results from acts of Congress. Are you familiar with that?

Mr. BURGESS. Yes, I am.

I agree with you. I think we ought to keep those to a minimum.

The CHAIRMAN. Those expenditures are not appropriated.

Mr. BURGESS. That is right.

The CHAIRMAN. Today we have \$5 billion obligated, so I am told, and \$13 billion unobligated, in these authorizations to spend direct from the public debt.

Now, that is an expression that is a little confusing, but under the procedure you spend it out of the Treasury direct without the necessity of appropriations.

Mr. BURGESS. That is right.

The CHAIRMAN. And if you have to borrow the money, you have to borrow it whether it is for expenditure against appropriations or authority to spend out of the debt; is that correct?

Mr. BURGESS. That is correct. The Export-Import Bank is an example; FDIC is another.

The CHAIRMAN. Commodity Credit?

Mr. BURGESS. Commodity Credit Corporation.

The CHAIRMAN. FNMA?

Mr. BURGESS. FNMA.

The CHAIRMAN. These expenditures which may increase the debt are made without requirement for appropriation?

Mr. BURGESS. No.

The CHAIRMAN. I wanted you to supply for the record, a complete list of the Federal programs authorized to spend from debt receipts, showing in each case the accumulated gross authority, and so forth.

Mr. BURGESS. Yes.

(The information referred to is as follows:)

*Statement of transactions relating to authorizations to expend from public debt receipts as of June 30, 1957 (preliminary)*

Accounts	Balance of authorizations at beginning of fiscal year 1957, July 1, 1956	Net additional public debt authorizations granted by Congress through June 30, 1957	Total advances made from July 1, 1956 through June 30, 1957	Repayments made during fiscal year 1957 which affected borrowing authorizations	Repayments made during fiscal year 1957 which do not affect borrowing authorizations	Net change ((4) - (5))	Unused authorizations June 30, 1957 ((2) + (3) - (7))	Net amount due Treasury June 30, 1957
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Commodity Credit Corporation...	\$810,000,000.00	\$2,500,000,000.00	\$16,947,000,000.00	\$14,754,000,000.00	0	-\$2,193,000,000.00	\$1,117,000,000.00	\$13,383,000,000.00
Export-Import Bank of Washington:								
Regular.....	2,793,500,000.00	0	88,400,000.00	116,900,000.00	0	28,500,000.00	2,822,000,000.00	1,178,000,000.00
Transferred from RFC.....	0	0	0	0	\$8,165,837.51	0	0	26,535,559.79
Federal Deposit Insurance Corporation.....	3,000,000,000.00	0	0	0	0	0	3,000,000,000.00	0
Federal Farm Mortgage Corporation.....	500,000,000.00	0	0	0	0	0	500,000,000.00	0
Federal Home Loan Banks.....	1,000,000,000.00	0	0	0	0	0	1,000,000,000.00	0
Federal National Mortgage Association:								
Management and liquidating functions.....	17,944,506.52	-160,837,706.52	62,275,000.00	205,625,000.00	0	143,350,000.00	\$ 456,800.00	1,716,183,477.42
Secondary market operations.....	905,518,690.51	350,000,000.00	872,721,374.32	\$ 963,968,869.48	0	\$ 91,247,495.16	1,346,766,185.67	3,233,814.33
Special assistance functions.....	849,753,924.94	50,000,000.00	24,617,230.94	2,986,414.22	0	-21,630,816.72	578,123,108.22	21,876,891.78
Preferred stock.....	0	\$ 50,000,000.00	\$ 50,000,000.00	0	0	\$ -50,000,000.00	0	71,000,000.00
Federal Savings and Loan Insurance Corporation.....	750,000,000.00	0	0	0	0	0	750,000,000.00	0
Housing and Home Finance Agency:								
College housing.....	383,888,323.29	250,000,000.00	111,744,872.73	0	0	-111,744,872.73	522,143,450.56	227,856,549.44
Flood insurance.....	0	500,000,000.00	0	0	0	0	500,000,000.00	0
Public facility loans.....	99,500,000.00	0	900,000.00	0	0	-900,000.00	98,600,000.00	1,400,000.00
Urban renewal program.....	952,000,000.00	0	12,000,000.00	7,000,000.00	0	-5,000,000.00	947,000,000.00	53,000,000.00
International Cooperation Administration:								
Loan to Spain.....	3,770,766.35	0	2,132,808.06	0	2,966,587.20	-2,132,808.06	1,637,958.29	55,500,169.99
Mutual defense assistance program.....	310,335.28	0	0	0	4,636,507.11	0	310,335.28	1,117,127,039.64
India emergency food aid.....	0	0	0	0	1,345,784.46	0	0	25,430,311.52
Industrial media guarantee *.....	178,508,551.10	\$ 18,313,282.73	680,000.00	0	0	-680,000.00	196,141,833.83	0
Public Housing Administration.....	1,462,000,000.00	\$ 3,670.57	196,000,000.00	192,996,329.43	0	-3,003,670.57	1,459,000,000.00	41,000,000.00
Rural Electrification Administration.....	690,236,718.00	514,000,000.00	255,000,000.00	0	79,277,185.39	-255,000,000.00	949,236,718.00	2,518,960,882.93
St. Lawrence Seaway Development Corporation.....	89,000,000.00	0	32,300,000.00	0	0	-32,300,000.00	56,700,000.00	48,300,000.00

See footnotes at end of table.

## Statement of transactions relating to authorizations to expend from public debt receipts as of June 30, 1957 (preliminary)—Continued

Accounts	Balance of authorizations at beginning of fiscal year 1957, July 1, 1956	Net additional public debt authorizations granted by Congress through June 30, 1957	Total advances made from July 1, 1956 through June 30, 1957	Repayments made during fiscal year 1957 which affected borrowing authorizations	Repayments made during fiscal year 1957 which do not affect borrowing authorizations	Net change ((4) - (5))	Unused authorizations June 30, 1957 ((2) + (3) - (7))	Net amount due Treasury June 30, 1957
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Secretary of Agriculture:								
Farmers' Home Administration.....	0	\$235,500,000.00	\$235,500,000.00	0	\$170,646,740.47	-\$235,500,000.00	0	\$215,650,871.11
Farm tenant-mortgage insurance.....	\$4,900,000.00	15,000,000.00	7,625,000.00	0	0	-7,625,000.00	\$12,275,000.00	7,725,000.00
Farm housing loans.....	0	450,000,000.00	50,000,000.00	0	8,744,258.59	-50,000,000.00	400,000,000.00	41,255,751.41
Secretary of the Treasury: Federal								
civil defense.....	248,070,000.00	0	5,000.00	\$870,000.00	0	865,000.00	248,935,000.00	1,065,000.00
Small Business Administration *.....	0	0	0	0	1,975,000.00	0	0	7,150,000.00
United States Information Agency: * Informational media guaranty.....	0	18,757,610.67	3,745,000.00	0	0	-3,745,000.00	15,012,610.67	12,975,000.00
Veterans Administration: Veterans direct loan program.....	0	149,343,482.00	149,343,482.00	0	0	-149,343,482.00	0	733,484,399.00
Defense Production Act of 1950, as amended:								
Export-Import Bank of Washington.....	20,876,868.11	0	8,981,102.00	3,600,092.44	0	-5,381,009.56	15,495,858.55	34,504,141.45
General Services Administration.....	601,300,000.00	50,000,000.00	150,000,000.00	0	0	-150,000,000.00	501,300,000.00	1,018,700,000.00
Secretary of Agriculture.....	18,489,000.00	0	0	0	0	0	18,489,000.00	47,336,000.00
Secretary of the Interior.....	6,000,000.00	6,000,000.00	4,000,000.00	0	0	-4,000,000.00	8,000,000.00	26,000,000.00
Secretary of the Treasury.....	111,030,000.00	-30,000,000.00	4,760,000.00	13,440,000.00	0	8,680,000.00	89,710,000.00	167,890,000.00
Unallocated.....	198,575,000.00	-26,000,000.00	0	0	0	0	172,575,000.00	0
International Bank for Reconstruction and Development.....	2,540,000,000.00	0	0	0	0	0	2,540,000,000.00	635,000,000.00
International Finance Corporation.....	35,168,000.00	0	35,168,000.00	0	0	-35,168,000.00	0	35,168,000.00
Total.....	17,970,340,684.10	4,940,080,339.45	19,304,898,870.05	16,261,386,705.57	275,757,890.73	-3,043,512,164.48	19,866,908,859.07	23,472,303,859.81

<sup>1</sup> Transferred from Reconstruction Finance Corporation pursuant to Reorganization Plan No. 2 of 1954.

<sup>2</sup> Unused borrowing authorization as of May 31, 1957.

<sup>3</sup> Notes held by Secretary of the Treasury under secondary market operations reduced by \$50,000,000 a/c exchange of notes for preferred stock pursuant to Public Law 85-10, 85th Cong., approved Mar. 27, 1957 (68 Stat. 614). Reflected as a repayment against secondary market operations and as an advance against preferred stock.

<sup>4</sup> USIA assumed obligations of not to exceed \$28,000,000 of notes authorized to be issued pursuant to subsection III (c) (2) of the ECA Act of 1948, as amended, pursuant to Public Law 726, 84th Cong., approved July 18, 1956, and to obtain advances from time to time

from the Secretary of the Treasury up to such amount, less amounts previously advanced on such notes. A total amount of \$9,242,389.33 had been advanced through Aug. 31, 1956 against the notes issued under the ECA Act less repayments of \$12,389.33.

<sup>5</sup> Includes \$429,106.60 representing sales of foreign currencies deposited into International Cooperation Administration revolving fund during the fiscal year. Such proceeds were available for reduction of borrowing authorization pursuant to the provisions of Public Law 472, sec. III (b) (3), approved Apr. 3, 1948.

<sup>6</sup> Canceled pursuant to Public Law 176, 83d Cong., approved July 31, 1953 (67 Stat. 307).

<sup>7</sup> Includes \$424,500 return of uncommitted funds.

The CHAIRMAN. Of what effect is the existence of this authority, which is beyond the appropriation control of both Congress and the Expenditure Control of the Budget Director?

Mr. BURGESS. Well, it is in the budget, budgeted each year.

For example, the Export-Import Bank reports to the Director of the Budget, and if it shows too big a figure, he will get them on the carpet and review the thing with them.

The CHAIRMAN. But he cannot do much about the Commodity Credit or FNMA.

Mr. BURGESS. It is a very difficult one. FNMA——

The CHAIRMAN. It is disturbing to orderly planning by the Treasury for financing and debt management——

Mr. BURGESS. That is correct.

The CHAIRMAN (continuing). If that is the case, because, as I have just stated—and these are the latest figures—these payments out of the public debt amount to, could amount to, \$18 billion, \$5 billion having been obligated and \$13 billion having been unobligated.

Mr. BURGESS. I will be glad to make a tabulation.

The CHAIRMAN. You will agree with me that is a matter which should be corrected, if it is possible to do it?

Mr. BURGESS. There are two ways of going at it. One way is to change the legislative position; and the other, which we are trying to do, is to try to bring those operations under careful scrutiny within the administration.

For example, on the matter of FNMA, where you have an option of borrowing in the market or coming to the Treasury, we are in very close touch with them at all times, and work out with them a program by which they will borrow in the market instead of drawing on the Treasury. They have been very cooperative in that matter.

And we are trying to watch other programs of that sort.

The CHAIRMAN. In your opinion, would better fiscal policies be served if Congress, through its appropriation procedure, would fix annual limitations on authorizations to spend?

Mr. BURGESS. In these particular—you are thinking of these particular debt operations?

The CHAIRMAN. Yes.

Mr. BURGESS. I had not thought of that, Senator, and I would hate to answer that offhand. I think it is worthy of very careful consideration.

The CHAIRMAN. Do you regard authorizations to expend from public debt receipts, uncontrolled, as apparently it is now, as a factor which may be contributing to inflation?

Mr. BURGESS. Well, it is hard for me to recall specific operations at the moment which are doing so. I can conceive that they could.

The CHAIRMAN. Of course, those that we have mentioned are doing it.

Mr. BURGESS. Yes. They could make trouble. We try to watch them administratively.

The CHAIRMAN. For instance, they have this unobligated fund. Do they confer with the Treasury or Budget Director before making commitments?

Mr. BURGESS. Oh, yes.

Take, for example, the Export-Import Bank. The operations of the Export-Import Bank are subject to the general supervision, in

terms of relationship with other programs, and so forth, of the National Advisory Council, of which I have been acting as a member and Chairman for the Secretary of the Treasury.

They do not make any, they do not carry on any, series of operations without coming to us and having it discussed very carefully and taking our advice on it.

And I have mentioned FNMA. Their operations are very carefully coordinated with others.

The CHAIRMAN. How about the Commodity Credit?

Mr. BURGESS. Well, that is a tough one, Mr. Chairman, because the obligations in the law are so clear about their absorbing the loans made by farmers at their banks, and then taking over the commodities eventually. We have very little control over that.

The CHAIRMAN. Mr. Humphrey stated, in response to my question, that there are \$500 billion of contingent liabilities. Has a survey been made to indicate what possible losses might occur in future years in that \$500 billion?

Mr. BURGESS. Well, we have been over that very often. As you saw from the figures we turned in, it is a very miscellaneous and diverse sort of obligations.

Some of those figures that you include in that \$500 billion, we would question whether it is really a contingent liability. I think that included the deposits of the banks, all deposits.

The CHAIRMAN. Technically, it is a liability.

Mr. BURGESS. But there is a limitation, a legal limitation, on our liability there. And you have all degrees of liability in these figures.

It is very easy to put one's name on the back of a note. There are several proposals that have come before the Congress this session which we have been resisting.

The CHAIRMAN. Yes.

I will not go into detail with you about them, but I have two lists of questions which I shall hand you.

One of the lists is under the heading "The Authority to Borrow Directly From the Public," and so forth. I would like to include debentures.

I shall appreciate if you will answer the questions for the record.

(The information is as follows:)

THE CHAIRMAN'S QUESTIONS ON AUTHORITY TO BORROW DIRECTLY FROM THE  
PUBLIC

1. *Would you regard it as proper to include authority to issue debentures under the heading of authority to borrow from the public, insofar as Federal agencies are concerned?*

All authority to issue debentures does not fall within the category of authority to borrow from the public. Some agencies, such as the Export-Import Bank of Washington, have authority to issue debentures only for purchase by the Secretary of the Treasury (see 12 U. S. C., sec. 635 (d)) ; other agencies, such as the Federal intermediate credit banks, have authority to issue debentures which may be sold to the public but which may not be purchased by the Secretary of the Treasury (see 12 U. S. C., sec. 1041). Other agencies, such as the Federal National Mortgage Association, have authority to issue debentures which may be sold to the Secretary of the Treasury or sold to the public (see 12 U. S. C., sec. 1719 (b) and (c)).

2. *Will you supply for the record a complete list of Federal programs authorized to borrow directly from the public, and in each case show the cumulated gross authority, the cumulated total borrowings, the cumulated total repayments, the total current authorization, the current unused balance, and the interest rate paid by the agency for the use of the money? Meanwhile, will you list now as many Federal programs as you can remember which are authorized to borrow directly from the public, and by that I mean to include authorization to issue debentures?*

The following Federal agencies have obligations outstanding issued to the public, obligations which in no case are guaranteed as to principal and interest by the United States Government:

- Federal intermediate credit banks
- Federal land banks
- Banks for cooperatives
- Federal home-loan banks
- Federal National Mortgage Association

The attached table 1 lists for each of these Federal agencies the amount of marketable securities issued during the year ending June 30, 1957.

Table 2 shows the amount of such marketable securities outstanding as of June 30 for each year from 1933 to date. These figures do not include debentures issued by the Federal Housing Administration in payment for defaulted insured mortgages. Such debentures are guaranteed as to principal and interest by the United States Government and are issued under the statutory public debt limit.

TABLE 1.—*Marketable securities issued by United States agencies during fiscal year 1957*

[In millions of dollars]

	Federal intermediate credit banks		Federal National Mortgage Association		Federal home loan Banks		Federal land banks		Central Bank for Cooperatives		Banks for cooperatives		Total amount
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	
1956—July.....	40	3.30			134	3.375							223
August.....	49	3.40											247
September.....	76	3.20	100	3.35	77	3.20							247
October.....	63	3.625			197	3.80	135	3.75			50	3.50	556
November.....							110	3.875					278
December.....	66	3.75			212	3.75							285
1957—January.....	62	3.75	100	3.90	123	3.75							107
February.....	107	3.75											484
March.....	128	3.875	200	4.125	166	3.875							392
April.....	140	3.875					140	3.875			40	3.875	576
May.....							72	4.125					494
June.....	125	3.70	250	4.00	146	3.70					55	3.80	624
July.....	106	3.80	200	4.10	138	3.70					50	3.75	447
August.....	66	3.90	200	4.05	105	3.95	78	3.875					47
September.....	50	3.80					125	4.00					47
October.....	45	3.90	100	4.25	183	4.125					46	4.125	47
November.....	73	4.00											47
December.....													47
Total.....	1,196		1,150		1,481		660				241		4,728
Outstanding:													
June 30, 1956.....	467		670		929		1,384		40		93		3,583
June 30, 1957.....	925		1,620		738		1,614				186		5,083
Change.....	+458		+950		-191		+230		-40		+93		+1,500

TABLE 2.—*Debt of Federal agencies not guaranteed as to principal and interest by the U. S. Government,<sup>1</sup> June 30, 1933–57*

[In millions of dollars]

June 30	Total	Banks for cooperatives	Electric Home and Farm Authority	Federal home loan banks	Federal intermediate credit banks	Federal land banks <sup>2</sup>	Federal National Mortgage Association	Joint stock land banks
1933	1,693.7				60.6	1,142.5		490.6
1934	2,187.3				182.6	1,602.0		402.7
1935	2,399.3				178.3	1,900.9		320.1
1936	2,318.8		0.5		172.9	1,964.4		181.0
1937	2,256.2		5.3	25.0	188.9	1,868.6		176.0
1938	2,262.5		8.1	76.5	198.1	1,776.1	29.7	156.8
1939	2,264.8		11.2	90.0	195.4	1,752.8	85.2	133.3
1940	2,199.0		14.2	48.5	210.3	1,736.0	85.2	107.8
1941	2,199.6		8.7	75.5	234.7	1,714.2	85.2	75.8
1942	2,209.7			91.5	299.5	1,674.6	85.2	50.2
1943	1,851.9			35.0	292.0	1,440.6	55.5	28.8
1944	1,454.1			58.0	285.0	1,095.6		15.4
1945	1,009.2			50.0	265.5	685.0		8.7
1946	1,092.7			67.0	306.6	719.1		
1947	1,187.1			140.0	355.8	691.3		
1948	1,478.4			307.0	520.3	651.1		
1949	1,522.8			278.0	598.4	646.4		
1950	1,461.5	30.0		172.6	543.9	715.6		
1951	2,034.9	30.0		547.5	742.6	714.8		
1952	2,035.0	110.0		262.4	847.6	815.0		
1953	2,002.4	110.0		251.0	781.1	860.3		
1954	1,967.0	120.0		115.0	725.3	1,006.7		
1955	2,875.6	110.0		341.0	793.5	1,060.7	570.4	
1956	3,888.7	133.0		929.2	834.5	1,321.6	670.4	
1957 <sup>3</sup>	5,014.5	181.5		738.0	923.8	1,550.8	1,620.4	

<sup>1</sup> Interest-bearing debt only.<sup>2</sup> These figures exclude bonds held by issuing agency and thus differ from figures in table 1.<sup>3</sup> Preliminary.**3. Are any of these borrowings included in the computation of the Federal debt, and does the statutory debt limit apply to them?**

Debentures and other obligations which are issued by agencies of the United States and are not guaranteed as to principal and interest by the United States Government are not included in the computation of the outstanding public debt. The statutory debt limit is provided for in section 21 of the Second Liberty Bond Act, as amended, and provides that the face amount of obligations issued under that act and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury) shall not exceed in the aggregate \$275 billion. The only agency obligations outstanding at the present time which come under the statutory debt limit are the debentures issued by the Federal Housing Authority amounting to \$106,434,150 as of June 30, 1957, and certain matured obligations and matured interest issued by a member of other agencies many years ago amounting to only \$836,817.37 as of June 30, 1957.

**4. Theoretically, why is such authority granted to Federal agencies outside of the Treasury?**

Some of the considerations which have led the Congress to authorize Federal agencies to borrow outside of the Treasury relate to (1) certain credit programs where demands are seasonal and where the loans made by the agencies are self-liquidating, (2) programs in which private lenders are willing to lend funds where the underlying security consists of sound obligations of private borrowers, such as crop loans, mortgage loans, etc., and (3) programs which are intended by the Congress to operate on a self-supporting basis with little or no Federal subsidy.

**5. Does the Treasury Department regard a nonguaranteed obligation of a constituted Federal agency as a moral obligation of the Federal Government?**

Whether a nonguaranteed obligation of a Federal agency is a moral obligation of the Federal Government is a matter for determination by the Congress. In the absence of any specific directive by the Congress the Treasury could not recognize any obligation on nonguaranteed obligations of Federal agencies.

6. *There is now pending a proposal to authorize TVA to issue revenue bonds. Does the Treasury Department approve of this policy?*

The Treasury's view on the pending legislative proposal to authorize TVA to issue revenue bonds is contained in the following letter dated April 30, 1957 addressed to Hon. Dennis Chavez, chairman, Committee on Public Works, United States Senate, on S. 1869, to amend the Tennessee Valley Authority Act of 1933, as amended, and for other purposes.

APRIL 30, 1957.

HON. DENNIS CHAVEZ,  
Chairman, Committee on Public Works,  
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 1869, to amend the Tennessee Valley Authority Act of 1933, as amended, and for other purposes.

The Treasury Department favors the objectives of the bill, i. e., to authorize the Tennessee Valley Authority to issue revenue bonds and sell them in the open market for the purpose of obtaining additional capital to finance its operations. However, the Department believes that S. 1869 should be revised in the following particulars:

(1) The issuance of obligations by the TVA should be subject to the approval of the Secretary of the Treasury.

(2) A limit should be placed on the total amount of obligations that TVA may issue.

(3) Funds of the Corporation should be kept in the Treasury, or, with the approval of the Secretary of the Treasury, in Federal Reserve banks or banks designated as depositories or fiscal agents of the United States.

(4) TVA should be required to submit a capital budget program for advance approval by the President and the Congress and its operations should be included in the budget.

(5) TVA should be required to pay interest to the Treasury on the Government's appropriation investment in power facilities at a rate based on the average rate on marketable public debt obligations having a maturity of 15 or more years.

(6) Depreciation accruals on the Government's appropriation investment in power facilities should be returned to the Treasury, rather than reinvested in power assets.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

W. RANDOLPH BURGESS,  
Acting Secretary of the Treasury.

7. *Do you regard authorization for Federal agencies, uncontrolled, to borrow directly from the public as a factor which may be contributing to inflation?*

Abuse of any authority to borrow directly from the public can be a factor which contributes to inflation. Federal agencies engaged in borrowing directly from the public, however, are not uncontrolled. There is a basic responsibility both from the standpoint of the Congress and the administration for the efficient conduct of each of these programs. Even in those cases such as the home-loan banks and the Federal land banks—where the Government's capital has been completely repaid.

#### THE CHAIRMAN'S QUESTIONS ON "CONTINGENT LIABILITIES"

1. *Is there any present requirement that these contingent liabilities be reviewed, and their impact on the financial condition of the Federal Government appraised?*

As you know, the Treasury has obtained from Government agencies, through its reporting requirements, information on long-range commitments and contingencies since 1945 for its own information and to furnish congressional committees. There is no present requirement of law that contingent liabilities of the Government as a whole be reviewed and appraised. The Bureau of the Budget reviews the commitments and contingent liabilities of each agency in connection with the annual budget. Also, the Congress has the opportunity to review the programs of the agencies that result in contingent liabilities when reviewing the yearly appropriation estimates for administrative expenses of the agencies.

2. *Would you state your views as to the long-range effect of these contingencies on management of the public debt, and the rate of interest thereon, and the extent to which they should be taken into consideration in connection with proposals to reduce taxes?*

The Treasury feels that appropriate consideration should be given to long-range commitments and contingencies in any overall appraisal of the Government's financial condition. However, in furnishing such figures, the Treasury has always been careful to include an explanatory statement of the nature of such commitments in order to have it understood that the ultimate liability of the Government is, in any substantial amount, not probable and that the existence of any liability, and the amount thereof, depend upon a variety of factors.

Our appraisal of the nature of these obligations has led us to the conclusion that (i) some are not legal obligations of the Treasury; (ii) only a national disaster would require the Government to pay any substantial part of the balance; and (iii) even if such a disaster should occur, there would be substantial assets (including Government securities) to offset such obligations, at least in part.

We have not found that the existence of these contingent liabilities has, in actual practice, been a factor of any importance in the management of the public debt. The amounts involved in recent years have been small. Circumstances could arise which would make them a more serious factor.

3. *What is your view with respect to the effect of these contingencies on inflation?*

The contingencies themselves do not contribute directly to inflation. Some of the programs out of which the contingencies might arise, such as the guaranteed or insured mortgage programs, may stimulate more demand for housing than would otherwise exist, and thus add to inflationary pressures at a time when the supply of physical resources was insufficient to meet all demands.

On the other hand, the existence of insurance of bank deposits, insurance of savings and loan shares, and veterans' life insurance programs all make savings somewhat more attractive and thus tend to reduce inflationary pressures.

4. *Would you recommend that the Treasury Department, under the Budget and Accounting Act of 1950, include in its annual report a complete statement on all contingent liabilities of the Federal Government along with an evaluation of their impact on the financial position of the Government?*

In the interest of full disclosure of the Federal Government's financial position, I believe that the Treasury might properly, under its present authority for the preparation of reports under the Budget and Accounting Procedures Act of 1950, include in its annual report a complete statement of all long-range commitments and contingencies of the Government along with an evaluation of their significance. Such statements have been prepared by the Treasury for its own use and for the information of committees of Congress since 1945.

The CHAIRMAN. Mr. Burgess, we thank you, sir. Senator Kerr will take you on tomorrow morning at 10.

Mr. BURGESS. Yes, sir.

Senator KERR. It may be just the other way, Mr. Chairman [Laughter].

Mr. BURGESS. Not at all.

The CHAIRMAN. Thank you for your frankness and your patience before the committee.

(Whereupon, at 12:05 p. m., the committee recessed, to reconvene at 10 a. m., Wednesday, July 31, 1957.)



# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

WEDNESDAY, JULY 31, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long, Anderson, Gore, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The Chair recognizes Senator Kerr.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Senator KERR. Mr. Chairman, first I want to say that I have the highest regard and respect for the frankness and candor of Dr. Burgess, and the physical effort that I may put into this examination is in no wise meant to mean anything else, Doctor. [Laughter.]

I sometimes wonder if, in our physical zeal to handle fiscal policies, we get the two in an undue relationship to each other.

But it seemed to me, Doctor, that yesterday you kind of spun a few fairy tales here for the committee and the chairman. It reminded me of when my kids were little, and I was trying to get them to go to sleep at night, and they would not do it. I would sit down and tell them a couple of cowboy and Indian stories to get their minds settled so they would go to sleep.

One such fairy tale, as I interpreted it, was when you said that in your judgment, high interest rates was the cure for overexpansion, and that the justification for high interest rates was the capital expansion boom of the past few years.

Did I understand you correctly in that regard?

Mr. BURGESS. I think that would rather short-circuit it, Senator.

Senator KERR. I was just trying to get it down—

Mr. BURGESS. I do not think there is any single cure for what ails us. I am a great believer in natural causes.

Senator KERR. Nature's remedies.

You talked about that a lot yesterday, and I got to wondering if maybe an overdose of them had not more or less not only loosened the sluggishness, but brought about a little fiscal diarrhea. [Laughter.]

Mr. BURGESS. I do not think we had any overdose of natural remedies. I think we interfere with it too often.

Senator KERR. Well, if I was mistaken in my impression of what you said, I would like to have you clarify it; but I understood you, under the pressing cross-examination of the chairman, to say that these higher interest rates were calculated to discourage and deter overexpansion.

Mr. BURGESS. Well, I would object to the word "calculated," because we are not calculating these things. We are not creating these high interest rates. These are what happen when the law of supply and demand works, so they are not calculated.

Senator KERR. We will go into that law of supply and demand later. But, calculated or otherwise—

Mr. BURGESS. I think that—

Senator KERR (continuing). I understood you to offer that explanation as a justification for them, or as one of the beneficial results that they produce.

Mr. BURGESS. No. I never just referred to high interest rates alone. I say that when you have a situation in the supply and demand of credit where people are competing for it, so there is not enough for everybody, that the reflection of that is found in high interest rates, but that interest rates are the reflection of a condition rather than the thing itself.

Senator KERR. Now, Doctor, I think I am not mistaken, but I will refer to the testimony if it is necessary. It is my recollection that in discussing the high interest rate picture at the present time, you said, No. 1, that the higher the interest rate, the more taxes you collected; and that the higher the interest rate, the more of a deterrent influence it would have on the overexpansion of the capital boom.

Mr. BURGESS. Well, I do not think I was ever talking just about interest rates. I was talking about the availability.

Senator KERR. I did not say that you described it as the exclusive factor, but you did describe it as I understood you, as one of the aspects of it.

Mr. BURGESS. That is right. We like to use the phrase, Senator, the cost and availability of money.

Senator KERR. That is a nice phrase.

Mr. BURGESS. Isn't that a good phrase?

Senator KERR. And among you economists, it is all right for you to use it.

Mr. BURGESS. Yes.

Senator KERR. But in these hearings if it is all right with you, I would just like to get it down to language which both you and I understand.

Mr. BURGESS. I just think the availability of money is just as important as the question of rate. In fact it is more important.

Senator KERR. Even I am aware that the two things are not unrelated.

Mr. BURGESS. They are related, but they are a little different, too.

Senator KERR. But did you or did you not indicate yesterday that high interest rates were a deterrent to the capital boom now in progress and which has been in progress for some time?

Mr. BURGESS. I think that the rates and the availability act as some restraint on the boom; yes.

Senator KERR. Either or both of them?

Mr. BURGESS. Both of them.

Senator KERR. Or either of them? That is what you told us yesterday.

Mr. BURGESS. Yes; either of them. They both operate, and either one separately operates.

Senator KERR. Yes.

This morning I read a report on financial matters, the weekly letter of the Econometric Institute for July 29. Is that an authoritative source?

Mr. BURGESS. Well, it is an interesting source. I would not say it was authoritative. The chap who runs it is a very able person—an able statistician.

Senator KERR. Would you think that his statements were sincere?

Mr. BURGESS. I would think they would be sincere.

Senator KERR. And may be accurate?

Mr. BURGESS. And useful. I would not take them as gospel.

Senator KERR. I would not want you to endorse them in blank.

Mr. BURGESS. Thank you.

Senator KERR. But you would regard him as one who has some knowledge on the matter, and speaks with sincerity?

Mr. BURGESS. That is right.

Senator KERR. This is what the report says:

#### NEW FINANCING

New corporate security offerings in the first half of 1957 were at an all time peak despite high costs of financing.

Now, I am sure you agree with that, because that is consistent with what you said yesterday.

Mr. BURGESS. That is just a fact, yes.

Senator KERR (continuing) :

The first quarter annual rate was \$14.4 billion and the second quarter annual rate about \$12.5 billion. Levels of corporate liquidity and continued expenditures for large capital proceedings are already committed and will mean a relatively high level of offerings during the balance of the year. New corporate offerings are likely to average over \$11 billion at an annual rate during the next 12 months.

You said yesterday that expenditures for productive capacity, in other words, the rate of spending during this so-called capital boom, is at the highest rate in history this year.

Mr. BURGESS. I think so.

Senator KERR. Is that what you told the chairman?

Mr. BURGESS. Yes; I think so.

Senator KERR. I think you told him that, in your judgment, it was about \$38 billion, which was \$2 billion above the year before, or something of that kind.

Mr. BURGESS. Well, here are the estimates. These are, of course, estimates, by the Department of Commerce. With the third quarter of 1957, they estimate a seasonal adjusted annual rate of \$37.89 billion.

Senator KERR. That is pretty close to that \$38 billion.

Mr. BURGESS. That is pretty close. That compares with \$35 billion in 1956. If you go back to 1953, it was \$28 billion. In 1955, it was \$28.7 billion.

Senator KERR. Now, then, it is a fact that interest rates as of this moment, or the last few days, are the highest that they have been in nearly 25 years; are they not?

Mr. BURGESS. Yes; that is right.

Senator KERR. How do you explain that?

Mr. BURGESS. You mean that the people—

Senator KERR. How do you explain the fact, if high interest rates are a deterrent to capital expenditures, that we have the alltime record of both for the last 25 years simultaneously?

Mr. BURGESS. I would just say if we had easy money lying around, it would be more yet.

Senator KERR. I wonder if that is the explanation, or if Secretary Humphrey might have given it in an interview that was published February 8, 1957, in the U. S. News & World Report:

Question. Does that mean that you don't feel that the money has been made too tight and interest rates have been allowed to go up too fast?

Answer. Not now. I thought at the time that we were moving a little too fast when we started moving. I thought we moved in a little too early.

Then he said:

If you want to start a run on tomato catsup, all you have to do is to publish in the newspaper that some official of the Government is going to limit the amount of tomato catsup you can have, beginning on Friday, and there will be a rush to get tomato catsup.

What we did, I think, was perhaps to move a little too fast on higher money, and people went into the market to get money on the ground that, as they say, "We had better get it quick."

Mr. BURGESS. I think there is some anticipation borrowing here. I think if the people who borrow these funds once got the feeling they could borrow cheaper next year or the year following and build cheaper, or not pay more, that this thing would be over, this thing would level off. You would have a balancing off.

Undoubtedly a lot of this is what people anticipate, and there are two elements to that: One is just the one he suggested, that they see money growing tighter, so they say, "I am going to get mine before it gets any tighter."

And the other is, they say, "Inflation is in the air. If I build my plant now, it will cost me a little less than if I waited."

Once people become convinced that by waiting they would be better off instead of worse off, why, this thing would level off.

Senator KERR. Do you know anybody in a more authoritative position to make a pronouncement that would give them the right to have that kind of a feeling than the Secretary of the Treasury of the United States?

Mr. BURGESS. Well, the Secretary of the Treasury does not go in for predicting the future.

Senator KERR. He does not?

Well, now, you have been predicting higher interest rates for 15 years.

Mr. BURGESS. No, sir; I have not. Excuse me; I have not.

Senator KERR. I am going to document that for you with your own statements as we go through this proceeding.

I will read you here from a widely circulated Washington letter:

Now there are some additional Government plans to keep money tight, coming along, not yet announced, to be put into effect without fanfare.

Mr. BURGESS. Would you like me to comment on that?

Senator KERR. What?

Mr. BURGESS. Would you like me to comment on that?

Senator KERR. I would be glad for you to.

Mr. BURGESS. That is pure mythology.

Senator KERR. I want to say this: It may be pure mythology, but they have thus far anticipated and forecast your actions and the results thereof with such a degree of accuracy that I want to tell you right now, if it is mythology, it has kind of made a half-way believer out of me.

Mr. BURGESS. Well, you can believe it, but I am not going to. I can tell you, as far as the Treasury—

Senator KERR. Then the difference between you and me is that I believe what you preach, and you do not. [Laughter.]

Mr. BURGESS. As far as the Treasury is concerned, Mr. Senator, you can be very sure that we have no plans whatever to tighten or loosen money. That is not our business. We are trying to manage the debt, and we are going to sell our securities on the market as we find it.

Senator KERR. We are going to talk about that, Mr. Secretary.

On July 20, this Washington newsletter said:

Interest rates are practically certain to go up still further. First signs are already showing up. Generally recognizable by September. It represents additional tightening in effect if not in motive, and it will be shocking to those who have been dreaming of easier money. What it means concretely in added costs to borrowers, rediscount rate probably will be raised from 3 to  $3\frac{1}{4}$ ,  $3\frac{1}{2}$ . Business loans will go up a quarter or a half. Mortgage loans will rise a quarter or a half. Installment credit will be tightened up in one way or another. Personal loans which many individuals have at banks will go up. The financial costs of doing business will be generally raised.

I want to say to you that if you have not intended to create that impression, you had better have somebody reevaluate the situation for you and correct it, because you have got a run started on ketchup just like Secretary Humphrey said was possible.

Mr. BURGESS. Well, of course, the phrase there, Senator, that I object to is when you say, "You have got a run started." We have not done this. This is—

Mr. BURGESS. Well, you can believe it, but I am not going to. I can tell you, as far as the Treasury—

Senator KERR. Has somebody else been fixing this rate?

Mr. BURGESS. You have done it just as much as we have, Senator.

Senator KERR. I fixed the rates on your offerings?

Mr. BURGESS. In the past few months, there have been more people trying to borrow money than there were savings available, and you and other energetic, able businessmen and the States and municipalities have been trying to borrow more money than there is available from the people's savings.

When that happens, the rates are going to go up—

Senator KERR. Unless the Federal—

Mr. BURGESS (continuing). Just like ketchup.

Senator KERR. Unless the Federal Reserve Board operates for the purpose for which it was created.

Mr. BURGESS. Would you, Senator, advise the Federal Reserve Board to print some more money to keep these rates from going up?

Senator KERR. Well, I would feel this way about it: I would neither operate the Federal Reserve Board so as to create a drought or a flood. Does it have to be one or the other?

Mr. BURGESS. I do not—

Senator KERR. Is there no middle ground, Doctor?

Mr. BURGESS. I do not think they are either creating a drought or a flood.

Senator KERR. Well, there is a drought of credit.

Mr. BURGESS. Well, that is nature.

Senator KERR. You, yourself, have so testified here.

Mr. BURGESS. I always thought that droughts and floods came out of nature, came out of the sky, and some of them do. They come out of a composite of all the economic influences in the economy, and you have got a—

Senator KERR. You think, then, this credit situation has been sent by God upon us?

Mr. BURGESS. Well, it is a result of a great many people acting as businessmen do—of course, we have got here one of the finest prosperities this country has had for a long time. On the basis of that, a great many able businessmen, people in States and municipalities, are going ahead and rebuilding America on a better pattern.

That process has got a little bit ahead of the supply of money, and—

Senator KERR. You said a while ago it got ahead of the supply of money made available from savings.

Mr. BURGESS. Yes, sir.

Senator KERR. That is what you said.

Mr. BURGESS. That is right.

Senator KERR. Do you think that our rate of production and the expansion of this economy should be limited to that made possible by increased savings?

Mr. BURGESS. If it does not, you are going to have inflation.

Senator KERR. Do you believe that?

Mr. BURGESS. Substantially. Now you have got a little addition of credit that you can add to that without causing inflation.

Senator KERR. You made the statement now, and I want to know if you stand on it—

Mr. BURGESS. Yes.

Senator KERR (continuing). That the situation is what it is because the demand for money is increasing faster than additions to savings will supply.

Mr. BURGESS. I would stand by that statement; yes.

Senator KERR. What was the Federal Reserve Board created for?

Mr. BURGESS. It was created to try to give stability to our money situation, and to try to keep the dollar good.

Senator KERR. I thought it was created to make available such additional amounts of credit over and above that resulting from the accumulation of savings that would permit a healthy, vigorous growth of our economy.

Mr. BURGESS. Well, I think that is a fair statement. You can conceive perfectly fairly some addition to the supply of savings from credit. If you get much ahead of that—

Senator KERR. In other words, then, you are saying that a little printing press is all right?

Mr. BURGESS. No. I am saying a little credit——

Senator KERR. Well, you said a while ago if they issued credit over and above that provided by savings, it was printing press money, did you not? Is it or is it not?

Mr. BURGESS. Well, I think it gets—when you talk about printing press, you are getting beyond——

Senator KERR. I was not talking about it. You were the one who brought it up. What were you talking about?

Mr. BURGESS. All right. I am talking about printing press money when it goes in excess of the savings plus a normal supply of bank credit.

Senator KERR. Now, what is that normal supply, Doctor?

Mr. BURGESS. Well, about 2 or 3 percent a year. It is one that keeps pace with the normal growth of the country.

Senator KERR. Do you think that the men who have the authority and the power to determine the amount of that increase in bank credit over and above that supplied through the accumulation of savings, should recognize the problems of the entire economy or the wishes and financial welfare of a very limited few of the economy?

Mr. BURGESS. I think your first statement, they ought to take into consideration the whole economy and the price level, the state of employment, the whole picture.

Senator KERR. Then you do not stand on your statement a while ago that the growth should be limited to that possible through the accumulated savings?

Mr. BURGESS. Well, all of these things require some qualification, Senator.

Senator KERR. Just answer my question, and then if there is a qualification, we will start on that.

You do not stand on that statement?

Mr. BURGESS. I say it should be qualified by some recognition of a place of credit in addition to the savings.

Senator KERR. Then you do not stand on the statement that expansion should be limited to that made possible by accumulated savings?

Mr. BURGESS. I admit there should be some qualification to that statement; yes, sir. I was talking, Senator, in terms of rate of growth, and if your rate of growth of the economy is greater than your savings——

Senator KERR. Do you think this economy ought to grow at the rate that a very few men, not more than 20 in number, decide that it should be permitted to grow? Do you not think they have the responsibility to recognize the rate at which it is growing and can grow in a healthy manner and meet their responsibility in the light of the reality of things as they are rather than in the light of their desire for things?

Mr. BURGESS. Well, now, you have asked 2 questions; one is whether you should have 15 or 20 people, or 19 or 20 people make these decisions, and the other is what should motivate those people.

Senator KERR. Yes.

Mr. BURGESS. The first question is a question of what you do about——

Senator KERR. The decisions are made by 15 or 20 people, are they not?

Mr. BURGESS. No, I do not think so, Senator.

Senator KERR. Who makes the decision as to how much credit the Federal Reserve Board makes available above that provided by accumulated savings?

Mr. BURGESS. I would say the whole Federal Reserve System is concerned in that.

Senator KERR. How many constitute the Board of Governors here in Washington?

Mr. BURGESS. There are seven.

Senator KERR. Seven.

Mr. BURGESS. Seven.

Senator KERR. Now, how many member Reserve banks do we have?

Mr. BURGESS. There are 12 Reserve banks.

Senator KERR. Twelve Reserve banks.

Mr. BURGESS. Each of them is——

Senator KERR. What is the position of the president of each of those banks?

Mr. BURGESS. Well, he is appointed by the directors of the bank, of the local Federal Reserve bank.

Senator KERR. What does he do, other than serve——

Mr. BURGESS. Subject to the approval of the Reserve Board.

Senator KERR. What does he do other than serve as a member of that bank?

Mr. BURGESS. He is a member of the Open Market Committee.

Senator KERR. Not all of them, are they?

Mr. BURGESS. No, but they are all consulted on these policies.

Senator KERR. Well, those 12 men are.

Mr. BURGESS. Yes.

Senator KERR. All right.

Mr. BURGESS. And their directors are also consulted.

Senator KERR. Who makes the decisions?

Mr. BURGESS. The decisions on the discount rate are made by the 12 Federal Reserve banks, their boards of directors, acting, and it is approved by the Federal Reserve Board.

Senator KERR. Who makes the final decision?

Mr. BURGESS. The decision is shared by those two authorities.

Senator KERR. Can any member bank make a rediscount rate without approval from Washington?

Mr. BURGESS. No.

Senator KERR. Then who makes the decision?

Mr. BURGESS. Well, Washington does not act without the individual banks.

Senator KERR. I understand, but who has the final decision?

Mr. BURGESS. I think both of them have.

Senator KERR. Well, you said that the member bank could not make it without approval here.

Mr. BURGESS. I say member bank, you mean Federal Reserve bank, Senator?

Senator KERR. Yes.

Mr. BURGESS. That is right. But that does not——

Senator KERR. They do not have the power to make it, do they?

Mr. BURGESS. They only act——

Senator KERR. They can only recommend.

Mr. BURGESS. On the action of the Federal Reserve bank.

Senator KERR. Here in Washington, the seven Governors——

Mr. BURGESS. Seven Governors, have the final yes or no.

Senator KERR. Then, they have final decision, do they not, Doctor?

Mr. BURGESS. No, I would not admit that. I would say——

Senator KERR. Well, you have said it, whether you admit it or not.

Mr. BURGESS. The individual banks initiate the action and that is a very——

Senator KERR. They initiate the suggestion, do they not?

Mr. BURGESS. Well, it is more than a suggestion. It is action.

Senator KERR. What is it? Do they just announce that they have raised the rediscount rates?

Mr. BURGESS. They vote that subject to approval by the Federal Reserve Board.

Senator KERR. Subject to the approval by the Federal Reserve Board.

Mr. BURGESS. That is right.

Senator KERR. Of seven men?

Mr. BURGESS. That is right.

Senator KERR. How many directors are there on the Federal Reserve bank in New York?

Mr. BURGESS. Nine.

Senator KERR. Nine.

How many are there on each Federal Reserve bank?

Mr. BURGESS. Nine on each.

Senator KERR. Nine.

Mr. BURGESS. That is right, 12 and 9.

Senator KERR. Nine times twelve equals one hundred and eight directors. Do those nine include the presidents of the Federal Reserve banks?

Mr. BURGESS. No, he is not a member of the board.

Senator KERR. Not a member of the board.

Then, including the directors and the Reserve Bank presidents before you get to Washington, there are 120 men?

Mr. BURGESS. That is right.

Senator KERR. That discuss it?

Mr. BURGESS. That is right.

Senator KERR. And make recommendations.

Mr. BURGESS. That is right.

Senator KERR. But the decision on rediscount rates in the final analysis is either approved or disapproved by a board of seven members, is it not?

Mr. BURGESS. That is right.

Senator KERR. And the Open Market Committee is limited to 12 men, is it not?

Mr. BURGESS. That is right, yes.

Senator KERR. Twelve.

Mr. BURGESS. Yes.

Senator KERR. And that committee decides how much is spent for bills or bonds in the open market.

Mr. BURGESS. That is right.

Senator KERR. How much support is given to Government securities.

Mr. BURGESS. That is right.

Senator KERR. Or how much is sold out of the Reserve's portfolio?

Mr. BURGESS. That is right.

Senator KERR. Well, then, I repeat that decisions with reference to the amount of additional credit are made by approximately 20 men.

Mr. BURGESS. Well, I would say that it is more like 120, because the discount rate is a very important factor. Also, these presidents who come and vote on the Open Market Committee are certainly guided by the discussions with their directors who appoint them to office.

Senator KERR. They may or may not be influenced by them.

Mr. BURGESS. That is right. But—

Senator KERR. They are not bound by it, are they?

Mr. BURGESS. They are employed by these people so that they pay some attention to what they say.

Senator KERR. Employed by them for a definite fixed term, or are they removable?

Mr. BURGESS. Fixed term.

Senator KERR. Are they removable at will?

Mr. BURGESS. No, a fixed term, but they can remove them if they want to.

Senator KERR. How?

(The following was later received for the record:)

Section 4 of the Federal Reserve Act provides that each Federal Reserve bank shall have power:

"To appoint by its board of directors a president, vice president, and such officers and employees as are not otherwise provided for in this act, to define their duties, require bonds for them, and fix the penalty thereof, and to dismiss at pleasure such officers or employees \* \* \*."

Mr. BURGESS. They, I think they have the power of removal.

Senator KERR. Suppose you just ask one of your counsel here to advise you and me how they do it.

Mr. BURGESS. They would vote to ask a man to retire.

Senator KERR. I did not ask you how they could ask him to retire. I asked you to tell me how they could do what you said they could do, and that is remove him before the end of the term to which they elect him.

Mr. BURGESS. That case has never been adjudicated that I know of, but I know of cases where they have been removed.

Senator KERR. You know cases where they have been removed?

Mr. BURGESS. Yes, sir.

Senator KERR. By action of the board of directors?

Mr. BURGESS. Yes, sir.

Senator KERR. When?

Mr. BURGESS. In the early days of the System.

Senator KERR. Well, how long has it been since that happened?

Mr. BURGESS. That has been some time.

Senator KERR. Well, how long?

Mr. BURGESS. Thirty years, perhaps. I do not know of a recent removal. There have been shifts, there have been early retirements, there have been various ways of doing it.

Senator KERR. But ordinarily, when that man is elected, he is elected for a term of how long?

Mr. BURGESS. Five years.

Senator KERR. Five years.

Mr. BURGESS. I think so.

Senator KERR. And he is the president of that bank for five years?

Mr. BURGESS. That is right.

Senator KERR. And if he is the president of the New York Reserve Bank, he sits on the Open Market Committee all the time; does he not?

Mr. BURGESS. That is right.

Senator KERR. And the other 11 rotate on it?

Mr. BURGESS. That is right.

Senator KERR. Four more. How long do they serve, a year at a time?

Mr. BURGESS. I think it is a year at a time.

Senator KERR. Mr. Secretary, who fixes the reserve requirements?

Mr. BURGESS. That is the Federal Reserve Board.

Senator KERR. How many men did you say that was?

Mr. BURGESS. Seven.

Senator KERR. Seven.

Well, now, when you say that more than those seven Governors of the Federal Reserve Board, and those 12 presidents of the Federal Reserve banks, make decisions, you are kind of like saying that 170 million people make the decisions after they have elected 96 Members of the United States Senate and we come here and vote on matters; is that not it?

Mr. BURGESS. Well, there is a certain parallel there and I think a very real one.

Senator KERR. Yes.

Mr. BURGESS. I may say, Senator—

Senator KERR. If we do not live up to their desires and expectations, they evidence that by electing somebody else to succeed us.

Mr. BURGESS. May I say, Senator, that this, of course, this question of how many people would participate in these very important policy decisions was the subject of, as you know, extended debate at the time that the system was established.

Senator KERR. Yes.

Mr. BURGESS. And Senator Carter Glass, a very distinguished predecessor of Senator Byrd, and President Wilson were very strongly in favor of a regional system, as compared with a central bank that would concentrate the power, and they had their way. And I think very wisely.

I think that the 12 banks, with directors elected by local people, is a very important influence on that credit policy, because it brings information from all these district businessmen that predominate on the Board, and they bring to it a wide range of information, and they are able people.

It is just as important in its way, as you say, as your constituency back home. It is a way of assuring a measure of democratization of the system.

Senator KERR. But we now have a central bank; do we not?

Mr. BURGESS. No, I do not think so, Senator.

Senator KERR. You do not? Well, you just said that what a member bank does with reference to rediscount rate is subject to the "yes" or "no" action of the Board here.

Mr. BURGESS. Well, of course, legislation which you pass has to be signed by the President. He has the final "yes" or "no." That does not mean that he does it.

Senator KERR. No, he does not have the final "yes" or "no."

Mr. BURGESS. Well, you can pass it over the veto; yes.

Senator KERR. That is right.

Who can pass it over their veto?

Mr. BURGESS. That parallel does not go that far.

Senator KERR. It does not go quite that far?

Mr. BURGESS. It does not go quite that far. [Laughter.]

Senator KERR. While we are talking about the Federal Reserve Board you indulged yesterday in what I thought was an exaggeration of technicalities when you said they are answerable to the Congress.

In what appropriation bill does Congress provide for the operating expenses of the Federal Reserve?

Mr. BURGESS. Not any.

Senator KERR. Not any.

Mr. BURGESS. Not any.

Senator KERR. Who does that?

Mr. BURGESS. Well, the Board is financed by the earnings of the Federal Reserve banks.

Senator KERR. You said they turned over 90 percent of what they made to the Treasury. Is that a fixed amount, or do they turn over what they have got left after they take care of what they need to spend?

Mr. BURGESS. Well, this is of their net earnings after they have taken care of their operating expenditures.

Senator KERR. But the law does not say they will turn over 90 percent of their gross; does it?

Mr. BURGESS. No. The law is rather complicated, and not very clear on that point. It says you can have a tax on issues of Federal Reserve notes, and they have interpreted that to mean the payment.

I think the law as originally passed was better than the way it is now. The law as originally passed required——

Senator KERR. I am asking if it is not a fact that they run their own business, appropriate their own money——

Mr. BURGESS. That is right.

Senator KERR (continuing). Determine how much they spend, and then turn over a certain percent of what is left to the Treasury?

Mr. BURGESS. That is a fair statement.

Senator KERR. Do you know who the second highest salaried man on the Federal payroll in the United States is?

Mr. BURGESS. Well, I was trying to—I suppose the president of the Federal Reserve Bank of New York is the highest paid.

Senator KERR. Do you know what the Vice President's salary is?

Mr. BURGESS. What his salary is?

Senator KERR. Yes.

Mr. BURGESS. I really do not. It is \$50,000 or \$60,000.

Senator KERR. I do not believe it is.

Do you know what the salary of the president of the New York Federal Reserve Bank is?

Mr. BURGESS. Excuse me, you asked first what the salary of the Governor of the Board was?

Senator KERR. No; I asked first what the salary of the Vice President of the United States is.

Mr. BURGESS. I am sorry. I was thinking of—frankly, I do not know what the salary of the vice president is.

Senator KERR. You know what the salary of the president of the Federal Reserve Bank of New York is. It is \$60,000 a year.

Mr. BURGESS. It is either \$50,000 or \$60,000. I guess it is \$60,000.

Senator KERR. Do you know the action taken by the Federal Reserve Board just a little while back where they set aside several million dollars to increase the retirement benefits of the Reserve bank officers and employees?

Mr. BURGESS. No; I did not know about that. I know they have made changes from time to time.

Senator KERR. You know they are the sole judge of what is done in that regard?

Mr. BURGESS. I think that is fair to say. Of course, Congress can always intervene.

Senator KERR. Oh, yes.

Mr. BURGESS. And make any laws they want to about it.

Senator KERR. They are technically responsible to Congress.

Mr. BURGESS. That is right.

Senator KERR. But I am describing it as a matter of practical operation.

Mr. BURGESS. Yes.

Senator KERR. Is it not a fact that they are the only autonomous Government department including the Congress, insofar as their practical operations are concerned?

Mr. BURGESS. That takes in a lot of territory, Senator.

Senator KERR. Do you know of any other that has the degree of autonomous control and power that they do?

Mr. BURGESS. Well, I would not be able to think of any at the moment.

Senator KERR. After you have given some thought to it, if you do think of one, you will share it with me, will you not?

Mr. BURGESS. I will be very happy to, Senator.

Senator KERR. Did you ever hear of them coming to Congress and telling them they were thinking about raising the rediscount rate, and asking some committee what they thought about it?

Mr. BURGESS. No, sir, I never did. They have come and reported their operations very fully to the Congress.

Senator KERR. Oh, yes?

Mr. BURGESS. Why they do it.

Senator KERR. Yes.

Mr. BURGESS. What their motives are, and so on. They make a very—

Senator KERR. When do they do that?

Mr. BURGESS. Well, they make an annual report which gives a very full account of their changes in policy.

Senator KERR. Yes, they do, and I want to tell you, the annual report of the Federal Reserve Board is worth studying for anybody who wants to find out how to become a creature of the Congress, be technically responsible to it, but practically independent of it.

Mr. BURGESS. Well, I think the whole Federal Reserve System was a very ingenious plan, and—

Senator KERR. And has become more so all the time. [Laughter.]

Mr. BURGESS. I think it has developed over the years into a very useful and fine institution, Senator.

Senator KERR. Now I will go back and ask you the same question I did a while ago: Is it not a fact that about 15 or 20 men in the final analysis determine the rate at which this economy expands?

Mr. BURGESS. No, sir, I am not willing to concede your 15 or 20. I think it is a much larger number.

Senator KERR. Well, how large? How far down would you go there?

Mr. BURGESS. I would take in the directors of the Federal Reserve banks.

Senator KERR. If you do that, then you limit it to 127, do you not?

Mr. BURGESS. That is about right; yes, sir.

Senator KERR. Do you know any one of them that the people elected to that office?

Mr. BURGESS. No, sir.

Senator KERR. Do you know any one of them that ever published a platform as to what he would do if elected?

Mr. BURGESS. I do not recall any publishing a platform. Of course, the presidents of the Federal Reserve banks very frequently state their views to the public.

Senator KERR. I would say that you are probably as well acquainted with them as any man in the United States. Can you name the presidents of the 12 Federal Reserve banks?

Mr. BURGESS. I can come pretty close to it.

Senator KERR. Suppose you just offhand do that.

Mr. BURGESS. Well, there is, starting in Boston, Lief Erickson. And then there is—

Senator KERR. Let me get them down here as you go along.

Mr. BURGESS. Lief Erickson. Al Hayes—

Senator KERR. Wait a minute, now.

Mr. BURGESS. New York, Alfred Hayes.

Senator KERR. All right.

Mr. BURGESS. Philadelphia, Alfred Williams.

Senator KERR. All right.

Mr. BURGESS. I will not use that.

Senator KERR. I was not going to—

Mr. BURGESS. You can check me on it.

Senator KERR. I was not going to use it. I rather think you can name them.

Mr. BURGESS. Richmond, Hugh Leach.

Atlanta, Malcolm Bryan.

Senator KERR. Just a minute, now. Bryan.

Mr. BURGESS. Cleveland, Wilbur Fulton.

Senator KERR. All right.

Mr. BURGESS. Chicago, Carl Allen.

Senator KERR. What is Allen's salary, do you happen to know?

Mr. BURGESS. I do not know whether that is \$50,000 or \$60,000. It is in that neighborhood.

Senator KERR. In the neighborhood of \$50,000?

Mr. BURGESS. He gets almost as much as New York.

Senator KERR. All right. Go ahead.

Mr. BURGESS. He took a reduction in salary, I may say, when he took that job, a very substantial reduction from what he was getting before.

Senator KERR. He has a few fringe benefits in this job, does he not, though?

Mr. BURGESS. Rather modest. The retirement system is much less generous than the systems of the banks that are members of the System.

Senator KERR. Is that so?

Mr. BURGESS. Yes.

Senator KERR. Are you familiar with this recent increase they provided for them?

Mr. BURGESS. I do not know exactly what it does. But even with that, I understand it is still modest.

Senator KERR. I think they almost made it competitive.

Mr. BURGESS. Well, they had better, because, as you say, these people have great responsibility. They had better get good men.

Senator KERR. That is right.

All right, now, go ahead. We got through Chicago.

Mr. BURGESS. St. Louis is Delos C. Johns.

Minneapolis was Oliver Powell. I think he has been replaced by another man. I miss on this one, Oliver Powell, as being the man there.

A man named Leedy is in Kansas City.

Senator KERR. Wait a minute. We are both enlightening ourselves here.

Mr. BURGESS. We have got them here. We will check when we get through. This is too good a game. The man in Minneapolis now is Deming.

Senator KERR. Deming.

Senator FLANDERS. Mr. Chairman, I would almost think he was being examined for Ambassador to Ceylon. [Laughter.]

Senator KERR. If that were the case, the differences between him and the man who was being examined, which would be readily apparent, among others are these:

In the first place, Dr. Burgess is conscious. In the second place, he is a great authority on the subject he is discussing.

In the next place, he is articulate, and can compose and deliver a sentence with reasonable grammatical and intellectual continuity.

Mr. BURGESS. Thank you very much.

Senator KERR. Yes, sir.

Mr. BURGESS. You are a great help.

Senator KERR. You know, I want to tell you, when I read about this Ambassador to Ceylon, I remembered another saying of my father, that where there is no brain there is no pain. [Laughter.]

Mr. BURGESS. Irons in Dallas, but I miss on Minneapolis; it is now Deming.

In San Francisco, you have a new man, who is Mangels; Herman Mangels.

Senator KERR. That is fine, Doctor. That illustrates what I wanted to illustrate by this question. I was not trying to expose the fact that you might not be able to remember the name of every one of the presidents of these Reserve banks. I was just trying to illustrate

that probably the best informed man in America on the subject that I am discussing could not name all of these men, and to indicate the significance of the fact that there probably is not one person in a million in America who knows either who these men are or the power they have.

Would you agree that that is probably true.

Mr. BURGESS. I think that may be true.

Senator KERR. Now, then, with your permission, I will go to another one of the fairy stories you were telling the chairman yesterday.

Mr. BURGESS. I do not quite see where that ties into a fairy story, Senator. Would you enlighten me?

Senator KERR. Well, I used that for want of a better term. I do not think that the chairman was impressed by it, and I was not impressed by it, and I gathered, as you left here, that you had not been too much impressed by it yourself.

Mr. BURGESS. Well, I do not—by what?

Senator KERR. For instance, by the statement that high interest rates are a deterrent on the capital boom.

Mr. BURGESS. I had lost track of that in this discussion of the System.

Senator KERR. I tell you, let us keep our eye on the ball. If I get off the track, you get me back; and if you wander, I will try to bring you back.

Mr. BURGESS. I am very glad to have you raise the questions of the System, because I think that is exactly the function of the Congress. You ought to look at that carefully.

This System was devised by a great Senator who did a great deal of work, and by a great President.

Senator KERR. I want to tell you now that Senator Robert L. Owen was a joint author of this bill. When it was written, Carter Glass was not even a Senator.

Mr. BURGESS. He had a lot to do with the revision.

Senator KERR. He had a lot to do with the writing of it.

Mr. BURGESS. But he had a hand in it.

Senator KERR. He did.

Mr. BURGESS. And if the Congress can think of modifications of it that can improve it, I believe that is your duty.

The CHAIRMAN. He was in Congress part of the time; Senator Glass was.

Mr. BURGESS. He was chairman of the Banking and Currency Committee in the House.

The CHAIRMAN. He was in the House, and then in the Senate.

Mr. BURGESS. That is right. Owen was in the Senate. Of course, Carter Glass got so associated with it, and he had so much to do with the future legislation on the System and the Banking Act of 1933 and the Banking Act of 1935, which were passed after a very thorough review of the System's operation in the twenties, and which left the structure substantially unchanged.

In fact, if anything, Senator, they concentrated the power a little more than it had been.

Senator KERR. I think that is right; and that theory has been carried forward, as time has gone on, by practice.

Mr. BURGESS. Well, I do not think it has changed very much since the Banking Act of 1935.

Senator KERR. You were trying to get me back to what I referred to as a "fairy tale." The first one was the statement you made yesterday that high interest rates was a cure, and which today you say is one of the deterrents, for the capital boom.

Mr. BURGESS. Well, I constantly bracketed, as I think—

Senator KERR. That is hardly consistent with the situation that we have today, wherein we have a record rate of investment and the highest interest rates in 25 years.

Mr. BURGESS. I think, Senator, that I always bracketed monetary and fiscal policy, and I think while we are doing pretty well on our monetary policy, that our fiscal policy leaves a little something to be desired. We have got these enormous expenditures for the war effort, which have been reflected in some of this capital building, and these Government expenditures are a big factor here.

Senator KERR. Now, Dr. Burgess, Secretary Humphrey himself said in June of 1953, "We have a stable dollar."

The Federal Reserve Board, in its report for 1952, said, "We have a stabilized price level."

And they set out in that report, which I read into this record during my examination of Secretary Humphrey, that prices had leveled off early in 1951, and that actually in 1952 there had been some declines.

Mr. BURGESS. That is right.

Senator KERR. And Secretary Humphrey told this committee that that stability was maintained through 1953, 1954, and 1955.

Mr. BURGESS. That is right.

Senator KERR. I would say that it takes a rather elastic imagination to maintain that causes existing prior to those 4 years of relative price stability would be responsible for what I believe has been the largest peacetime increase in the price level, aside from the reconversion years of 1946, 1947, and 1948, during the last 18 months.

I want to say to you, I think that is another fairy story, that those causes back yonder, after they had ceased to exist, after stability had been achieved and was a reality for 4 years, would again rear their heads and bring on the inflation which we find ourselves in the midst of at this time.

Mr. BURGESS. Well, that is just where we differ, that is all.

Senator KERR. Well, that is all right.

Let me ask you this: What is it that is in short supply today?

Mr. BURGESS. Well, I think I said yesterday the things that we are spending heavily on, that we think are in short supply, are things like tankers, utility plants, these office buildings. Those are the things we—

Senator KERR. Mr. Humphrey, after some days of cogitation—

Mr. BURGESS. He was talking about shortages of commodities.

Senator KERR (continuing). Came up with line pipe and railroad cars.

Mr. BURGESS. Yes.

Senator KERR. And could not figure out what percentage either one of them was in the budget of the average consumer.

Mr. BURGESS. Well, if I may say so, on the record at page 192 of this wonderful record, the shortages are listed; and right up until the last few months, they were considerably larger in number.

Senator KERR. Yes. But in the last few months, they had been reduced, he said, to four items.

Mr. BURGESS. Well, that is specific items.

That is one interesting part of this thing, that it is not a shortage of individual commodities.

Senator KERR. Are there shortages in other things than specific items?

Mr. BURGESS. I just enumerated them. We seem to think we are short of utility plants and short of tankers and office buildings, because we are spending enormous sums to build them.

Senator KERR. There is no shortage of materials out of which they are building them, Mr. Secretary.

Mr. BURGESS. I did not say they were short. There are shortages of teams of workers in the technical skills required for the finished product.

Senator KERR. You said yesterday that we were suffering a capital goods inflation, which means too much building of new plants, schools, highways, buildings, and so forth.

I am not going to cross-examine you on that, because I just do not believe you are serious about that. Are we building too many schools and highways and hospitals, and things of that kind?

Mr. BURGESS. Well, "too many," of course, is a phrase that is not too many for the satisfactions, when you think of that, but it is—

Senator KERR. Is it too many for our needs?

Mr. BURGESS. No, it is not too many for the wants.

Senator KERR. Are we short any of the materials that are going into them?

Mr. BURGESS. No, but we are short the finished product. We need more schools. There is a shortage. We need lots of other—

Senator KERR. You said we were building too many, Mr. Secretary.

Mr. BURGESS. No. I said we are building them faster than we have got the money and available supplies of men and skills to do it.

Senator KERR. Mr. Secretary, we have more unemployed today than we have had in some years. Did you not know that?

Mr. BURGESS. Well—

Senator KERR. Did you not know we not only have the largest labor force, but the largest percentage of unemployment we have had? Have you looked at your Economic Indicator lately?

Mr. BURGESS. It is not a very high unemployment, and the shortages are for certain—

Senator KERR. How high is "high unemployment"? How high would you have it?

Mr. BURGESS. Employment is, of course, very high.

Senator KERR. What page is that on in the Economic Indicator?

Mr. BURGESS. This is page 11.

Senator KERR. I wish I had that man you have there sitting by you, to show all these things to me. Then he would help both of us.

Mr. BURGESS. He is very good.

Senator KERR. If that is all right with you.

Mr. BURGESS. That is all right.

Senator KERR. What does that show as to the percentage of the civilian labor force unemployed in June?

Mr. BURGESS. That shows 4.8.

Senator KERR. But seasonally adjusted there, I believe.

Mr. BURGESS. Seasonally adjusted, 4.5.

Senator KERR. How far back do you go there to find where it was 4.5, seasonally adjusted, unemployed?

Mr. BURGESS. Well, we do not have the seasonal adjustment back there. It was 5, unadjusted, in 1954.

Senator KERR. In 1954.

Mr. BURGESS. Yes.

Senator KERR. Well then, how many unemployed does this show in June?

Mr. BURGESS. 3,337,000.

Senator KERR. How far back do you have to go to find that many unemployed?

Mr. BURGESS. Well, on the figures shown in Economic Indicators you would have to go back on these figures to 1939. They do not give all the yearly or the monthly figures.

Senator KERR. You have to go back before 1950, do you not?

Mr. BURGESS. 1949.

Senator KERR. This goes back each year to 1950, does it not?

Mr. BURGESS. This skips, you see, from 1939 to 1950.

Senator KERR. But I mean—

Mr. BURGESS. So that does not help.

Senator KERR. Here is what I am asking: Has there been a time since and including 1950 when we had that many unemployed before?

Mr. BURGESS. Well, we do not have the monthly figures.

Senator KERR. Well, you have got the yearly figures. You have the yearly figure. Do you want me to read them to you?

Mr. BURGESS. Well, they jump from 1939—

Senator KERR. I am talking from 1950 to today.

Mr. BURGESS. In March of 1954, it was about the same, and again in January and February of 1955.

Senator KERR. How many?

Mr. BURGESS. Three million seven.

Senator KERR. That is 3,700,000?

Mr. BURGESS. Yes.

Senator KERR. But for the year of 1954, which was a recession year, it was 3,230,000, was it not?

Mr. BURGESS. That is right, for the year as a whole.

Senator KERR. And for this last month, for June, it was 3,337,000.

Mr. BURGESS. That is right.

Senator KERR. Well, then, you cannot be serious in saying that we have a shortage of labor.

Mr. BURGESS. I did not say general shortage of labor. I say the skilled teams, of the skilled teams that build some of these things. I think it is more a matter of managerial crews, and so on. But certainly money—

Senator KERR. Money is scarce, is it not?

Mr. BURGESS. Money is not very readily available, no, sir.

Senator KERR. Is it not a fact, Dr. Burgess, that money is the only commodity that today is in critically short supply?

Mr. BURGESS. No, I would not quite concede that.

Senator KERR. Suppose you tell me some other that is in as short supply as money.

Mr. BURGESS. Well, I would say that the large tankers—

Senator KERR. Large tankers.

Mr. BURGESS (continuing). Are in short supply.

Senator KERR. How much of that is in the budget of the average consumer?

Mr. BURGESS. Well, it does not get into the budget except for the cost of oil. If we had more of these big ones, they might reduce the cost of oil. I do not know.

Senator KERR. Did you know that when they build these big tankers, they do not haul it any cheaper per barrel?

Mr. BURGESS. Than they do when they go through Suez with the smaller ones—just about even. I am not going to debate with you on that; no, sir.

Senator KERR. All right. [Laughter.]

Now, then, besides large tankers, what other commodity that you can name is in as short supply today as money?

Mr. BURGESS. I think schoolhouses.

Senator KERR. Correct.

Do you know why the governors down at Williamsburg said they were having to slow down on the building of schoolhouses?

Mr. BURGESS. No; I did not get that.

Senator KERR. Did you see that resolution they passed down there?

Mr. BURGESS. No.

Senator KERR. Which they unanimously passed?

Mr. BURGESS. Yes.

Senator KERR. Twenty-six Democrats and nineteen Republicans.

Mr. BURGESS. Yes.

Senator KERR. They said it was because the interest rate was so high that it was increasing the taxes on the local citizens, and they asked the Congress and the President to do something to alleviate the excessive interest rates they were having to pay to build the school buildings they need.

Mr. BURGESS. Yes, I saw that.

Senator KERR. I thought you were going to mention railroad cars. You know the Secretary mentioned railroad cars.

Mr. BURGESS. Well, I am not so sure about railroad cars.

Senator KERR. Do you know what the railroads say about their shortage of railroad cars?

Mr. BURGESS. Well, they say they cannot afford them, they cannot get the money to build them.

Senator KERR. They say they cannot pay the interest rates.

Are they not down here asking the Government to figure out a program to lease them because they say building them is too expensive?

Mr. BURGESS. They also have got a problem of building in their own budgets, the problem of what they can afford to handle.

Senator KERR. In the way of interest costs.

Mr. BURGESS. Not in the way of interest costs.

Senator KERR. That is part of it, is it not?

Mr. BURGESS. Yes, that is part of it.

Senator KERR. I have one additional question as to the directors of the Federal Reserve banks. Who elect a majority of those directors?

Mr. BURGESS. The member banks of the area.

Senator KERR. That means the commercial banks in the area?

Mr. BURGESS. That is right, yes. They elect 6 of them, of whom 3 can be bankers and the other 3 have to be nonbankers. And the Board

appoints three of them, the Federal Reserve Board in Washington.

Senator KERR. In Washington.

So that the directors of those banks, which constitute part of this 127 men that control the—

Mr. BURGESS. That is right.

Senator KERR (continuing). The credit and interest policies of this Nation are either elected by the commercial banks themselves, or appointed by this Board of seven Governors in Washington?

Mr. BURGESS. That is right, whom the President appoints.

Senator KERR. Yes.

It makes a pretty tight deal, does it not?

Mr. BURGESS. I would not characterize it just that way. I would say that it covered a lot of territory, and brought a lot of opinions in on it.

Senator KERR. Well—

Mr. BURGESS. The majority of the directors of each Federal Reserve bank cannot be bankers. They have to be businessmen and others.

Senator KERR. You and I agreed a while ago, after we thoroughly understood each other, that they should make some credit available over and above that provided by accumulated savings.

Mr. BURGESS. That is right. And, of course, they have, Senator.

Senator KERR. I understand that.

Mr. BURGESS. Of course, they have.

Senator KERR. But they are the sole and exclusive group that determine how much more they make available, are they not?

Mr. BURGESS. Well, like all these things, you caught me once on not putting in some qualifications, there are always these qualifications. The demand—

Senator KERR. Well, subject to minor qualifications, is that correct?

Mr. BURGESS. Well, the demand for credit, for example, has a great deal to do with it. You have had periods in this country when the volume of credit went down—

Senator KERR. I did not ask you if they determined the demand. I asked you if they did not determine the supply.

Mr. BURGESS. Yes. But the supply is partly dependent on whether the banks come in and want to borrow from the Federal Reserve, and that depends on the pressure.

There have been times, let me say—

Senator KERR. Can a bank get credit from the Federal Reserve in any manner other than that prescribed by the Federal Reserve?

Mr. BURGESS. Oh, yes. But that is prescribed in the law. The Federal Reserve does not have a perfectly arbitrary power over that.

Senator KERR. Did the law tell them in 1953 to reduce the reserve requirements?

Mr. BURGESS. No. It gave them that right.

But you were asking me about the borrowing from the Federal Reserve banks.

Senator KERR. No, I did not.

Mr. BURGESS. That is what I thought you asked. I am sorry.

Senator KERR. I asked you if a member bank could borrow from a Federal Reserve bank except in the manner specified by the Federal Reserve bank.

Mr. BURGESS. In a manner specified by the law. The law is very explicit on the powers of the bank.

Senator KERR. What does it say?

Mr. BURGESS. Well, it enables the—they have the rediscount privilege of coming to the Federal Reserve bank and borrowing money.

Senator KERR. All right, then, under the authority granted by law—

Mr. BURGESS. Yes.

Senator KERR (continuing). To fix the specifications.

Mr. BURGESS. Yes; that is right.

Senator KERR. The Federal Reserve bank fixes the specifications whereby a member bank can borrow.

Mr. BURGESS. That is right.

Senator KERR. Well, then, does that not just get back to what I said, that they are the ones that determine the amount of credit?

Mr. BURGESS. No. I say that the demand for credit is part of the determination. I am trying to get so you do not catch me again.

Senator KERR. Doctor, it is not a question of me or you catching each other. [Laughter.]

Either the Federal Reserve operates the System or they do not. Now, do they, or do they not?

Mr. BURGESS. No, you cannot answer that "either/or," no, sir, you cannot do it. You cannot make these broad economic statements and pin it down to a line and then say, "Now, there is no qualification on that."

There are always qualifications.

Senator KERR. Suppose you say, well, generally no, and then give me the qualifications; or generally yes, and then give me the qualifications.

Mr. BURGESS. There are two qualifications on this one. They are acting under a law which has been on the books of the Congress for years. It has been repeatedly revised, repeatedly considered.

Senator KERR. When was it last revised?

Mr. BURGESS. The last big revision was in 1935, the Banking Act of 1935.

Senator KERR. What minor revision has been made since then?

Mr. BURGESS. Well, you asked me, for example, in the questions about the power to borrow directly, the Treasury's power to borrow directly from the Federal Reserve. That was changed in 1942.

Senator KERR. I was not talking about that. I was talking about providing credit to the member banks.

Mr. BURGESS. Well, that is a part of the credit situation.

I would have to look that over to see if there was any major change in the discount privilege.

Senator KERR. I do not remember any, do you?

Mr. BURGESS. No, I do not.

Senator KERR. No.

Mr. BURGESS. I do not think there has been a major change since.

Senator KERR. I am of the opinion that, generally speaking, and subject to qualifications with reference to questions that I do not now think of—

Mr. BURGESS. Yes.

Senator KERR (continuing). They determine the amount of credit available in this economy, over and above that provided by savings.

Mr. BURGESS. Well, I think—I will say, let us just follow your formula; they have a great deal of power in this, subject to limitations in the law and in the demand for credit, and so on.

Senator KERR. That is the situation?

Mr. BURGESS. That is right.

You gave me the right to say I have some qualifications on that.

Senator KERR. Yes.

And subject to that right, that is the situation?

Mr. BURGESS. They have very great power. Let us put it that way.

Senator KERR. And subject to the minor qualifications, that is the situation?

Mr. BURGESS. Yes.

Senator KERR. And they have operated it in such a way that the available supply is very tight; is it not?

Mr. BURGESS. At the moment, the available supply is tight.

Senator KERR. In a tight situation of that kind, what group of borrowers is in best position to secure its requirements?

Mr. BURGESS. Borrowers who have good credit.

Senator KERR. Well, who has the best credit?

Mr. BURGESS. Companies which have been well run and have had experience in the field.

Senator KERR. I suppose that the Government would.

Mr. BURGESS. Well, the Government has the best credit in the world.

Senator KERR. Then, in that competition for the available amount of credit, would you say that Federal, State, and local governments are one group that will get their requirements?

Mr. BURGESS. Yes.

Senator KERR. After they have been taken care of, who is taken care of in this struggle for the available supply of credit?

Mr. BURGESS. Well, the people who have shown their good credit-worthiness.

Senator KERR. The borrowers with the highest credit rating; are they not?

Mr. BURGESS. That is right.

Senator KERR. They call them Aaa; do they not?

Mr. BURGESS. That is just borrowers whose bonds are on the market.

There are millions of small borrowers that stand just as well with their bank as even a wonderful company like yours, Senator.

Senator KERR. Oh, they are a wonderful company, and they finally got up to where they are Baa, which means that after everybody above them is taken care of, they can get their nose under the tent, see, if they are willing to pay the tariff and give enough incentive.

Mr. BURGESS. That shows some of the Baa's do pretty well, Senator.

Senator KERR. Yes. But they have to do that, do they not?

Mr. BURGESS. That is right.

Senator KERR. Let us say that after the highest order of borrowers, and then after the second-raters like my company, since you have chosen to refer to it, get theirs, then it is available to borrowers as you go down the scale of determination of their status as credit risks; does it not?

Mr. BURGESS. That is not the way it works.

Senator KERR. Well, generally.

Mr. BURGESS. I will not even concede generally.

Senator KERR. You mean a bank would loan money to a poor credit risk that was not a customer, if a good credit risk that was a customer wanted the money?

Mr. BURGESS. Well, that is not the way it is usually dished out.

Here is a small bank in a small town. They take care of the people, the business and the individuals, in their area. They feel a responsibility to do it.

Senator KERR. As they see fit.

Mr. BURGESS. Well, no; I would not—

Senator KERR. The people do not determine who gets credit; do they?

Mr. BURGESS. No. The banker has that responsibility, Senator.

Senator KERR. And exercises it.

Mr. BURGESS. He exercises it. But, generally speaking, he feels a great responsibility for his neighbors.

Senator KERR. Now, Mr. Burgess, yesterday you said yourself, and I do not suppose that I would have to remind you of it to get this point over, that in the American way, the—

Mr. BURGESS. That is right.

Senator KERR (continuing). The marginal borrower was the fellow that did not get it. Is that not what you said here yesterday?

Mr. BURGESS. That is right.

Senator KERR. Is that not a fact?

Mr. BURGESS. Yes.

Senator KERR. So that actually, when this credit is tight like it is now, Government gets what it requires, the best borrowers get what they require, and in the scale generally, as you come down it, and this limited supply runs out, those that do not get it are the marginal fellows, the smaller fellows.

Now, is that not right?

Mr. BURGESS. Well, again we have got to qualify that.

Senator KERR. Subject to certain qualifications; is that right?

Mr. BURGESS. You cannot just change, for the operating banker, he does not just change his rules every 10 minutes, and you cannot establish a new set of rules.

He has a standard for making loans, and that goes right through, regardless of where money is.

Now, when—

Senator KERR. Is one of those standards loaning it where it is the safest or where the marginal—

Mr. BURGESS. He has a general rule of safety that he carries through at this time, just as he did before.

Senator KERR. Yes.

Mr. BURGESS. The record shows the total volume of bank loans is very large.

Senator KERR. Yes.

Mr. BURGESS. It has increased this year, not quite as much as last year.

Senator KERR. The total population is larger; is it not?

Mr. BURGESS. Thousands, hundreds of thousands of borrowers are getting their credit just as they always did.

Senator KERR. But there are hundreds of thousands of them that are not; are there not?

Mr. BURGESS. I would not say hundreds of thousands of them; no.

Senator KERR. Well, large groups.

Mr. BURGESS. There are some people who have difficulty in getting credit. We have got a facility for them in Washington.

Senator KERR. What is it?

Mr. BURGESS. They come to the Small Business Administration, and a good many of them are getting credit there.

Senator KERR. Doctor, how many of them have gotten credit there?

Mr. BURGESS. We would be glad to put the figures in the record.

(Mr. Burgess later submitted the following for the record:)

In the fiscal year 1957, the Small Business Administration received 6,864 applications for loans, approved 3,536 loans, and had 699 still pending as of June 30, 1957. In terms of dollars loans of \$159 million were made during the year.

Senator KERR. I know the number has more than doubled in the last year; I know that.

Mr. BURGESS. Well, the interesting thing to me is that the increase is not larger, with all the talk about tight credit, because the door is open there, and the fact that they do not come in in larger numbers is an indication that most of them are being taken care of back home.

Senator KERR. Mr. Secretary, you ought to be back home. You ought to be back home with some of those fellows who are trying to get it. You would change your opinion of the degree to which they are being taken care of.

According to their report, they went up 85 percent during the fiscal year 1957 over 1956.

Mr. BURGESS. Which figure is that?

Senator KERR. The Small Business Administration.

Mr. BURGESS. This is the loans by the Small Business Administration?

Senator KERR. Yes.

Of course, the small businesses were crowded out of the money market because of high interest rates and tight credit, is that not right?

Mr. BURGESS. The loans of the Small Business Administration went up very much, but they had been very small before.

Senator KERR. That is just the situation.

But I go back home and tell the farmers that they can get credit from the Farm Housing Administration, the law says they can; and they can, if they have got Government bonds for collateral.

But if they have not, I want to tell you right now, there are not many of them in Oklahoma getting it.

Would you say that the young fellow starting in business might be one of those marginal borrowers?

Mr. BURGESS. Well, I think a good many of them are getting credit.

Now, I have not any survey of that, I have not any inside information.

Senator KERR. But generally speaking?

Mr. BURGESS. I think it is a little more difficult for him than it was, yes.

Senator KERR. Another fairy story that you told the chairman yesterday was that the more interest you pay, the more taxes they pay.

You made that statement, did you not?

Mr. BURGESS. No, I did not make it quite that broadly, Senator.

Senator KERR. You said the higher the interest rates are, the more the Government collects in taxes.

Mr. BURGESS. I said that part of the increase in interest rates we get back in taxes.

Senator KERR. Did you not try to assuage the chairman's feelings yesterday about the high interest rates when you said, why, the more we pay in interest, the more we get in taxes?

Is that not what you said?

Mr. BURGESS. I said that was some return that we got from it, so it was not a complete additional burden.

Senator KERR. Have you lessened your ideas about the returns we got from it, from yesterday?

Mr. BURGESS. No.

Senator KERR. That is the way I understood your statement yesterday.

Mr. BURGESS. No.

Senator KERR. I wonder if you would turn to one of your charts which shows who owns these Government bonds.

Mr. BURGESS. This is in the little book.

Senator KERR. Which one of these charts is it?

I believe chart 4 shows the principal nonbank lenders, does it not?

Mr. BURGESS. That is right; yes.

Senator KERR. You told us yesterday or the day before, the largest single holder of Government securities, did you not?

Mr. BURGESS. The Government investment funds.

Senator KERR. Yes. How much is that?

Mr. BURGESS. \$54 billion.

Senator KERR. How much?

Mr. BURGESS. \$54 billion.

Senator KERR. How much taxes do they pay?

Mr. BURGESS. They do not pay a nickel, but all their interest income, of course, is accumulated in those Government funds.

Senator KERR. But I am talking about the tax income of the Government.

How much taxes does the Government collect on those \$54 billion worth of bonds?

Mr. BURGESS. Not anything directly, but as money is paid out, some of it is taxed. Of course, as to the old-age and survivors insurance—that is not a case. They do not get it back on that.

A certain amount of the payments go to people who pay taxes, like Government life insurance.

Senator KERR. You mean the holders of old-age and survivors life insurance pay taxes on pensions?

Mr. BURGESS. No; they do not.

Senator KERR. I do not think you can make a qualification to the statement that the interest paid on bonds in the captive accounts is not taxable.

Mr. BURGESS. Well, it is very little of it, anyway.

Senator KERR. Very little of it.

Now, then, the largest nonbank lender, other than the trust funds, is what?

Mr. BURGESS. Well, the individuals.

Senator KERR. I am talking about your chart on page 4.

Mr. BURGESS. Yes.

My assistant says page 6 will give us the picture a little better. I think he is right.

Senator KERR. All right.

Mr. BURGESS. Of course, commercial banks are larger holders, actually, than the Government investment accounts, Senator.

Senator KERR. That is true, but my question was as to the largest nonbank holders.

Mr. BURGESS. That is individuals, \$66.6 billion.

Senator KERR. \$66 billion.

Now, they pay taxes.

Mr. BURGESS. Yes.

Senator KERR. That is correct.

Mr. BURGESS. That is right.

Senator KERR. What is the next largest group?

Mr. BURGESS. The commercial banks.

Senator KERR. Now, they pay taxes.

Mr. BURGESS. That is right.

Senator KERR. That is \$66.6 billion and \$59.4 billion, which makes a total of \$126 billion; does it not?

Mr. BURGESS. That is right.

Senator KERR. What is the next largest group?

Mr. BURGESS. The nonbank, which is a miscellaneous assortment.

Senator KERR. That is what I tried to get you to go to there on page 4. Is that not it?

Mr. BURGESS. Yes.

Let us break that down on page 4. That is right.

Corporations are a very large item there.

Senator KERR. On page 4?

Mr. BURGESS. We have got to go to page 12 for that, Senator.

Senator KERR. Well, I will go to page 12 with you if you want to go that way. We are coming back to page 4.

Mr. BURGESS. All right.

Corporations owned \$19 billion.

Senator KERR. Corporations owned \$19 billion?

Mr. BURGESS. Yes.

Senator KERR. They pay taxes, do they not?

Mr. BURGESS. That is right.

Senator KERR. That is \$126 billion and \$19 billion; that is \$145 billion.

Mr. BURGESS. Yes. That is right.

Senator KERR. While you are on page 12 there, you get a group that has got \$10.8 billion, State and local governments.

Mr. BURGESS. That is right.

Senator KERR. How much in Federal taxes do they pay?

Mr. BURGESS. Practically none.

Senator KERR. Well, "practically none." How near to none? Do you know of any State or local government that pays Federal income tax?

Mr. BURGESS. No; they do not.

Senator KERR. I do not believe they do.

Now, there is foreign and international with \$7.7 billion. How much of that do we get back in taxes?

Mr. BURGESS. Well, some of it, not all of it.

Senator KERR. Very little of it?

Mr. BURGESS. I would say a minor part of it.

Senator KERR. A minor part of it.

Mr. BURGESS. Yes. To the extent those are——

Senator KERR. Do we go back to page 4, or do you want to detour me again?

Mr. BURGESS. Well, page 8 is suggested as a good page, Senator.

Senator KERR. Page 8. All right, I will go to page 8 with you.

Mr. BURGESS. Yes.

Senator KERR. Which——

Mr. BURGESS. The biggest is mutual savings banks, who do not pay much in taxes.

Senator KERR. The mutual savings banks. They do not pay anything; do they?

Mr. BURGESS. No; very little.

Senator KERR. And the next biggest?

Mr. BURGESS. And, of course, mutual savings banks, as they pay interest to individuals, you get it there indirectly.

Senator KERR. But the mutual savings banks pay no taxes, do they?

Mr. BURGESS. Very little themselves; no.

Senator KERR. The next biggest group there is what?

Mr. BURGESS. Pension funds.

Senator KERR. How much taxes do they pay?

Mr. BURGESS. No; they do not pay taxes directly.

Senator KERR. They do not pay.

The next largest group?

Mr. BURGESS. Except, there again, as they make payments to individuals.

Senator KERR. I understand.

Mr. BURGESS. On the individuals, they catch it.

Senator KERR. I am talking about pension funds.

Mr. BURGESS. I am talking about indirectly and directly, Senator, so some of it you catch.

Senator KERR. What is the next largest group?

Mr. BURGESS. Life-insurance companies.

Senator KERR. How much taxes do they pay?

Mr. BURGESS. Well, they have a formula, and they pay something, not very big.

Senator KERR. How much?

Mr. BURGESS. I cannot give you that figure. I can look it up and put it in the record. It is not very big.

(The information referred to was later received for the record as follows:)

It is estimated that life-insurance companies will receive about \$200 million of interest on their holdings of Federal securities during the fiscal year 1958, with an estimated Federal income tax liability of approximately \$16 million on those earnings.

Senator KERR. It is practically nonexistent.

Mr. BURGESS. I would not say that. They agreed to a formula a few years ago, and they pay some taxes, and it is not a very big figure.

Senator KERR. We could not balance the budget very well on the taxes they pay on the interest they get on Government bonds; could we?

Mr. BURGESS. No; that is right.

Senator KERR. Next?

Mr. BURGESS. Fire, casualty, and marine do pay taxes.

Senator KERR. Fire, casualty, and marine, I think they do; yes.

Mr. BURGESS. "Other," I do not know.

Senator KERR. But you and I together here can figure up more of these Government bonds that are not taxed than we can that are; can we not?

Mr. BURGESS. Well, I have not added it up, but perhaps more of them do not than do.

Federal Reserve, of course, 90 percent, you have already agreed on that one—

Senator KERR. Well—

Mr. BURGESS (continuing). With your qualification.

Senator KERR. With a qualification.

Mr. BURGESS. Yes; with your qualification. [Laughter.]

Senator KERR. On the tax-exempt bonds that are in existence, there are large quantities of them; are there not?

Mr. BURGESS. That is right.

Senator KERR. And the interest on them has been going up, too; has it not?

Mr. BURGESS. It certainly has.

Senator KERR. We do not collect any taxes on them; do we?

Mr. BURGESS. No.

Senator KERR. Do you know the amount of the tax-exempt bonds?

Mr. BURGESS. We showed it in the chart, \$50 billion.

Senator KERR. Increased enormously, increased \$5 billion a year.

So if you figure all of the bonds on which interest was paid, there is a lot more of them not taxable than there are taxable; are there not?

Senator BENNETT. Mr. Chairman, just to clear the record up as we are trying to follow the questioning, are there \$50 billion worth of Federal Government bonds tax exempt?

Senator KERR. No; but interest is paid on them.

Senator BENNETT. Yes; States and municipals.

Senator KERR. And he said the more the interest, the more the taxes. That does not apply if the interest on it is tax exempt; does it, Senator?

Senator BENNETT. No; but I wanted the record to make sure. I thought you were questioning the Secretary about the division among the United States Government—

Senator KERR. No; I had left the category of United States Government bonds and gone to the category of tax-exempt bonds.

Senator BENNETT. That was not clear to the Senator from Utah.

Senator KERR. It was clear to the Secretary; was it not?

Mr. BURGESS. I think I followed you; yes.

Senator KERR. Yes. [Laughter.]

Let us go back just one moment to page 8 there. The distinguished Senator from New Mexico has reminded me of the fact, that I believe you and I should both recognize at this point, that the fire, casualty, and marine insurance companies that own the \$50.3 billion are on a different tax formula than commercial banks and the individuals and corporations; are they not?

Mr. BURGESS. Well, there you have me. I am a little rusty. They pay a good, substantial tax.

Senator KERR. Would the Senator from New Mexico, who is familiar with that, make a statement as to what the policy there is?

Senator ANDERSON. I think they pay on a formula basis of operations, not on the basis of Government bonds.

When I make up a tax return for my company, I do not put in a nickel for Government earnings and bonds, except as reflected in total operations. I think that is correct.

Mr. BURGESS. Well, your income from investment is part of your income, and that includes your interest on Government bonds.

Senator ANDERSON. Yes.

Mr. BURGESS. I used to be a director of one.

Senator ANDERSON. I do not object to the situation. I only pointed out that it is a small portion of the earnings you pay, a percentage of the net operations, which do not reflect directly the earnings on Government bonds. I take it back.

Senator KERR. I want to thank the Senator from New Mexico.

It just carries further a demonstration of the basis of my statement that your observation that the more the interest, the more the taxes is, at least with some qualifications, what I would call a fairy tale.

Mr. BURGESS. I do not believe it is a fairy tale the way I used it, Senator. I simply said that we get back part of the interest we pay out. That certainly is true. I would not go any further than that.

Senator KERR. That is true.

If 2 trains started out, 1 of them going 50 miles an hour, and the other one 40 miles an hour, how long do you think it would take that second one to catch up with the first one? [Laughter.]

Mr. BURGESS. It would take it a long time, Senator.

Senator KERR. It would take a long time.

Has the Treasury made an estimate of how much of the \$7 billion-plus that will be paid out on the national debt this year will be recaptured in taxes?

Mr. BURGESS. The interest payments this year?

Senator KERR. Yes.

Mr. BURGESS. No; we have not attempted to make it, Senator.

Senator KERR. Is there someone in your Department that you could have look in that?

Mr. BURGESS. Well, we will take a shot at most anything. We can make a very rough estimate.

Senator KERR. If you can make what you regard as a reasonably accurate estimate, we would like to have it.

Mr. BURGESS. All right. We will take a shot at it.

(The information referred to is as follows:)

*Estimated tax liability arising from interest payments on the public debt, fiscal year 1958*

[In millions of dollars]

	Budget expenditures for interest	Less non-cash interest	Equals cash interest	Tax rate (percent)	Tax liability
<b>Publicly held debt:</b>					
<b>Individuals:</b>					
Savings bonds:					
Series E.....	1,100	400	700	18.0	126
Other.....	300	100	400	33.3	133
Other securities.....	400	-----	400	33.3	133
<b>Total.....</b>	<b>1,800</b>	<b>300</b>	<b>1,500</b>	-----	<b>392</b>
Commercial banks.....	1,400	-----	1,400	5.0	700
Mutual savings banks.....	200	-----	200	.5	1
Insurance companies:					
Life.....	200	-----	200	7.8	16
Other.....	100	-----	100	50.0	50
Nonfinancial corporations.....	600	-----	600	50.0	300
State and local governments.....	400	-----	400	-----	-----
Miscellaneous investors.....	400	-----	400	-----	-----
<b>Total publicly held debt.....</b>	<b>5,100</b>	<b>300</b>	<b>4,800</b>	-----	<b>1,459</b>
Debt held by Federal Reserve banks.....	600	-----	600	(1)	1,420
Debt held by Government investment accounts.....	1,600	1,600	-----	-----	-----
<b>Total.....</b>	<b>7,300</b>	<b>1,900</b>	<b>5,400</b>	-----	<b>1,879</b>

<sup>1</sup> 90 percent of net earnings are returned to the Treasury.

<sup>2</sup> Direct tax liability only: Excludes tax liability of individuals on interest and dividend income received from savings institutions and corporations which grows out of interest payments on the debt.

Source: Office of the Secretary of the Treasury, Aug. 5, 1957.

Senator KERR. There is another, one more, fairy story that you told us yesterday, and that was that high interest rates are not inflationary, but I am going to get to that a little further along in this discourse.

Now I want to go into a part of the amazing record of your own personal development into a great fiscal expert, not with any disrespect or anything other than the highest respect, but in order that the record may show what I believe to be the history of the making of the attitude and philosophy which you have had in the job you occupy.

In November 1952 the Wall Street Journal (November 22, 1952) interviewed a person that they referred to as a close associate of the new Secretary of the Treasury, and reported that that person gave them the following statement:

On the national debt he will get the best banking brains to tell him what is best. He is not going to make any decisions himself.

After that, he picked you as his Deputy in charge of debt management and monetary affairs, and you have had that job since January 1953, part of that time with benefit of portfolio, and part of that time without benefit of portfolio.

Mr. BURGESS. That is right.

Senator KERR. I am interested in finding out something about your previous experience in the field of debt management and monetary affairs, and I want to tell you that I spent quite a little time—

Mr. BURGESS. I am greatly complimented, Senator.

Senator KERR (continuing). In looking this up, and I want to tell you I was amazed at what I found.

In 1920 you joined the New York Federal Reserve Bank as statistician and editor of the Monthly Review of Business and Credit Conditions.

If I err, you stop me.

Mr. BURGESS. All right.

Senator KERR. In 1923 you became Assistant Federal Reserve agent and manager of the reports department of the New York Federal Reserve. In this capacity you were the Chairman's assistant.

In 1930 you were elevated to the post of Deputy Governor of the New York Federal Reserve Bank.

In 1936, following the passage of the amendments to the Banking Act, formalizing the Reserve's Open Market Committee, you became the first manager of the Federal open market account, a position which, as I understand it, under the law, is always held by the vice president of the Federal Reserve Bank of New York; is that correct?

Mr. BURGESS. That is right.

Senator KERR. You served in this position until 1938, when you left to join the National City Bank of New York as vice chairman of the board.

In September 1939 when, as a consequence of the outbreak of the war in Europe, a severe slump hit the United States bond market, you were among a group of six bankers called to Washington by Secretary Morgenthau for advice?

Mr. BURGESS. They were not all bankers. There was Walter Stewart, who was a college professor.

Senator KERR. I understood he had a group, including six bankers and some others. That is not correct?

Mr. BURGESS. No; there were 3 bankers and 3 others.

Senator KERR. Three bankers and three nonbankers?

Mr. BURGESS. That is right.

Senator KERR. But you were one of the group?

Mr. BURGESS. That is right.

Senator KERR. In 1940 you were elected chairman of the economic policy commission of the American Bankers Association?

Mr. BURGESS. That is right.

Senator KERR. In 1940 and 1941 you were president of the New York State Bankers Association?

Mr. BURGESS. That is right.

Senator KERR. In 1942 you were a member of a bankers advisory group called to Washington by Secretary Morgenthau to make recommendations as to the type of issues the Treasury should sell to finance the war.

You served as chairman of the American Bankers economic policy commission during most of the war.

In 1944 you were elected president of the American Bankers Association, and served through 1945.

Mr. BURGESS. There is, perhaps, a miss there or a skip, that in the third and fourth war loan, I was chairman of the finance committee for New York State handling the third and fourth war loan financing.

Senator KERR. But that was in addition to these others?

Mr. BURGESS. That is right.

Senator KERR. Yes.

You were the chief representative of the American Bankers Association representing them in negotiating modifications of the Bretton Woods proposals?

Mr. BURGESS. That is right.

Senator KERR. In 1946 you were renamed chairman of the American Bankers Association economic policy commission.

In that same year you helped establish the Committee on Public Debt Policy and became its chairman?

Mr. BURGESS. That is right.

Senator KERR. In addition, you were named chairman of the committee on monetary relations of the International Chamber of Commerce by its president, who was Winthrop Aldrich, then chairman of the board of the Chase National Bank.

In 1946 you were also 1 of the 6 bankers invited to Germany to study the financial conditions there.

In 1947 you became a member of the Federal Advisory Council to the Federal Reserve Board, representing the Second Federal Reserve District, and at a later time, I want to go into that with you. So I understand it, in addition to the fact that the directors of these 12 Federal Reserve banks are elected by the commercial banks or appointed by the Board of Governors here, the Federal Reserve Board also has a Federal Advisory Council—

Mr. BURGESS. That is right, except that the six who visited Germany were not just bankers; they were mostly businessmen.

Senator KERR (continuing). Consisting of representatives of commercial banks.

Mr. BURGESS. That is right.

Senator KERR. During 1946, 1947, and 1948 you also supervised the publication and distribution of a series of seven pamphlets by the Committee on Public Debt Policy dealing with the management of the public debt?

Mr. BURGESS. That is right.

Senator KERR. In November 1952, following the presidential elections and the selection of Secretary of the Treasury Humphrey, he named you as his Deputy in charge of debt management and monetary affairs.

I have read this impressive record of yours in order to show that you have not only spent a lifetime in the banking business, that you are not only a banker, but also a banker's banker; and I say that with the utmost respect for your personal honesty and frankness and ability, but also because I believe it is true.

Now, in the light of your vast experience with the Federal Reserve Bank of New York and the fiscal and monetary structure of this country, I would like to ask you a few questions.

Do you remember the disastrous collapse of farm prices in 1920 and 1921?

Mr. BURGESS. I do.

Senator KERR. Was the Federal Reserve Bank of New York responsible for the discount rate increase in 1920, which was followed by the collapse of farm prices that year?

Mr. BURGESS. I did not go with the bank until December 1920. I was not with the bank at that time. They were partly responsible for the increase in the discount rate. They were not responsible for the drop in farm prices.

Senator KERR. Those of us who believe that the drop in farm prices was related to the increase in that rediscount rate might differ with you.

Mr. BURGESS. Of course; certainly.

Senator KERR. And you would recognize our privilege in doing so.

Mr. BURGESS. Yes; certainly.

May I add, of course, in that case also the discount rate increase was approved by the Federal Reserve Board, which was chaired by the then Secretary of the Treasury.

Senator KERR. Yes.

Mr. BURGESS. And so, as you say, they had the ultimate—

Senator KERR. They had the ultimate decision.

Mr. BURGESS. Yes; decision.

Senator KERR. But that one was initiated by the Federal Reserve bank in New York.

Mr. BURGESS. That one, I am not sure whether they started it or whether the System as a whole—the System as a whole, of course, had discussed it for a long time.

Senator KERR. But they were the bellwether.

Mr. BURGESS. It was a System action.

Senator KERR. They were the ones who started it.

Mr. BURGESS. Yes—well, I am not quite sure of that.

Senator KERR. Well, somebody always has to start it. It was not started by the Federal Reserve bank in Kansas City; was it?

Mr. BURGESS. It may have been. As I say, I was not with the System at that time.

Senator KERR. My impression is that it was started with the Federal Reserve Bank of New York.

Mr. BURGESS. I cannot say.

Senator KERR. Would you check and see if that is inaccurate?

Mr. BURGESS. I do not know whether there is any way of checking that. We will take a look at the record and see if there is any indication.

(Mr. Burgess later submitted the following:)

(The Federal Reserve banks of New York, Chicago, and Minneapolis raised the discount rate from 6 percent to 7 percent on June 1, 1920, followed by Boston on June 4.)

Senator KERR. All right. We will both do that.

Mr. BURGESS. All right; good.

Senator KERR. You are aware that subsequent to the 1920–21 recession we had the very severe depression of 1929, 1930, and 1931?

Mr. BURGESS. That is right.

Senator KERR. What share of responsibility do you think that the New York banks and the Federal Reserve Bank of New York had in connection with the speculative excesses in the securities market in the late 20's which preceded the 1929 collapse?

Mr. BURGESS. Well, all I can say is that the New York Federal Reserve Bank was conscious of the problem and did its utmost to bring a check to that.

Senator KERR. What did they do?

Mr. BURGESS. Well, they raised the discount rate, for one thing.

Senator KERR. To what?

Mr. BURGESS. The discount rate finally went to 6 percent in the summer of 1929.

Senator KERR. Now, I looked that up quite carefully, and I would be glad to know that it went to 6 percent. The best I could find was 5.16.

Mr. BURGESS. We will check that.

Senator KERR. Please do.

Mr. BURGESS. My recollection is it was 6. They repeatedly tried to raise the rate earlier than that, and were repeatedly denied by the Federal Reserve Board in Washington.

Senator KERR. Well, now, what rate of interest were the banks charging for demand loans in 1929?

Mr. BURGESS. Well, it got up as high as 20 percent and more. It ranged all the way from 6, 8, 10 percent. The rate was high.

Senator KERR. It got as high as 25 percent, did it not?

Mr. BURGESS. I think it did; yes, sir.

Senator KERR. Although the rediscount rate by the New York Federal Reserve Bank was never above 6 percent?

Mr. BURGESS. That is right.

Senator KERR. And I think it was never above 5.16, but you are going to check that for me.

Mr. BURGESS. Yes.

(Mr. Burgess later submitted the following:)

(The New York Federal Reserve Bank discount rate was 6 percent from August 9 to November 1, 1929.)

Senator KERR. Do you think the governor of the New York Federal Reserve Bank was unduly influenced by President Mitchell of the National City Bank of New York in failing to move more vigorously to stem that stock market swing?

Mr. BURGESS. I do not. He was in complete opposition to Mr. Mitchell's position.

Senator KERR. But Mr. Mitchell's position prevailed?

Mr. BURGESS. No. On the contrary, the opinion of the bank prevailed in their repeated efforts to get control of this thing.

Senator KERR. My understanding was, based on some knowledge—

Mr. BURGESS. Yes.

Senator KERR. That had it not been for Mr. Mitchell that rediscount rate would have been much more drastically increased.

Mr. BURGESS. Well, I am sorry, Senator, but on that you are wrong. I was there.

Senator KERR. All right. I am glad to have it. I am glad to have your statement on that; and in that regard I am ready to recognize that you were. That is like Sam Jones was about his religion, when they asked him how he knew he had it, he said he was there when he got it. [Laughter.]

Now that you say that you were there—

Mr. BURGESS. That is right.

Senator KERR. It is a fact that the boom went until it busted; did it not?

Mr. BURGESS. That is right. It went too far.

Senator KERR. During the latter half of the 1920's, you were the titular assistant to the president of the Federal Reserve Bank of New York?

Mr. BURGESS. 1920?

Senator KERR. Your title was assistant to the president of the Federal Reserve Bank of New York.

Mr. BURGESS. No. I never had that title.

Senator KERR. I thought you were the vice president of the bank?

Mr. BURGESS. I thought you said my title was assistant to the president.

I was deputy governor of the bank in 1930. I was made deputy governor in charge of open market operations.

Senator KERR. But were you not—

Mr. BURGESS. Before that I was assistant Federal Reserve agent, which was a technical job concerning the handling of a great many different banking details that came through.

Senator KERR. I see.

Mr. BURGESS. I was assistant to the Federal Reserve agent who also was the chairman of the board, but I never was assistant to the president.

Senator KERR. You never were assistant to the president?

Mr. BURGESS. Of course, when you become deputy governor you become, in effect, such.

Senator KERR. You became such?

Mr. BURGESS. It was in 1930 that I shifted over from the chairman's office to the president's office.

Senator KERR. In 1927 you did write a book—

Mr. BURGESS. Yes, sir.

Senator KERR. Entitled "The Reserve Banks and the Money Market," and it was published by Harper Bros., a publishing firm in New York?

Mr. BURGESS. That is correct. Guilty in the first degree. [Laughter.]

Senator KERR. Prof. H. Parker Willis of Columbia, do you remember him?

Mr. BURGESS. I remember him very well.

Senator KERR. As I recall, he was an adviser to Carter Glass and others here at the time the Federal Reserve Act was drafted?

Mr. BURGESS. That is right.

Senator KERR. He wrote a review of your book in the Political Science Quarterly of December 1928. Do you remember that?

Mr. BURGESS. No, I do not. I have no doubt he did, though.

Senator KERR. I want to quote something that he said:

The book might well be called The Federal Reserve Bank of New York and the Local Money Market.

Now, the title you gave it was "The Reserve Banks and the Money Market."

Further, he said:

It is not in any true sense an account of the Reserve banks, as the title indicates. It is a defense and explanation of the conduct of the Federal Reserve Bank of New York, especially within recent years.

I am not putting my stamp of official approval on the accuracy of this statement. I am just reading what this gentleman said.

Mr. BURGESS. Right.

Senator KERR (continuing) :

Of the many points at which serious question must be raised with Mr. Burgess as to fact or inference, space permits no account. Suffice it to say—

[Laughter]

that the book is an advocate's brief in defense of policies which should have unbiased examination.

As I said a while ago, I am not in position to say whether Professor Willis was justified in what he said or not.

However, one aspect of his criticism of your position did interest me because, it seems to me, that we are moving in pretty much the same direction today.

For example, Professor Willis stressed the point that the dominance of the New York Federal Reserve Bank and the New York money market, in channeling the spare funds of the country, was not contemplated under the original Federal Reserve Act, but that this had developed during the twenties, largely by reason of the aggressive policies of the governor of the New York Federal Reserve Bank.

Now, the professor also complained that, having arrogated to itself this power, the New York Federal Reserve Bank disclaimed any responsibility for the manner in which the New York banks employed the Nation's spare funds. And certainly you know that a large part of those funds helped to feed the unhealthy or uncontrolled stock market boom, which culminated in the collapse of 1929.

Is it not a fact that the policy of the Federal Reserve in the twenties of quantitative rather than qualitative controls made it impossible to prevent the misuse of credit, which led to the collapse of 1929?

I would like for you to think about that and comment on it.

Mr. BURGESS. Were you quoting Mr. Willis at that point?

Senator KERR. No; I am asking you a question about it.

Mr. BURGESS. That is an old, old question.

Senator KERR. Then it should not take you by surprise.

Mr. BURGESS. No, it does not take me by surprise at all.

I think there is a certain amount of truth in it.

We have now on the books, as a result of the experience of that time, certain types of qualitative control, not very much, but a little.

The Reserve System has one type of qualitative control, and that is the control of margin requirements on security operations.

That was a thoroughly desirable change, and if we had had that in effect in 1929, the story might have been better.

Senator KERR. I think it would, but that would not have changed the fact that, having determined the quantity of credit that was to be available, there was no control placed on where that credit flowed and where it was principally used.

Even had there been margin requirements, with the situation existing where the New York banks were getting as high as 25 percent interest on demand loans with stock as collateral, they could not have financed them if it had not been for the fact that such a large part of the available credit flowed to that outlet, and there found that high interest rate and that high profit for its use.

Mr. BURGESS. Well, I think if we had had the margin requirements at that time, that it would have restricted that use of credit a great deal.

Senator KERR. It would have restricted it?

Mr. BURGESS. Yes.

Senator KERR. But it would not have prevented the flow of a large portion of it to that outlet.

Mr. BURGESS. I think it would, Senator; I think it would have.

Senator KERR. The margin requirements?

Mr. BURGESS. I think it would have been very effective—

Senator KERR. The only way it would have been restricted, it would have been by the amount it reduced the quantity.

Mr. BURGESS. It would have reduced the quantity flow into that use.

Senator KERR. Yes. But it would not have controlled the outlet that it was to be channeled into.

Mr. BURGESS. I do not quite see your distinction there. I think it would have.

Senator KERR. The only reason that would have caused any of it to flow anywhere else would be because there was not enough demand there on the basis of borrowers being able to meet the margin requirements.

Mr. BURGESS. Well, that is a very important restriction. For example, margin requirements now are 70 percent.

Senator KERR. It is a very important restriction, but it does not go beyond the effect of its own specifications.

Mr. BURGESS. Of course, there was not, at that time; that was the main abuse.

Senator KERR. Was there any other market in the world that would pay a bank 20 percent for demand money than those borrowing for stock speculation or for stock purchases?

Mr. BURGESS. Honestly, I cannot answer that. There had been rates as high as that.

Senator KERR. But at that time?

Mr. BURGESS. At that time we were I think about the highest.

Senator KERR. And if borrowers had had the margin requirements—

Mr. BURGESS. But they did not.

Senator KERR. I said had they had—

Mr. BURGESS. Yes.

Senator KERR. And still would have paid that interest rate on it, the way it was handled without restriction as to where it would be used, that magnet would still have drawn it there, would it not?

Mr. BURGESS. No. I think this would have restricted that flow of funds.

I may say we tried to get some restrictions on that in 1928.

I made personally a very big try to get the New York Clearing-house to put a fee on the funds that out-of-town corporations and others were putting into the market.

Senator KERR. According to Professor Willis here, the theme of the book you wrote in 1927 was a defense of the policy of quantitative control.

Mr. BURGESS. Well, may I say, Mr. Senator, that Mr. Willis did not like us and we did not like him. This was—you do not—

Senator KERR. And I do like you, and we do like each other.

Mr. BURGESS. That is right.

Senator KERR. But that does not keep me from asking you whether or not that is the theme of your book.

Mr. BURGESS. I just wanted to say that was a thoroughly biased review, written by a biased man.

Senator KERR. And that the book was entirely unbiased?

Mr. BURGESS. I think the book was written very objectively, and you can read it yourself if you want to any time.

Senator KERR. Now, is it not a fact that the reliance in the twenties was primarily on the Federal Reserve and general monetary controls for economic stability?

Mr. BURGESS. Well, we had also fiscal policy that was retiring debt, a billion dollars of debt every year, which was a help towards stability.

Senator KERR. Yes. That was a fiscal policy of the Government, but insofar as general monetary controls and credit controls, we were relying primarily on the Federal Reserve System, in the twenties.

Mr. BURGESS. Yes. I think that is fair to say.

Senator KERR. And is it not a fact that during that period prices remained relatively stable?

Mr. BURGESS. Commodity prices, as such, were fairly stable. Prices of real estate were rising.

Senator KERR. Yes.

Mr. BURGESS. Prices of securities——

Senator KERR. Yes.

Mr. BURGESS. We computed that at the bank at that time——

Senator KERR. Yes.

Mr. BURGESS. An index of the general price level, taking into account all kinds of prices, and that was going up.

Senator KERR. But the general price level, aside from those exceptions you have named, remained relatively stable?

Mr. BURGESS. No. I say the general price level, as we computed it, was rising.

Senator KERR. But in order to get the rise you had to put into it the increase in stock prices and real estate.

Mr. BURGESS. Of course, because that is part of the price level.

Senator KERR. I am talking about the purchase of things that consumers bought.

Mr. BURGESS. If you are thinking of the price level as a guide to credit policy, we believed there was an inflation at that time, although commodity prices were not showing an increase, and the policies of the System were directed toward fighting inflation.

Senator KERR. Well, now, it is a fact, Mr. Secretary, that we followed the same principles in 1920 with reference to monetary policies and credit control that we are following today, generally speaking.

Mr. BURGESS. No. I think we have got more weapons, more arrows to shoot from our bow now.

Senator KERR. But insofar as the available amount of credit, you told me the Federal Reserve Board determines it?

Mr. BURGESS. No; I never said that, Mr. Senator. I never said that.

Senator KERR. Let us go back now. I thought we had crossed that bridge.

We did not agree on how many people participated in the control.  
Mr. BURGESS. But you said Federal Reserve Board. You meant Federal Reserve System.

Senator KERR. System.

Mr. BURGESS. All right.

I put my qualification about demand on that, too.

Senator KERR. Yes.

But in the main, they control it now just like they did in 1920 and in 1929?

Mr. BURGESS. Well, I hope they are a little smarter.

Senator KERR. But the difference would be in the policy, not in the power?

Mr. BURGESS. The main structure of the System has remained as it passed the Congress in 1913.

Senator KERR. Yes.

Mr. BURGESS. The main structure of the System.

Senator KERR. If those monetary control policies did not keep us out of trouble then, is it sound national policy to depend on those same policies today?

Mr. BURGESS. Well, Senator, just what else are you going to depend on?

Senator KERR. That is not what I asked you.

I think I have got the answer to that, but then I am asking you.

Mr. BURGESS. I think they are one of the elements on which we should rely, and which we should use, but I say only one.

We have got to have fiscal policy, and I do not believe this country can lean back and business and State and local governments and everybody else do just what they please, and say, "Well, the Federal Reserve will take care of us, and we won't get into trouble."

I do not believe there is any economic law that works that way.

Senator KERR. You have conclusively proved by your own statements here and by your own recollection of the record that high interest rates did not check the boom and bust at the time.

Mr. BURGESS. I have not proved anything of the sort.

Sir, I believe in both cases the final tightening of the discount rate was the final thing that checked some of these excessive booms. There is no doubt about it, in 1920 the commodity price inflation was terrific.

Senator KERR. When was that?

Mr. BURGESS. In 1920.

Senator KERR. Yes.

Mr. BURGESS. 1920.

Senator KERR. Yes.

Mr. BURGESS. And it should have been stopped sooner.

The only weapon we had, as you say, to deal with it, was the Federal Reserve action.

Senator KERR. I did not say that was the only weapon we had to deal with it.

Mr. BURGESS. It was late.

Senator KERR. I said, in my judgment it was the action of the Federal Reserve Bank in hiking the rediscount rate that brought about the collapse of farm prices.

Mr. BURGESS. It finally checked the upward rise. If it had been checked sooner you would have had less collapse.

Senator KERR. Then, am I to infer from your statement, that you think we should depend on monetary policies, and that they are to operate it in such a way that when they cannot check it any other way they will bring about a collapse?

Mr. BURGESS. No. I very distinctly indicated I do not think you should rely only on monetary policies. You have got to have fiscal policies, and the people have got to exercise a little commonsense themselves in order to make these things work.

Senator KERR. But that is what happened then; was it not? The Federal Reserve Board had the same power then that they have now. They exercised it according to their judgment and discretion, as they have been doing the last 5 years.

Interest rates rose sharply prior to 1929, just as they have risen sharply in the last 18 months.

Then, when they put the brakes on, the car turned over; did it not?

Mr. BURGESS. They were too late in both cases, too late. They had gone so far by the time the brakes were put on that there was a collapse.

Senator KERR. You came to Washington in 1939 to advise the Secretary of the Treasury in connection with the problems of debt management during the defense emergency?

Mr. BURGESS. That is right.

Senator KERR. What recommendations did you make to him?

Mr. BURGESS. Well, I would have to think about that a little bit.

We were only here about 6 weeks. At that time I am quite sure, when the European War had just started, that we were preparing here for what we would do if we got involved in the war, and that did not eventuate, so we did not actually do very much.

Senator KERR. Then you came back in 1942 when Secretary Morgenthau called you as a member of the Bankers Advisory Committee to make recommendations with respect to the types of securities that the Treasury should issue with respect to the war?

Mr. BURGESS. Let us clear up this record just a little bit, Mr. Senator. I began advising the Treasury on the security issues in 1930.

I was the officer in the New York Federal Reserve Bank whose responsibility it was to handle the Open Market Account, and to handle the Treasury account and to advise the Secretary of the Treasury on security issues, and I did that for 8 years under several administrations.

I advised Mr. Mellon, Ogden Mills, Mr. Woodin, and Mr. Morgenthau on their security operations for a period of 8 years. I was intimately connected with it.

When I went over to the National City Bank, Mr. Morgenthau asked me to continue to advise him from time to time.

There were a group of us who would come down, very informally.

What you mention in 1942 was a more formal appointment of an advisory committee. But I had been advising the Treasury in one way or another ever since 1930, and my advice has been pretty consistent through that period. It is very much the same as I have outlined in the statement to you.

Senator KERR. Well, I did not know that in your statement to us you said that you had advised those boys back in the 30's.

Mr. BURGESS. No; I did not. I say the kind of policies we tried to—

Senator KERR. What was your position with regard to the so-called nonmarketable tap securities, as I understand it, the Federal Reserve Board recommended at that time?

Mr. BURGESS. I was opposed to that.

Senator KERR. You were opposed to that?

Mr. BURGESS. What was that?

Senator KERR. You were opposed to that?

Mr. BURGESS. I was not opposed to the amount that was put out, but I was opposed to changing the national debt into a demand debt. You see, in effect, that tap obligation would have changed a large mass of our debt into a demand debt.

Senator KERR. Well, now, only the short-term securities issued under it, the long-term part of it would not have been a demand obligation, would it?

Mr. BURGESS. That was one of the proposals, Senator.

Senator KERR. I say that was their recommendation.

Mr. BURGESS. Yes; that was their recommendation.

Senator KERR. And you opposed it?

Mr. BURGESS. Yes, sir.

Senator KERR. And it was not adopted?

Mr. BURGESS. It was not adopted; whether for that reason or not, I do not know.

Senator KERR. And the commercial banks would not have been eligible as buyers of that, as I recall?

Mr. BURGESS. They did not want it.

Senator KERR. I understand that, but they would not have been eligible.

Mr. BURGESS. It was a long-term bond. There were plenty for them to buy. There were plenty of bonds eligible.

Senator KERR. Let me ask you this: Did you make any proposals for the financing of the war, management of the debt during the war—

Mr. BURGESS. Yes.

Senator KERR (continuing). Different from what they actually did?

Mr. BURGESS. Yes. I thought they would have done better to have financed the war at a somewhat higher interest rate. I think they were right in pegging the rate at the beginning of the war and carrying through with a constant rate. But they would have done better to have a higher rate, because the  $2\frac{1}{2}$  percent rate was so low that the buyers of the bonds were all ready to shuffle them off at the earliest opportunity.

Senator KERR. But aside from the interest rate, did you make recommendations different from the policies followed?

Mr. BURGESS. Well, not in the broad policies. I sat in on the decisions as to the broad group of securities that would be offered, and we were always in complete agreement. We were all united in trying to finance the war in the best way.

Senator KERR. I think that is right. I am just trying to get into this record—

Mr. BURGESS. Yes, all right.

Senator KERR (continuing). Your contribution to it.

Mr. BURGESS. All right.

Senator KERR. But you did recommend that they issue them at a higher interest rate and peg them at a higher interest rate?

Mr. BURGESS. Yes. We had to during the war. Once the decision was made about rates, we all went along, because we had to.

Senator KERR. You were not against the Federal Reserve pegging the bonds; you were just against them pegging them at that low rate.

Mr. BURGESS. I was—in a war you have to peg them. In a war you have no choice.

Senator KERR. Then you were not against it?

Mr. BURGESS. The mistake was in carrying that forward too long after the war.

Senator KERR. As of that time——

Mr. BURGESS. I was not against it.

Senator KERR (continuing). You were not against it.

Mr. BURGESS. I was not against it.

Senator KERR. As I pointed out earlier, you served as vice president to the Federal Reserve bank immediately prior to your joining the National City Bank.

In that capacity, I believe that you were not only the manager but the first manager of the Federal open market account, responsible for carrying on the policy of the Federal Open Market Committee.

Mr. BURGESS. Well, I was the first one holding that title. The operation had been going on, of course, ever since the System was started. There had to be somebody who ran the account.

Now, when they started off, at first each Federal Reserve bank ran its own account, talking with each other.

About the middle twenties they developed a single System account. In 1923, as a matter of fact, they began working on it, and they had an informal committee. But the change was formalized in 1930, and then in the Banking Act of 1935 it set the thing up in still more formal shape.

Senator KERR. But did not change it in principle a great deal?

Mr. BURGESS. No, no; except that the important change there was that the System acted as a system instead of each Federal Reserve Bank acting separately, and that was a very important change.

Senator KERR. You, for all intents and purposes, had been doing that beginning at the time you took the position as manager of it?

Mr. BURGESS. That is right.

Senator KERR. Tell the committee the nature of that job.

Mr. BURGESS. Well, the job was to—one of the parts of the job was just exactly what I have been doing lately, was to try to recommend to the Treasury what types and what rates of securities you would have to issue from time to time to refund your debt or to raise cash.

Senator KERR. Well, now, that was one of your responsibilities——

Mr. BURGESS. That was one.

Senator KERR (continuing). As a staff member down here. But insofar as the operation of that fund was concerned, did you engage in buying and selling securities?

Mr. BURGESS. Exactly; yes. I saw the dealers every day, and bought and sold securities.

Senator KERR. For the Federal Reserve account?

Mr. BURGESS. That is right; and for the Treasury account.

Senator KERR. And for the Treasury account.

Mr. BURGESS. That is right.

Senator KERR. Did then and do now the actions of that committee affect the Government securities market?

Mr. BURGESS. Certainly.

Senator KERR. How?

Mr. BURGESS. Well, if they are buyers it tends to make the market go up. If they are sellers—

Senator KERR. You mean, the value of the securities?

Mr. BURGESS. That is right; the prices.

Senator KERR. Yes. And if they decide to sell?

Mr. BURGESS. If they are sellers, the market tends to go down. Now, those are tendencies.

Senator KERR. How do those actions affect interest rates?

Mr. BURGESS. Well, they tend to push interest rates up or down, but they are only one factor in the market. I want to make that clear. The demand for money from other sources is a major factor in this whole thing, of course.

Senator KERR. Well, now, the Federal Reserve Board does not have to depend on anybody else to furnish it the money it wants to buy bonds with, does it?

Mr. BURGESS. Well, no. They can use their own power of creating credit.

Senator KERR. Yes.

Mr. BURGESS. But they do that on their peril because it is an enormous influence on the situation.

Senator KERR. An enormous influence.

Mr. BURGESS. That is right; I agree.

Senator KERR. What is the relationship between that trading desk and the dealers, generally, in Government securities?

Mr. BURGESS. Well, you are in constant touch with them. You are buying and selling from them. You are getting—

Senator KERR. Buying from them or selling to them?

Mr. BURGESS. You are getting information from them. They are your principal source of information. They have their wires throughout the country.

Senator KERR. Does it happen that they ever get information from the fellow operating the desk?

Mr. BURGESS. That, of course, is where you have to exercise very great discretion. That is the sensitive nature of that job.

Senator KERR. Very sensitive?

Mr. BURGESS. Yes.

Senator KERR. Is it not a fact that the operation of that committee, together with the operations of the Federal Reserve Board, and decisions of the Federal Reserve Board, with reference to reserve requirements and the rediscount rate, have practically unlimited power over the Nation's financial markets?

Mr. BURGESS. I would not say unlimited.

Now, allow me my qualification there. They have great power, Senator, but it is not unlimited.

Senator KERR. But it is tremendous, is it not?

Mr. BURGESS. Of course, their whole attitude from the beginning has been that which I have stated so often in this colloquy, that the more they can allow the natural forces to operate, forces of supply and demand, the better off we are.

Senator KERR. Mr. Burgess, you have made that statement here and—

Mr. BURGESS. Yes.

Senator KERR (continuing). And I just cannot believe, I just cannot believe that you are serious—

Mr. BURGESS. I am.

Senator KERR (continuing). In a conviction that a creature which provides and fixes the supply—

Mr. BURGESS. No.

Senator KERR (continuing). Is subject to the law of supply when they are charged under the law with determining the supply.

Mr. BURGESS. No.

Now, there I have never gone with you on that. We have said that the—

Senator KERR. You said they had power to create the credit.

Mr. BURGESS. The credit is this additional amount, the marginal amount.

Senator KERR. Did you not say they had the power to buy Government bonds and issue credit for them?

Mr. BURGESS. I did, but that is not the country's whole supply of credit, Senator. The major part of the business of this country is done by some people saving money and making it available for other people to use.

Senator KERR. Let us talk about that a minute.

Mr. BURGESS. That is the major job.

Senator KERR. What is money?

Mr. BURGESS. It is a medium of exchange. What it represents is the human labor and ingenuity of—

Senator KERR. I am not talking about what it represents. What is money?

Mr. BURGESS. It is the medium of exchange we use.

Senator KERR. What is the medium of exchange?

Mr. BURGESS. Dollars.

Senator KERR. Have you got one?

Mr. BURGESS. I have not got a silver dollar. If I had one I would not take a chance on producing it.

Senator KERR. I will take a chance.

Mr. BURGESS. Have you got a quarter?

Senator KERR. All right. What is money? Let us just get that into the record. What is money?

Mr. BURGESS. Well, it is—what?

Senator KERR. What does it consist of?

Mr. BURGESS. It is a mechanism of exchange.

Senator KERR. What does it consist of, pencils, peanuts, cotton, corn, wheat, or is it coined metal and currency?

Mr. BURGESS. Well, of course it could be commodities. It could be shells.

Senator KERR. But is it?

Mr. BURGESS. It is something created by the Government to furnish a medium of exchange among the people.

Senator KERR. Well, has this Government created it?

Mr. BURGESS. Yes.

Senator KERR. What is it it has created?

Mr. BURGESS. It has created paper money and silver currency. In the old days it used to be gold.

Senator KERR. Yes. Paper money and silver coins and copper coins.

Mr. BURGESS. That is right, yes, and nickels.

Senator KERR. And nickels.

Now, technically that is our money supply; is it not?

Mr. BURGESS. That is right—as far as currency is concerned.

Senator KERR. How much is there of it?

Mr. BURGESS. Outstanding in this country, about \$28 billion.

Senator KERR. How much of demand deposits in commercial banks, building and loan associations, mutual savings banks?

Mr. BURGESS. The demand deposits are \$105 billion. The currency outside the banks is \$28 billion; time deposits are \$85 billion. That is a little different animal.

We do not usually count that as money, because it does not move as rapidly.

Senator KERR. What I want to know is how much are the deposits of all kinds in all our savings institutions with reference to which there is some kind of an insurance or guaranty by this Government?

Mr. BURGESS. Well, of course, the insurance or guaranty only relates to a part of the deposits.

Senator KERR. I know it only represents up to a certain amount.

Mr. BURGESS. But you want the whole business?

Senator KERR. I want the whole amount.

Mr. BURGESS. The whole business, the deposits, and the currency, amount to \$218 billion.

Senator KERR. \$218 billion.

Mr. BURGESS. That does not include the savings and loan, which are another \$50 billion.

Senator KERR. \$50 billion.

Mr. BURGESS. Excuse me; \$37 billion. I was thinking of next year.

Senator KERR. Does that include mutual savings banks?

Mr. BURGESS. Yes. That includes postal savings, as well—the \$218 billion.

Senator KERR. And postal savings?

Mr. BURGESS. Yes.

Senator KERR. That is \$255 billion.

Mr. BURGESS. That is right.

Senator KERR. Is that money?

Mr. BURGESS. No. I would say that part of that is money. I would restrict the money to the demand deposits and the currency.

Senator KERR. Well, how much is the demand deposits?

Mr. BURGESS. Well, that is a figure I gave you, \$104.8 billion.

Senator KERR. \$104 billion?

Mr. BURGESS. \$105 billion.

Senator KERR. You say that is money?

Mr. BURGESS. Yes.

Senator KERR. Suppose people went in and asked for it, what would they get?

Mr. BURGESS. They would get currency.

Senator KERR. I thought you said we only had \$28 billion?

Mr. BURGESS. That is right. They could not ask for all of it and get it.

Senator KERR. Why could they not if it is a demand deposit?

Mr. BURGESS. Well, they would have to print some more.

Senator KERR. Is it not a fact, Dr. Burgess, that aside from the \$28 billion or \$29 billion in currency and coin, that we have a supply of a medium of exchange consisting of time deposits and demand deposits?

Mr. BURGESS. Yes.

Senator KERR. And loans. And is it not a fact that every bit of that is based upon the creation of a credit by the banking system of this country under the overall operation of the Federal Reserve System?

Mr. BURGESS. No; I do not define it that way.

Senator KERR. Then tell me how else it is created?

Mr. BURGESS. Well, some of it is created not by credit extension, but by savings.

Senator KERR. What are the savings? How much is there? What are the savings accounts?

Mr. BURGESS. Well, the mutual savings banks have \$31 billion.

Senator KERR. All right.

Mr. BURGESS. And the savings and loan have \$37 billion.

Senator KERR. All right. How much do the commercial banks have?

Mr. BURGESS. In savings accounts they have \$34 billion.

Senator KERR. And the Post Office?

Mr. BURGESS. Excuse me; \$54 billion for commercial banks.

Senator KERR. \$54 billion?

Mr. BURGESS. Yes.

Senator KERR. That is \$31 billion in the mutual savings banks—

Mr. BURGESS. That is right.

Senator KERR (continuing). \$37 billion in the building and loans—

Mr. BURGESS. That is right.

Senator KERR (continuing). And \$54 billion in the commercial banks.

Mr. BURGESS. Yes.

Senator KERR. How much in the Post Office?

Mr. BURGESS. A billion and a half.

Senator KERR. A billion and a half. How much does that add up to?

Mr. BURGESS. \$122 billion.

Senator KERR. \$122 billion?

Mr. BURGESS. Yes.

Senator KERR. Well, you tell me there are only \$28 billion of currency.

Mr. BURGESS. Yes, that is right.

Senator KERR. If we have \$122 billion in savings accounts and only \$28 billion of currency does that not indicate that our "savings" actually consist of credit in one form or another?

Mr. BURGESS. Well, a great deal of it is.

Senator KERR. All that a man has got is a savings certificate, is it not?

Mr. BURGESS. That is right.

Senator KERR. Is that not an evidence of indebtedness by an institution?

Mr. BURGESS. Yes; from that point of view, yes.

But what we are talking about, I thought we were talking about, how this money grows, whether it grows by the extension of a credit, or whether it grows by savings.

Senator KERR. I am talking about what it is, and unless I am wrong, and if I am wrong I would like to have somebody put me right, that aside from the currency and the coin that we have got, which is about \$28 billion—

Mr. BURGESS. That is right.

Senator KERR (continuing). The rest of it, in fact—how much of that \$28 billion, or \$29 billion is owned by the banks?

Mr. BURGESS. Very little. This is outside the banks. The banks only carry 1 or 2 billion dollars actual money.

I think I know what you are getting at. Let me tell you—

Senator KERR. Then the rest of it has to be the result of credit?

Mr. BURGESS. Yes.

May I put it another way?

Senator KERR. Yes.

Mr. BURGESS. There was a man who wrote a book called *The Promises Men Live By*. The rest of this are promises. Somebody promises to pay something.

Senator KERR. Is that not a form of credit?

Mr. BURGESS. That, I think, is a way of looking at credit; yes.

Senator KERR. That is a form of credit?

Mr. BURGESS. You are trusting somebody?

Senator KERR. Yes.

Mr. BURGESS. Now we agree.

Senator KERR. And that is a form of credit?

Mr. BURGESS. That is right; yes.

Senator KERR. And that is made available by the banking structure, the dominant part of which is the Federal Reserve System, is it not?

Mr. BURGESS. Now, wait. No. The Federal Reserve has an enormous influence on this additional supply that they can put in, but this whole structure does not rest on the Federal Reserve banks.

Senator KERR. I did not say it did. I said it is made possible by a banking system—

Mr. BURGESS. That is right.

Senator KERR (continuing). The dominant part of which is the Federal Reserve System.

Mr. BURGESS. I do not know what you mean by "dominant part of which."

Senator KERR. Well, can any other bank—

Mr. BURGESS. Well, this whole thing went along—

Senator KERR. Can any other bank create credit?

Mr. BURGESS. Yes.

Senator KERR. Only to the extent that it has credit with the Federal Reserve.

Mr. BURGESS. Where it has reserves in gold or money, or something of the sort.

Senator KERR. How much gold do the banks own?

Mr. BURGESS. They do not own a nickel of it. But here is what I am getting at; let me illustrate it this way, Senator.

Senator KERR. All right.

Mr. BURGESS. Before there was a Federal Reserve System, there was this whole structure, practically all of it, going on, so——

Senator KERR. Why did we create the Federal Reserve System, then?

Mr. BURGESS. Because you wanted to add an additional element of elasticity.

Senator KERR. All right. But it was a similar elasticity.

Mr. BURGESS. Similar?

Senator KERR. Yes. Under the old system, the banks could issue their own currency, could they not?

Mr. BURGESS. Well, some of them. But that was tied down. That was not elastic. The old national bank system was not elastic.

Senator KERR. I used to have a piece of currency once and it said, "The First National Bank of Ada promises to pay"——

Mr. BURGESS. That is right. But they printed up and placed in circulation all they had authority to do, but it was not elastic.

Senator KERR. Could they print—they could print up to a certain amount on the basis of bonds and other things they owned, could they not?

Mr. BURGESS. That is right. United States Government bonds.

Senator KERR. Yes.

Mr. BURGESS. But when they had done a certain amount——

Senator KERR. That is all they could do.

Mr. BURGESS. There was not any more.

Senator KERR. But they did not have to issue all they could.

Mr. BURGESS. No, that is right. But they usually did, I believe.

Senator KERR. I understand.

But what I am talking about is that there was a system then of the creation of credit by banks.

Mr. BURGESS. That is right, yes.

Senator KERR. Now we have got a bank structure to which has been added the Federal Reserve System.

Mr. BURGESS. What we said was we do not want to leave this all to private banks. We are going to have a Government agency in here that will furnish this elastic element.

Senator KERR. And they do have the authority, and that is what it was created for, to furnish that elastic element, is it not?

Mr. BURGESS. That is right, for the best good of the country's economy as one can get at it.

Senator KERR. Well, then, do they not have practically unlimited power over the Nation's financial markets?

Mr. BURGESS. No; I do not concede that.

Senator KERR. Credit supply?

Mr. BURGESS. Not unlimited. They have control of this additional credit. It is a very—we really do not need to battle. This is enormously important, that is what you are saying, and I agree with it.

Senator KERR. All right.

Then, let us go from there.

Mr. BURGESS. Yes.

Senator KERR. Who fixes its policies?

Mr. BURGESS. Well, you gentlemen in Congress determined the rules that it operates under.

Senator KERR. I want to tell you now that not a man in Congress exists who would look at what they produced, and would admit that it is his child, and you know that. [Laughter.]

Mr. BURGESS. I am not so sure but what you would find somebody in Congress that would own up to it.

Senator KERR. Well, I will tell you right now he would be a brave man.

The only ones I know who will do it are those who are occupying a sanctuary of anonymity and insulation from accountability from any group of people.

Mr. BURGESS. Well, sir, we have a central bank, or a bank of issue in every country now of importance. It is terrifically important in all these countries, and if you gentlemen can think of any ways of setting that up better, keeping it free from both political influences, on the one hand, and commercial abuse on the other, why, God bless you. I think that is one reason we wanted to have a monetary commission. But you gentlemen have got the ball, and if you can think of ways of changing this thing so it will work better, why, God bless you.

Senator KERR. I want to tell you this: I have confidence that I could. I think I could figure out a better way to do it, and I think I could figure out better ways of doing what they have authority to do, but that is the difference in viewpoint that you and I have.

Mr. BURGESS. Yes, sir. We have got time enough, you and I, Senator, so that you can tell me some of these things before we get through.

Senator KERR. I never saw a less sympathetic audience in my life. [Laughter.]

Mr. BURGESS. That is not so, Senator.

Senator KERR. Let us go back now, to your position after the war. We brought you up to the end of the war, and the predominant and influential position you occupied.

At the end of the war, did you help to establish the Committee on Public Debt Policy, and did you become its chairman?

Mr. BURGESS. I did, sir.

Senator KERR. Who were the members of that committee?

Mr. BURGESS. Well, I do not have the list here. Leonard Ayres, of Cleveland, was one; Wesley Mitchell, an economist of Columbia, a very distinguished person; Mr. Smith, president of the New England Mutual. I will be glad to furnish you a list for the record.

(The list referred to was later received for the record; see p. 818.)

Senator KERR. What type of business were they engaged in?

Mr. BURGESS. Well, there were some people in insurance; there were several economists. There were—

Senator KERR. I am talking on the committee itself. I am not talking about their advisory group.

Mr. BURGESS. Well, Ben Ratchford was on the committee; Wesley Mitchell was on the committee.

Senator KERR. Was it not composed primarily of bankers and life insurance executives?

Mr. BURGESS. There were several life insurance executives.

Senator KERR. There were not any farmers on it?

Mr. BURGESS. Well, there was a savings banker from Burlington, Vt., who was pretty close to the farmers if he was not a farmer himself.

Senator KERR. As I recall, they were primarily bankers, and savings men, savings banks and insurance officers.

Mr. BURGESS. Marion Folsom was a member of the committee; Lee Wiggins, who was Under Secretary of the Treasury under John Snyder, was a member of the committee. He is a farmer. He raises seed and what not.

Senator KERR. Was he not a banker?

Mr. BURGESS. He was connected with a bank, but he was also an editor and farmer, and 2 or 3 other things.

Senator KERR. Was he on that as a farmer and editor, or as a banker?

Mr. BURGESS. He was on that as Lee Wiggins.

Senator KERR. Among his occupations or activities, was that of banking also?

Mr. BURGESS. That is right.

Senator KERR. What were the aims and objectives of that committee?

Mr. BURGESS. To try to analyze the problem of our debt, and to make suggestions for dealing with it.

Senator KERR. Was one of them to restore flexible interest rates?

Mr. BURGESS. That is right.

Senator KERR. Was one of them to make the Federal Reserve independent of the executive?

Mr. BURGESS. That is right with qualifications.

Senator KERR. What was that?

Mr. BURGESS. Yes, more independent than it had been, I would say.

Senator KERR. I wonder if you could recall, and tell the committee the number of positions that you occupied about that time?

Mr. BURGESS. Well, my primary hours were spent in the National City Bank of New York. I was also director of the City Bank Farmers Trust Co., which was our trust affiliate.

Senator KERR. You were a member of the Federal Advisory Council?

Mr. BURGESS. I was a member of the Federal Advisory Council.

Senator KERR. You were chairman of the Economic Policy Commission of the American Bankers Association?

Mr. BURGESS. Yes, that was not a very exhausting task.

Senator KERR. You were chairman of the Committee on Public Debt Policy?

Mr. BURGESS. That is right.

I was a director of a number of business and insurance companies, and colleges.

Senator KERR. You were chairman of the Committee on Monetary Relations of the International Chamber of Commerce, were you?

Mr. BURGESS. I think that was pretty much finished at that time.

Senator KERR. You were immediate past president of the American Bankers Association?

Mr. BURGESS. Yes; I was past.

Senator KERR. Immediately past. I think that was through 1945; was it not?

Mr. BURGESS. That was through 1944, 1945.

Senator KERR. Yes.

Mr. BURGESS. Then I was director of the Union Pacific Railroad—so; not at that time, I guess. That was a little later on.

Senator KERR. Were you a member of the Federal Reserve Board in New York?

Mr. BURGESS. No.

Senator KERR. You were not a member of the Board of Directors of the Federal Reserve?

Mr. BURGESS. No.

Senator KERR. Was each one of those positions you occupied in connection with, or did each of them have as some part of its scope of activity, restoring flexible interest rates?

Mr. BURGESS. No. I would not say that most of them had any particular drive on that.

Senator KERR. Well, what was the position of the Federal Advisory Council? Were they in favor of it?

Mr. BURGESS. Yes; I think a majority were.

Senator KERR. Was the Economic Policy Commission of the American Bankers Association in favor of it?

Mr. BURGESS. That is right. That was not our main—

Senator KERR. I did not say it was the main; I said is it a fact that all of them had it as a part of their—

Mr. BURGESS. I think we had very few dissenters from that point of view?

Senator KERR. On any of them?

Mr. BURGESS. Well, now, wait. What do you mean, of anything I was connected with?

Senator KERR. On any of these boards or committees that you are a member or chairman of.

Mr. BURGESS. I would not say that. But I think most of the people that I worked with on these committees were in favor of a restoration of more flexible money rates.

Senator KERR. Now, was that so they could go up or down?

Mr. BURGESS. That is so they could go both ways.

Senator KERR. You are not serious about that, are you?

Mr. BURGESS. I am.

Senator KERR. Well, you said a while ago that the only serious objection you had to the program for financing the war was the fact that the interest rates were too low.

Mr. BURGESS. I said they started at a low level, what I thought was too low, yes.

Senator KERR. And you wanted them made flexible so they could go still lower.

Mr. BURGESS. Well, so they could go lower and higher, depending on circumstances; so they could reflect the movements of the country's economy.

Senator KERR. But primarily so that they could move upward?

Mr. BURGESS. No. That is not so, Senator.

Senator KERR. Well, if I have to, I will prove it by your own declarations.

Even in 1953, when you were speaking to the National Association of Mutual Savings Banks—

a former New York bank executive—

I am reading from the Journal of Commerce, Wednesday, May 13, 1953—

told a meeting of the National Association of Mutual Savings Banks here that the Department had two choices, borrowing all the money it needed from the

banks at fairly low rates, or trying to borrow from nonbank investors. The Treasury chose the latter course and offered a 30-year 3¼-percent bond.

You stated that bank borrowing would have increased the money supply, run the risk of further inflation, further cheapening of the dollar, with all of us paying more for the things we buy.

The article then refers to the fact that, Treasury debt management policies were attacked by a group of 19 Democratic Senators and Congressmen over the weekend. They demanded that the Government bring interest rates down by supporting the prices of Government securities at par.

Mr. Burgess made it emphatically clear to the mutual savings bankers that the Department has no intention of yielding to this pressure, and that it is, in fact, fully committed to a policy of letting market forces determine the prices of Government securities and interest rates.

Mr. BURGESS. It sounds familiar, does it not?

Senator KERR. Yes, it does. You could have borrowed it cheaper by going to the banks, but you chose the route of the higher interest rate.

Mr. BURGESS. Because we were under inflationary pressures then, and borrowing from the banks would have increased the volume of credit, and increased the pressures.

Senator KERR. But aside from why you did it, Mr. Burgess—

Mr. BURGESS. All right.

Senator KERR. According to your statement at the time, you deliberately took the pathway of the higher interest rates.

Mr. BURGESS. We took the pathway that was least inflationary.

Senator KERR. But it was the pathway of higher interest rates.

Mr. BURGESS. Well, when you borrow, on long term, from nonbank investors, the interest rates naturally are higher. That was not the purpose. The purpose was—

Senator KERR. Regardless of the purpose, that was the policy?

Mr. BURGESS. Well, now, you are drawing a line there.

The purpose, the very strong purpose, was to try to avoid inflationary pressures and get the debt distributed.

Senator KERR. Mr. Burgess—

made it emphatically clear to the mutual savings bankers that the Department has no intention of yielding to this pressure, and that it is, in fact, fully committed to a policy of letting market forces determine the prices of Government securities and interest rates.

Mr. BURGESS. That is right.

Senator KERR. Continuing the quotation:

The first rule of the Treasury policy today, he said, is that the Federal Reserve System shall be free to exercise its policy without interference. This means, of course—

and I am still quoting—

that the Treasury must sell its securities in the market at the going rate of interest, and not at an artificial rate supported by the Federal Reserve System.

Now, I take it you meant an artificially low rate supported by the System?

Mr. BURGESS. Well, a supported rate is usually a low rate.

Senator KERR. And you have repeatedly said that the rates were kept too low artificially; have you not?

Mr. BURGESS. I think sometimes they were too high. I think in, for example—

Senator KERR. I wonder if you would get me one of your public utterances since you have been in office that said interest rates are too high.

Mr. BURGESS. I will tell you a time that I worked very strongly for—

Senator KERR. No; I am talking about one of your speeches.

Mr. BURGESS. Yes; I am talking about the other.

Senator KERR. I have examined them very carefully, looking for one, and I have not found it, and if it is there, I want you to show it to me.

Mr. BURGESS. I can tell you of an instance I worked trying to get it down. That was in 1932.

Senator KERR. I am talking about the last 4 years.

Mr. BURGESS. But you talked about the whole record.

Senator KERR. If you can think of any since 1932, I will be glad to have you tell us that.

Mr. BURGESS. Early in 1932 I came down here and helped Mr. Glass in drafting a bill that would give the Federal Reserve greater freedom to purchase Government securities, and I supported a program to buy a billion dollars of Government securities to ease the money situation at that time, which was done.

Senator KERR. I want to say, sir, that is an act to your credit that I am happy to have the knowledge of, and I will be the first to extol the virtue of it.

Mr. BURGESS. Thank you, sir.

Senator KERR. I wish to the Great Heavenly Father that you were of the same mind today.

Mr. BURGESS. I may say I said 2 days ago that we would prefer to do our borrowing at lower rates, the Treasury.

Senator KERR. I must say I was like the chairman of this committee in that regard. I took that with a little grain of salt.

Mr. BURGESS. Well, sir, if you had sat and fussed over this thing, and had this problem, you would know that the fellow who borrows money always would like to have his rates a little bit lower.

Senator KERR. Yes; I know that, because I want to tell you that I have got an unbroken record of borrowing, you see, and I expect when I go out of this world to leave a monument in the form of a constructive debt structure for others to handle and manage on a basis that I hope will permit them to be just a little bit ahead of the effect of the disastrous policies that I think are in existence today.

Who provided the fund to distribute the series of pamphlets that the committee published?

Mr. BURGESS. The Falk Foundation of Pittsburgh:

Senator ANDERSON. Who?

Mr. BURGESS. F-a-l-k. He was a Pittsburgh businessman who had a foundation.

Senator KERR. How many pamphlets were distributed?

Mr. BURGESS. There were about 65,000 or 70,000 of each one of the pamphlets. I say, some of those were paid for by agencies that bought a quantity and sent them to their friends and customers.

Senator KERR. I have a little book here entitled "Our National Debt, The Committee on Public Debt Policy."

Was that one of them?

Mr. BURGESS. That was the final—that is the final volume, I believe.

Senator KERR. I believe it is.

Mr. BURGESS. They are put together in one volume at the end and published.

I am very proud of that book, Senator. I think that is a contribution to the whole problem.

Senator KERR. I notice in the foreword you say that—

The undersigned, rather than the full committee, takes responsibility for the final editing.

Mr. BURGESS. That is right.

Senator KERR. It is signed, "W. Randolph Burgess."

Mr. BURGESS. But there was no dissent from any of those points. Somebody had to go through and finally dot the i's, and we made no changes in the principles set forth.

Senator KERR. Now, one of the purposes of that effort was to restore flexibility of interest rates?

Mr. BURGESS. So the Federal Reserve System, as designed by the Congress, could operate as intended.

Senator KERR. On the basis of absolute independence of the Treasury and the Executive and a policy of flexibility of interest rates?

Mr. BURGESS. If you will take out the word "absolute"—

Senator KERR. Is that correct?

Mr. BURGESS. (continuing). I will go along with you.

Senator KERR. Well, substantially absolute?

Mr. BURGESS. Yes [laughter] omitting absolute.

Senator KERR. Have you got the record there of what the interest rate on the Federal debt was in 1946, what the rate was?

Mr. BURGESS. Yes. That was in my original testimony.

Senator KERR. I know it was.

Mr. BURGESS. It was 5.3 billion. That is, that was—

Senator KERR. I did not say the amount; I said the rate.

Mr. BURGESS. All right. The rate was 2.6—wait a minute.

Senator KERR. That was 1939. In 1946 what was it?

Mr. BURGESS. In 1946 it was 2.1. By the end of 1952 it had risen to 2.4.

Senator KERR. Don't anticipate me, now, Mr. Burgess.

What was it in 1946?

Mr. BURGESS. In 1946 it was 2.1 percent.

Senator KERR. That was the overall average?

Mr. BURGESS. That is right.

Senator KERR. What was it in 1948?

Mr. BURGESS. In 1948—this goes way back to 1916.

Senator KERR. Mr. Burgess, I just asked you about 1948.

Mr. BURGESS. That was 2.18.

Senator KERR. 2.18?

Mr. BURGESS. Yes.

Senator KERR. That was in 1948?

Mr. BURGESS. That is right.

Senator KERR. What was it in 1950?

Mr. BURGESS. In 1950 it was 2.2.

Senator KERR. 2.2?

Mr. BURGESS. 2.2.

Senator KERR. In 1952?

Mr. BURGESS. In 1952, this was June, 2.27—wait a minute. I am giving you 1951.

It was 2.33. In December it was 2.35.

Senator KERR. 2.33 in June?

Mr. BURGESS. Yes.

Senator KERR. 2.33 on June 30; and December 31, 1952?

Mr. BURGESS. It was 2.37; no, 2.35.

Senator KERR. 2.37.

What percent of increase was that from 1946?

Mr. BURGESS. About 15 percent.

Senator KERR. You think that increase was in part the result of the efforts of the Committee on Public Debt Policy?

Mr. BURGESS. No; we did not publish our—we started publishing about 1948, I think.

I do not think so. I think that was the result of two things: It was the result of tremendous pressure for money; people who had been restrained from borrowing during the war—those figures I showed indicate the very great increase.

Senator KERR. I know you did. I have got more respect for your efforts than you have. I think your efforts on that Committee were partly responsible for that.

Mr. BURGESS. I will tell you what I think was more responsible still. I think it was the Douglas Subcommittee on the Economic Report.

Senator KERR. I want to tell you right now, do you reckon he will ever outlive the credit you boys are giving him? [Laughter.]

Mr. BURGESS. Well, it is deserved credit, Senator. He did a fine job.

Senator KERR. He worked on that job how long?

Mr. BURGESS. Oh, about a year.

Senator KERR. About a year?

Mr. BURGESS. Yes.

Senator KERR. And you have been working for 10 years in at least a half-dozen different capacities, and you mean to tell me he got more done in 1 year than you have been able to do in that time?

Mr. BURGESS. Well, Senator, that is the Congress of the United States and its great power.

Senator KERR. I want to tell you right now that what he says is not binding on the Congress.

Mr. BURGESS. But the report that comes out from the Congress has tremendous influence.

Senator KERR. Even with the Federal Reserve Board?

Mr. BURGESS. Even with the Federal Reserve Board.

Senator KERR. Do you suppose they used that as an inspiration or a crutch?

Mr. BURGESS. I think it was a little of both.

Senator KERR. I think so, too. I think it was a little of one and a lot of the other.

Mr. BURGESS. As a matter of fact, the Federal Reserve Board was very restless in 1946 and 1947, and was very unhappy about the rates of interest.

Senator KERR. But there had been some elasticity and flexibility in rates, had there not?

Mr. BURGESS. You mean 1946-52?

Senator KERR. Yes.

Mr. BURGESS. That is right. There had been——

Senator KERR. Is it not a fact that bills had gone up from about——

Mr. BURGESS. Three-eighths.

Senator KERR (continuing). Three-eighths of 1 percent——

Mr. BURGESS. To 2 percent.

Senator KERR (continuing). To nearly 2 percent?

Mr. BURGESS. That is correct.

Senator KERR. Actually a little over 2 percent.

Mr. BURGESS. That is right; yes.

Senator KERR. Now, that was quite an increase, was it not?

Mr. BURGESS. That is right.

Senator KERR. But when you came into this job, you were not satisfied with the flexibility that had previously prevailed. You wanted it to be a little more flexible, did you not?

Mr. BURGESS. Well, we were in agreement with the policies that had been the result of the accord in 1951.

We felt the Federal Reserve should have the power to do what they were established to do.

Senator KERR. You told one of the committees of the Congress, after you came in, that you eliminated some of the restrictive features that were even in the accord.

Mr. BURGESS. Well, that is true. Well, it survived after the accord.

Senator KERR. Yes.

Mr. BURGESS. The Federal Reserve was still doing an amount of support of the Treasury financing; that, we thought, was somewhat excessive.

Senator KERR. And you told them to back away from it, as far as you were concerned?

Mr. BURGESS. We did not tell them to back away from it, no. It was our policy to leave them free to exercise their powers, as intended by the law.

Senator KERR. You said to the mutual savings banks, and made it emphatically clear, that the Department had no intention of yielding to pressure, being fully committed to a policy of letting market forces determine the prices of Government securities, and you made the further statement that the first rule of Treasury policy was that the Federal Reserve System should be free to exercise its policies without interference.

Mr. BURGESS. Well, the President said something like that in his inaugural address.

Senator KERR. I am not talking about the President. I am not going to hold you responsible for what he said.

Mr. BURGESS. Thank you. I am willing to support anything he says, practically.

Senator KERR. Well, I want to tell you right now that as between you and the President, there is a wide gulf, in my judgment, and I can find a lot more of your thinking in what the President says than I can find of his thinking in what you say. [Laughter.]

Did the life-insurance companies engage in large-scale selling of Government bonds through 1946, 1947, and 1948?

Mr. BURGESS. Yes. They had used during the war their surplus money to buy Governments. There was nothing else for them to buy.

Home building was checked; business was not borrowing for new capital projects. So they put their money in more than they could easily assemble.

Senator KERR. Did you approve of their sale of their bonds?

Mr. BURGESS. They did not ask me.

Senator KERR. I understand; but, generally?

Mr. BURGESS. I think, Senator, that after the war we had to go at the job of rebuilding this country, and the money had to be supplied.

Senator KERR. Are you trying to detour me now, or would you answer my question?

Mr. BURGESS. No; I am trying to give you a straight answer. I think it is perfectly all right.

Senator KERR. You think it was all right?

Mr. BURGESS. Yes.

Senator KERR. Who bought those bonds? Who supported the operations?

Mr. BURGESS. Well, the charts that we had showed that pretty well. The pension funds were large buyers. The Government—fortunately, we had these Government trust funds which were absorbing a large amount of the Government securities, so the problem was not too difficult.

Then, individuals increased their holdings, so that the bank holdings were reduced not just while we were in, but before that, from 1946 to 1952.

The bank holdings were substantially reduced——

Senator KERR. From 1946 to 1952?

Mr. BURGESS (continuing). 1946-52; yes.

Senator KERR. We will get into that directly when we get into your statement.

At the end of the war, one of your jobs was as chairman of the committee on monetary relations of the International Chamber of Commerce.

Mr. BURGESS. That is right.

Senator KERR. And you wrote a report setting forth your recommendations for international postwar monetary policy?

Mr. BURGESS. That is right.

Senator KERR. The Washington Evening Star, on March 13, 1947, quoted your coauthor, Dr. Jacobsson.

Do you remember him?

Mr. BURGESS. Jacobsson.

Senator KERR. Jacobsson. Thank you.

Who is now the head of the International Monetary Fund, as saying your recommendation——

drew little support at the time, but the Korean war caused more countries to adopt them later.

Was one of those recommendations flexible monetary policies and interest rates?

Mr. BURGESS. Well, I imagine it was.

Senator KERR. Well, are you not sure it was?

Mr. BURGESS. I have not had that report out for some time. Per Jacobsson wrote that report, a very able person. I sat in with him while he did it. We exchanged views.

He was a very firm believer in the power of central banks to effect stability.

Senator KERR. By flexible monetary policies and interest rates?

Mr. BURGESS. That is right.

Senator KERR. Would you say the widespread adoption of monetary policies since 1950 has helped to achieve greater economic stability in the countries which adopted them?

Mr. BURGESS. I would say very emphatically, yes.

Senator KERR. Would you agree with these statements, and now I quote:

As a matter of correcting economic disequilibrium by influencing the level of savings, flexible monetary policies have evidently proved, generally speaking, to be a considerable disappointment.

Mr. BURGESS. Wait. There is directed at that one point, toward increasing the volume of savings. They are talking just about that one thing. Of course, that is only one of the ways that monetary policy works.

Senator KERR (reading):

Only in a small minority of countries has the raising of the bank rate had the effect of stimulating savings.

Would you agree with that?

Mr. BURGESS. No, I do not think I do. I think it is not just the raising—

Senator KERR. I am going to quote the author of this statement in a minute.

Mr. BURGESS. It is not just the raising of the bank rate; it is the whole money situation.

Senator KERR. And quoting further:

It is evident from the experiences of many countries that apart from its psychological effect as a danger signal, the raising of interest rates has in modern conditions relatively little effect on the volume of investment activity.

Would you agree or disagree with that statement?

Mr. BURGESS. Relatively little is a difficult thing to define. It takes a long time. I admit that when this thing is going on you are often disappointed that the results are slow and not what you would like.

Senator KERR (continuing):

In the matter of damping down business activity as a means of restoring internal economic equilibrium, flexible monetary policies have done considerably better.

Mr. BURGESS. I do not like that way of saying it very well.

Senator KERR. That is what, about what Secretary Humphrey said to us.

Mr. BURGESS. No, I do not think he said quite that.

Senator KERR. Did he not say that this adjustment and lull was a very wholesome thing?

Mr. BURGESS. Well, I think he thought there were some overactivities that a damping down of them would be good, but it is not an overall business result.

Senator KERR. This report says:

In the matter of damping down business activity as a means of restoring internal economic equilibrium, flexible monetary policies have done considerably better.

Now, these are the conclusions of an investigation carried out by the International Institute of Banking Studies into the results achieved by flexible monetary policies in the leading commercial countries since 1950.

Mr. BURGESS. I do not know who they are.

Senator KERR. Well, I just had a report on that from the Library of Congress, and if you would like to see it—

Mr. BURGESS. Institute of Banking Studies?

Senator KERR. What did you say?

Mr. BURGESS. What was the name of it, again?

Senator KERR. The International Institute of Banking Studies.

I want to tell you right now, I looked at the nameplate, and it looked almost as impressive to me as the Committee on Public Debt Policy.

Mr. BURGESS. No, that is inconceivable, Senator. [Laughter.]

Senator KERR. This is from the Library of Congress, and it states:

In response to your request, the following information on the International Institute of Banking Studies is submitted, which was obtained from the International Bank for Reconstruction and Development.

Mr. BURGESS. That is a pretty good outfit.

Senator KERR. Yes, it is a pretty good outfit.

The International Institute of Banking Studies was founded in 1951. Article 1 of the statutes providing for the establishment of this organization states that it was set up "to stimulate, encourage, and develop banking studies in its varying aspects and in order to favor the development of international banking relationships."

This Institute is composed of prominent bank representatives from various European countries. The number of representatives from each country is as follows: Germany, 2; Great Britain, 4; Austria, 1; Belgium, 4; Denmark, 2; Spain, 2; Finland, 2; France, 5; Holland, 3; Italy, 2; Luxembourg, 1; Norway, 2; Portugal, 2; Sweden, 3; and Switzerland, 4.

Mr. BURGESS. It did not say who appoints them, did it?

Senator KERR. Well, it is kind of like this Committee on Public Debt Policy. I think they were self-appointed.

But I want to tell you right now, I found an amazing similarity of attitude—

Mr. BURGESS. Did you?

Senator KERR (continuing). Between the ones we have been talking about.

Would it be correct to say that by 1952, when you were asked to become the Deputy to the Secretary of the Treasury in charge of debt management and monetary policy, that your views on interest rates and monetary policy were firmly fixed?

Mr. BURGESS. Well, I hope not inflexibly fixed.

Senator KERR. I did not say inflexibly. I recognize your devotion to flexibility. [Laughter.]

But would it be correct to say that they were firmly fixed?

Mr. BURGESS. I do not think I could deny that.

Senator KERR. And that they were widely known?

Mr. BURGESS. I think that is equally true; yes.

Senator KERR. If I were a reasonably well-informed and experienced investor, I could expect a certain trend in the Government securities market, Treasury interest rates, and Federal monetary policy, as a result of your appointment?

Mr. BURGESS. Well, I think that would be altogether too complimentary to any power I might exercise, Senator.

Senator KERR. Only your modesty would prevent your agreeing with me in that, would it not?

Mr. BURGESS. No. I was working with a businessman who had borrowed more money than he had lent, whose mind was open, and he was the one who was going to make the final decisions on the policies of the Treasury.

Senator KERR. Who was that?

Mr. BURGESS. That was Mr. Humphrey.

Senator KERR. Well, now, I quoted what an associate of his said when I first started here——

Mr. BURGESS. Yes.

Senator KERR (continuing). In the Wall Street Journal.

Mr. BURGESS. But I do not think anybody was——

Senator KERR. He said:

On the national debt, that he will get the best banking brains to tell him what is best. He is not going to make any decisions himself.

Mr. BURGESS. Well, is that his statement?

Senator KERR. That is the quotation that——

Mr. BURGESS. Oh, well, that is——

Senator KERR. That is the quotation an associate of Mr. Humphrey gave, according to the Wall Street Journal.

Mr. BURGESS. They did not get Mr. Humphrey very well analyzed on that.

Senator KERR. I will tell you what he said. Where is the beginning of Mr. Humphrey's statement here to the committee? I thought he paid you quite a compliment.

Senator ANDERSON. I think you are going to have to do like Frank Lloyd Wright, you will have to put him under oath, so that he will have to admit the truth. [Laughter.]

Mr. BURGESS. All I was coming to was that Mr. Humphrey makes his own decisions.

Senator KERR. I want to tell you what he said in his statement to this committee. He said:

I made this very limited report on the management of the public debt since our authority on that subject, Mr. Burgess, is to be before you and give it to you.

Mr. BURGESS. The only point I wanted to make is that Mr. Humphrey had the final decision on these matters, and makes his own decisions.

Senator KERR. I think that is right. But I think that you probably were even more influential with him in that regard than you believed the Federal Reserve banks are with the Board of Governors here in Washington on the rediscount rate.

(There was discussion off the record.)

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 1:05 p. m., an adjournment was taken to Thursday, August 1, 1957, at 10 a. m.)



# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

THURSDAY, AUGUST 1, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Anderson, Gore, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary, Treasury Department; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Mr. Burgess, I understand you wish to make a statement at this time.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Mr. BURGESS. Mr. Chairman, I have asked, I do not know what you would call it in the Senate, a matter of personal privilege.

I wanted to call the attention of the committee to the fact that my associate, the Fiscal Assistant Secretary of the Treasury, yesterday completed 40 years of service with the Treasury, Mr. William Heffelfinger, who is sitting here (applause), who has performed invaluable service, and I may say we have the best civil service staff in the Treasury of any staff in the Government.

The CHAIRMAN. The fact you have completed this 40 years of honorable service is a great distinction. From my association with Mr. Heffelfinger over many years, I wish to say he has rendered fine public service. I am sure the committee congratulates you, and extends its very best wishes.

Senator MARTIN. Mr. Chairman, from his appearance, he does not look as if he could have served that length of time.

The CHAIRMAN. I think he is good for 40 more, and we hope he will be with us for a long time.

Mr. BURGESS. I do not want him to get any ideas about retiring or any of those things, because he is too valuable.

The CHAIRMAN. Senator Kerr?

Senator KERR. Mr. Chairman, I wanted to insert in the record, the names of the members of the Committee on Public Debt Policy at the time Mr. Burgess was the Chairman.

The CHAIRMAN. Without objection, the insertion will be made.  
(The list referred to is as follows:)

#### COMMITTEE ON PUBLIC DEBT POLICY

Chairman, W. Randolph Burgess, vice chairman, National City Bank of New York  
Vice Chairman, John S. Sinclair, executive vice president, New York Life Insurance Co.

Leonard P. Ayres, <sup>1</sup> vice president, the Cleveland Trust Co.

Daniel W. Bell, president, American Security & Trust Co.

E. E. Brown, president, First National Bank of Chicago

Lewis W. Douglas, president, the Mutual Life Insurance Company of New York

Marion B. Folsom, treasurer, Eastman Kodak Co.

Robert L. Garner, financial vice president, General Foods Corp.

Harold M. Groves, professor of economics, the University of Wisconsin

Wesley C. Mitchell, professor emeritus of economics, Columbia University

Benjamin U. Ratchford, professor of economics, Duke University

Earl B. Schwulst, executive vice president, Bowery Savings Bank

George Willard Smith, president, New England Mutual Life Insurance Co.

Levi P. Smith, president, the Burlington Savings Bank

H. B. Wells, president, Indiana University

A. L. M. Wiggins, president, the Bank of Hartsville

Secretary to the Committee, Donald B. Woodward, 2d vice president, the Mutual Life Insurance Company of New York

#### ADVISERS TO THE COMMITTEE

Charles C. Abbott, professor of business economics, Harvard School of Business Administration

Sherwin C. Badger, financial secretary, New England Mutual Life Insurance Co.

B. H. Beckhart, professor of banking, Columbia University, and director of research, the Chase National Bank

Stephen M. Foster, economic advisor, New York Life Insurance Co.

John W. Love, business editor, the Cleveland Press

Marcus Nadler, professor of finance, New York University

Roy L. Relerson, assistant vice president, Bankers Trust Co.

J. H. Riddle, vice president, Bankers Trust Co.

George B. Roberts, vice president, National City Bank of New York

Murray Shields, vice president, Bank of the Manhattan Company

Arthur P. L. Turner, Jr., economist, Bankers Life Co., Des Moines, Ia.

Director Research, James J. O'Leary, associate professor of economics, Duke University

Mr. BURGESS. May I inquire, do you have the names of those who were members of the committee at the start, but who retired by reason of one thing or another?

For example, Lee Wiggins was a member of the committee until he became Under Secretary of the Treasury. Leonard Ayres was a member until he died.

Senator KERR. The list is from one of the pamphlets. I think it was the No. 2 of your own series.

Mr. BURGESS. That is probably it.

Lew Douglas, for example, was a member until he became Ambassador to Great Britain.

Senator KERR. Yes.

Mr. BURGESS. That is all right. Yes, that is complete.

Senator KERR. I wish to put into the record at this point, also, the statement made by Mr. Burgess before the House Government Opera-

<sup>1</sup> Deceased.

tions Committee on June 7, 1956, with reference to the accord between the Federal Reserve and the Treasury.

The CHAIRMAN. Without objection, it will be inserted.  
(The statement referred to is as follows:)

Mr. BURGESS. I appeared before the subcommittee, and that aired the whole business, and I think as a result of that hearing the public opinion was clarified that it was a bad practice to continue in peacetime the price pegging in Government securities that had been true in wartime.

The result was that in the spring of 1951, the Treasury and the Federal Reserve got together and agreed that they would discontinue that practice of pegging the prices of Government securities.

Now, the agreement had a lot of codicils and strings and things to it that made it far from perfect, but it was a great forward step. It did not go all the way. It did not completely free the market from Federal Reserve support.

The Treasury continued, I think, to try to put out its securities at artificially low rates. But it was a great step forward.

When we came in at the end of 1952 and the beginning of 1953, we recognized those principles. We felt we carried them to their logical conclusion in giving the Federal Reserve System the freedom it needed to fulfill its lawful function of influencing the credit situation in the public interest.

Senator KERR. Also the full statement by Professor Willis.

The CHAIRMAN. Without objection, it will be inserted.

(The review of a book by W. Randolph Burgess entitled "The Reserve Banks and the Money Market," by H. Parker Willis, from Political Science Quarterly 1928, p. 608, is as follows:)

[Political Science Quarterly, Vol. XLIII]

#### THE RESERVE BANKS AND THE MONEY MARKET

By W. Randolph Burgess

Here is a simply-written and readable monograph, presented, it would seem, in a semi-official way. The author is titular assistant to the chairman of a Reserve bank, and his book is endorsed by the governor of that bank who vouches for its accuracy and instructiveness, adding that it "constitutes an important contribution to economic science." The volume, moreover, is not an individual production, but "had its earliest beginnings in a series of brief articles . . . prepared jointly by Pierre Jay, Shepard Morgan" and the writer, so that it represented a composite judgment. Then, too, the publishers, following the prevalent American custom of guarding the reader against errors of judgment, have secured a series of expressions from authorities who describe it in terms of strongest approval. Professor O. M. W. Sprague says it is "indispensable," ex-Secretary Baker thinks it should be read by "everybody" and President Traylor finds it "lucid" enough for even the "ordinary high-school boy" to "follow intelligently". Such a work plainly calls for more than ordinary, or casual, scrutiny.

Mr. Burgess divides the book into sixteen chapters. Of these, i-vi inclusive are a semi-historical, semi-descriptive survey of the Reserve system. Chapters xv and xvi are interpretative and analytical (dealing with "Interest Rates" and the "Weekly Statement"). The remaining eight chapters, vii-xiv inclusive, are the real content and *raison d'être* of the publication; for there is little in the other half of the volume that cannot be found to good advantage in various accessible places. These chapters deal essentially with conditions in the New York money market and factors ancillary thereto. The book indeed might well be called "The Federal Reserve Bank of New York and the Local Money Market". This limitation is recognized by the Introduction, where is found the statement that investment and money-market operations "must" be conducted "harmoniously", and that "necessarily" the largest volume of these transactions is executed in New York, hence the choice of the volume "in devoting itself so largely to money market relationships", though these are deemed "central to any understanding of the influence of the reserve system upon credit and currency".

This, then, is the scope of Mr. Burgess's work. It is not, in any true sense, an account of the "Reserve Banks", as the title indicates. It is a defense and explanation of the conduct of the Federal Reserve Bank of New York, espe-

cially within recent years—an *apologia pro vita sua*. It is based fundamentally upon the thought that there has been need for the development of a special technique not thought of when the act itself was framed, not capable of practice elsewhere by other Reserve banks, but essentially a New York philosophy built upon realities. The writer of the Introduction frankly finds that the "early controversies" are "receding into history", while instead "there has arisen" discussion as to the "effects of Federal Reserve action upon credit conditions". Such discussion, however, is the main staple of the publications of the Reserve Board since their beginning in 1915, and of every serious writer on American banking.

Passing over the introductory account of Reserve organization contained in the first few chapters of the volume, already referred to, the reader's attention is first strongly drawn to chapter vii on "The New York Money Market". There it appears that that market is "the center toward which the idle money of all sections gravitates to find employment". Such "employment" is of three kinds—"deposit with banks", investment in "short-term securities", and loans "in the stock exchange money market". Later Mr. Burgess describes "four principal markets" which "make up the money market", and includes thereunder the "bill market", the "government security market", the "commercial paper market", and the "stock exchange money market"; but he clearly sees the inconsistency between the threefold and the fourfold grouping. In this money market, however, although funds have come from "all over the country", the importance does not lie in its size, but rather in the "liquidity" it shows. Loans can be called, and "money" obtained there at any time, and on "a few hours' notice". New York banks hold not only their own funds, but those of other banks, and they supply from these the needs of the market in its various ramifications. When supply of funds runs short, they borrow at the Reserve Bank; when funds are abundant, they deposit. In this way, an "organic connection" is established between the Reserve Bank and the New York market.

Now, of course, what is thus so glibly set forth as ideal practice is just the reverse of safe banking or of the situation for which the Reserve Act intended to provide and is widely different from that which exists abroad. England, for example, as Mr. Burgess himself admits, has no "market" built up about the Bank of England with margin loans playing the chief part and affording the chief "employment" for the "spare funds" of the country, nor is there any central banking country (except our own) where such is the case. The money market (stock market) cannot, contrary to Mr. Burgess's statement, be relied upon to furnish cash at a few hours' notice if there happens to be pressure for funds anywhere. Mr. Burgess, in short, uncritically accepts the present variant of the old vicious "central-reserve city" system which has been developed in New York since the war, treats it as if it were normal or new, and proceeds to analyze and idealize it. Under the old system, outside banks sent "spare" funds to New York for "employment". They went into stocks as they do today; and the only difference lies in the stabilizing influence of the Reserve bank. Actual discussion of central bank problems viewed from the money-market standpoint must run along wholly different lines based upon general experience; genuine Reserve bank discussion must deal with the practical aspects of such problems in the setting of American conditions.

The author furnishes little analysis or recognition of any duty in the matter. The Reserve bank is, according to him, largely helpless in any such problem as real credit control or direction of funds into proper channels. "It is . . . impossible", says Mr. Burgess in chapter xi, "for a Reserve bank to dictate how its credit shall be put to employment". It cannot, for example, restrict loans on the stock exchange. This statement is soberly made, in spite of all that has gone before as regards care in choice of paper, discriminating selections of persons with whom to trade, etc. It is made in apparent ignorance of the careful scrutiny of the loans of discounting and accepting banks maintained by most central (and many Federal) Reserve banks, in their effort to select the best names in which to deal.

What duty, if any, then, have Reserve banks? Mr. Burgess remarks that their credit function is "quantitative" not qualitative. That function is to find out when there is too little or too much credit outstanding and correct the excess or deficiency. This apparently it may ascertain by any or all of several criteria, the purpose being merely to make sure that every "legitimate" need will be met, but that there will be no expansion beyond this "legitimate" need. One such criterion is furnished by the rate currently charged for money, another by the "way" in which credit is being used, a third by the movement of prices—for

"economic theory for many years has recognized a close relationship between the gold supply and commodity prices". And yet, Mr. Burgess finds a "paradox", which troubles him in this connection. Sometimes, as after 1922, prices do not move in this "way"! Sometimes it looks as if the "excess" credit "tended" to get clogged in one branch of the price system as in "wages, or securities, or real estate". Sometimes there are singular distortions of money rates—sometimes, in short, the chosen criteria fail to "work" at all. What then?

Why, then, the whole "quantitative" matter calls for "judgment". And that judgment is supplied by men of the very highest class—the Board of Directors (and Governor) of the Reserve bank. Such authorities are often troubled because it frequently appears that "seldom do all of these guides to policy point in the same direction", and so sheer "judgment" has to come in to decide—e. g., whether the stock market is being overfed or not. They are often worried, too, by "international conditions"—too much gold flowing out or in—and on such occasions must provide a "cushion" of credit to "break the impact". Mr. Burgess is positive of the efficacy of the plan for he mentions it in several places (e. g., pp. 249 and 212). How he can be sure that such a "cushion" will be used for its intended purpose when he has already told us that a Reserve bank can never know or dictate how the volume of credit supplied by it shall be used (p. 68), is far from being made clear. Nevertheless, the whole operation is easy to understand. There is "nothing complex or mysterious" about the gold and credit policy (p. 249), "nothing mysterious or remarkable" about discount rates and reserves (p. 154). Reserve banks can do almost anything they choose—"offset" or neutralize gold movements, supply "cushions of credit" to break the impact of movements of funds, stabilize "prosperity" (p. 270) and even "reduce" the "swing of the business cycle" (p. 295). But they cannot control the "qualitative" direction or use of credit or curtail dangerous speculation.

Of the many points at which serious question must be raised with Mr. Burgess as to fact or inference, space permits no account. Suffice it to say that the book is an advocate's brief in defense of policies which should have unbiased examination. Banks in the Reserve system have from time to time circulated hundreds of thousands of copies of similar *ad captandum* pamphlets. Now they furnish a "contribution to economic science", designed to defend the present practices and methods which have put our bank reserves back into the stock market and have largely brought the effects of our central banking system to nothing—as witness the experience of the past year. Those who devote themselves to the development of "economic science" should study the work of Mr. Burgess and the words of the Governor of the Reserve Bank of New York with care and should make their own analyses and draw their own conclusions.

H. PARKER WILLIS

Senator KERR. Here is the statement of the Secretary about the accord. I would like him to look at it.

Mr. BURGESS. I had forgotten what I said.

Senator KERR. You know what Job said about that. "Oh, that mine enemy would write a book." [Laughter.]

I want to say only, in this regard, I would paraphrase it by substituting the words "friendly adversary."

Mr. BURGESS. I think this is, I am relieved to find, a very good statement, so I am perfectly willing to stand back of it today. That is not true of everything I have said in the past. [Laughter.]

Senator KERR. As I recall the significance of the statement, you indicated that under your administration the Federal Reserve had completed its liberation from and attained its independence of the Treasury.

Mr. BURGESS. That is correct.

Senator KERR. Is it not a fact, Mr. Burgess, that for some time you have been indicating to the Federal Reserve that you felt they should be supporting Treasury issues during the flotation period?

Mr. BURGESS. We have discussed with them the money market conditions and their operations during the period of flotation of securities. We have felt perfectly free to express our opinion about it, and

they have expressed their opinion to us. We recognized at all times that the final decision was theirs.

Senator KERR. But is it not a fact that in giving them your opinion, you have very frankly told them that you thought they should be in the posture of supporting the Treasury issues during the flotation period?

Mr. BURGESS. That depends on what you mean by "supporting." We have suggested that they should see that there was not any marked additional tightening of money while we were selling our issues; that the market should have enough money so it was not particularly squeezed at those times.

On one occasion——

Senator KERR. If it is going to be squeezed, it ought to be at times when private businesses are floating issues?

Mr. BURGESS. Well [laughter], it ought not to be particularly squeezed when we have a great big operation to perform.

Senator KERR. That is kind of a back-door approach, and——

Mr. BURGESS. All right.

Senator KERR (continuing). I want to say that I hope you will accept my questions in the spirit that I ask them, and that is that I recognize that you are doing what you think is best for the public welfare.

Mr. BURGESS. That is right.

Senator KERR. And I certainly am quite sincere in my conviction that what I favor is for the public welfare. It may be that I have been too frank in some of the opinions I have expressed.

Mr. BURGESS. I try to be equally frank, Senator.

Senator KERR. That is what I am trying to get you to do now.

Mr. BURGESS. Right.

Senator KERR. I would like to have you tell the committee if it is not a fact that on a number of occasions this year, you have indicated to the Federal Reserve that they should help prepare the market and take those actions which would create a favorable environment and help support Treasury issues during the flotation period?

Mr. BURGESS. Well now, you used several words there which need defining, but I will say that I have, and Mr. Humphrey has, talked with the Federal Reserve before every issue with respect to the condition of the money market. We have suggested that they have very clearly in mind the job we have to do.

We have outlined our job to them. They have always recognized in every public statement that the floating of a successful flotation of Treasury issues was one of the things they had to pay attention to in their credit policy.

Senator KERR. And do something about?

Mr. BURGESS. And do something about.

Senator KERR. In the matter of the financial environment at the time of the issue, and the actions they take calculated to help make the issue a success?

Mr. BURGESS. All right. I will go for that, yes.

Senator KERR. Yes.

Mr. BURGESS. That, I think, is a perfectly proper function——

Senator KERR. I do, too.

Mr. BURGESS. (continuing).—Of the Federal Reserve System.

Senator KERR. I do, too. And it goes beyond the recommendations of the Douglas committee. It also goes beyond the statement you made before the House Government Operations Committee that when you came here in 1953 you brought about the situation whereby the Federal Reserve completed the attainment of its full independence of the Treasury.

Senator GORE. Would the Senator yield there?

Senator KERR. Yes.

Senator GORE. Does the Senator not think it should go beyond the immediate time of flotation, also?

Senator KERR. Yes, I think it should go beyond the immediate time of flotation. But I think this clearly demonstrates that the Secretary himself has closed a part of the gap between his position when he made that statement about the Accord, and the position of the Senator from Oklahoma.

Mr. BURGESS. Well, I think that is partly a matter of degree. It is partly a matter of attitude. We have always recognized that the Federal Reserve had an underlying and major responsibility to make its decisions with respect to the general credit situation.

When we discussed these things with them, they have always said, "We will do what we can to help, within the range of our general credit policy," and we recognized that that was right.

Now, of course, the central bank, the Federal Reserve System, whatever you have in any country, the bank of issue cannot just go on ignoring the fact the Government has a huge job of financing—here, England, France, everywhere—and it has to pay some attention to it.

Senator KERR. It was created for that purpose, among others, was it not?

Mr. BURGESS. It was. The Bank of England was established in order to finance the British Government back in 1694.

Senator KERR. And the American Federal Reserve was created to make it possible to finance an expanding economy and the Government.

Mr. BURGESS. Yes. At that time, the problem of financing the Government was not so difficult.

Senator KERR. Correct. Although the situation shortly changed as a result of World War I.

Mr. BURGESS. But clearly it was in mind.

Senator KERR. But that was in mind?

Mr. BURGESS. That was in mind.

Senator KERR. And that was the justification, in part, for its creation.

Mr. BURGESS. That is right. Certainly the national bank system, which was the predecessor of the Federal Reserve System, was established during the Civil War directly to see that the Federal Government was financed during the war.

So it is a major factor in the operation of the Federal Reserve System.

Senator KERR. Mr. Secretary, I appreciate the frankness of that statement.

Mr. BURGESS. Thank you, sir.

Senator KERR. It makes a contribution to this investigation and lays, in my judgment, a premise on which discussions may be had

looking toward the closing of the gap between the position of those who are steadfastly devoted to keeping it too tight, and those who might think it ought to be made too loose.

One of the unfortunate things about this investigation is that those who have been favorable to your attitude have often referred to the fact that those of us who felt that there should be some change in it have the attitude that, while we oppose what we regard as a drought of credit, we seek to create a flood of credit. And that is not our position at all.

Mr. BURGESS. Yes.

Senator KERR. We are just as much opposed to a flood as we have been and are to what we regard as a drought.

Mr. BURGESS. I am very glad to have you make that statement, Senator. That brings us a little closer together.

Senator KERR. Well, it demonstrates Mr. Secretary, that those of us who have not approved some of the things you and Mr. Humphrey have done, have not been in the posture of trying to create an unleashed, unstemmed flood of credit.

I hope that what I have said to you gives you as much comfort as what you have just said here gives me.

Mr. BURGESS. Well, it gives me some comfort, Senator, I will confess.

Senator KERR. You said the Federal Reserve was created to provide the required amount of credit.

Mr. BURGESS. That is right.

Senator KERR. Yesterday, you gave an indication of what you thought that might be. I will quote from the transcript:

Senator KERR. Now, what is that normal supply?

Mr. BURGESS. Well, about 2 or 3 percent a year, you have been able to stand. It is one that keeps pace with the normal growth of the country.

As I recall, during 1949, 1950, 1951, 1952, and 1953, the average increase was about something over 3 percent, Mr. Secretary.

Mr. BURGESS. Well, I have it here by calendar years.

Senator KERR. Is that the Federal Reserve Bulletin you have there?

Mr. BURGESS. Well, we pulled a computation out of that. To begin with, back in 1950——

Senator KERR. What was it?

Mr. BURGESS (continuing). The increase in the money supply, seasonally adjusted, was \$5.3 billion.

Senator KERR. Well, now, what percent was that?

Mr. BURGESS. It is a little less than 5 percent, because the base at that point was \$109 billion; very close to 5 percent.

Senator KERR. What was it in 1951?

Mr. BURGESS. In 1951 it was \$5.8 billion, which is about 5 percent.

Senator KERR. A little under 5 percent?

Mr. BURGESS. A little more.

Senator KERR. About 5 percent.

Mr. BURGESS. About 5 percent.

Senator KERR. 1952?

Mr. BURGESS. The base had increased at that point.

Senator KERR. 1952?

Mr. BURGESS. 1952 is \$4.6 billion, which gets down to a little under 4 percent.

Senator KERR. All right.

Now, what was it in 1953?

Mr. BURGESS. \$2 billion, \$2.1 billion.

Senator KERR. Which was about how much in percent?

Mr. BURGESS. That was about  $1\frac{3}{4}$ , something like that.

Senator KERR. What was it in 1954?

Mr. BURGESS. In 1954 it was \$2.9 billion, which is about 2.4 percent, say.

Senator KERR. All right.

Mr. BURGESS. In 1955 it was \$3.5 billion.

Senator KERR. Which was how much?

Mr. BURGESS. Which was about 3 percent.

Senator KERR. All right.

Mr. BURGESS. In 1956 it was \$1.2 billion, which is under 1 percent.

I do not have this year to date.

Senator KERR. Have you got the Federal Reserve Bulletin for July 1957?

Mr. BURGESS. Yes.

Senator KERR. What does it show the rate of increase was for this year thus far?

Mr. BURGESS. Here is the total, seasonally adjusted. It has gone up less than 1 percent, less than a half of 1 percent, so far this year. That is through May.

Senator KERR. I believe the annual rate indicated there would be about 1.1—no, it would be less than 1 percent.

Mr. BURGESS. It would be less than 1 percent.

Senator KERR. It would be less than 1 percent, would it not?

Mr. BURGESS. That is about right.

Senator KERR. In other words, on that basis, for the years 1953, 1954, 1955, and 1956, and thus far through 1957, the increase has actually been at the rate of less than 2 percent a year?

Mr. BURGESS. Well, if you take it all the years, I think you would find it is about 2 percent for those years.

Senator KERR. Well, now, it was  $1\frac{3}{4}$ , you say, for 1953, 2.4 for 1954, 3 for 1955, and 1 for 1956, and a little less than 1 thus far in 1957, which makes it 1.8 percent.

Mr. BURGESS. Yes.

There is another factor that the people running the Federal Reserve have to take account of, and I am encroaching on Mr. Martin's field here, but perhaps the fact that I have some familiarity with the past would justify that, and that is what you call the rate of turnover of money, the activity in its use; and the rate of turnover, the activity, has been rising very sharply in recent years.

Senator KERR. Is that not the natural result of a tightening supply?

Mr. BURGESS. Partly. It is partly simply the great activity in the country.

Senator KERR. I understand. If you are going to have a great activity and you have a smaller money supply with which to handle it, you have got to turn it over faster, have you not?

Mr. BURGESS. It is the old equation of exchange, you know.

Senator KERR. Yes.

Mr. BURGESS. It is money times its velocity.  $PT$ , prices times trade, equals money times its velocity,  $MV$ . So you have to allow

for the velocity. If the velocity is rapid, if there is speculation, if people are using money very hard, and you are running the machine for feeding credit in, you ought to feed a little less, because the thing is going to blow up your prices on your price side too fast.

Senator KERR. Well, is it not a fact, Doctor, that both the Federal Reserve and the Treasury have been supporting the Treasury market for the last few weeks?

Mr. BURGESS. No. We have done very little.

Senator KERR. Well, in May you bought \$363 million yourself.

Mr. BURGESS. In May—we have done that always, or almost always.

Senator KERR. Now, Doctor, you know there have not been 3 months in 5 years that you spent as much as \$363 million buying your own issues.

Mr. BURGESS. That is quite right. I was talking about the principle. In principle, we have bought for the trust funds from time to time, or for the Federal Deposit Insurance Corporation. We used those funds to help us in our financial picture.

Senator KERR. I asked you if it was not the fact that both the Treasury and the Federal Reserve have been buying in the open market in recent weeks in support of the Government's opportunity to finance?

Mr. BURGESS. No; I would not say that the Federal had.

Senator KERR. Well, is it not a fact that their purchases went up last week, and some this week, in the Open Market Committee?

Mr. BURGESS. They have not bought any of our maturing issues or our new issues.

Senator KERR. I am not talking about that. I am talking about their buying in the market. They took 60 percent of this recent financing.

Mr. BURGESS. Oh, well, they had the maturing issue. That simply was a rollover of what they had.

Senator KERR. I understand. But they did not have to take it, did they?

Mr. BURGESS. That was not supporting the market.

Senator KERR. They did not have to take it, did they?

Mr. BURGESS. Well, they practically did.

Senator KERR. Why?

Mr. BURGESS. They did not want the country to go busted.

Senator KERR. Their action was calculated to support the success of the issue, was it not?

Mr. BURGESS. But, Senator, that is very different from market support. It is narrowing down a little bit.

Senator KERR. It is a phase of the market support, Doctor.

Mr. BURGESS. Well, the Federal Reserve is a holder of some \$23 billion of Government securities.

Senator KERR. It is a holder of a lot more than that now, Doctor.

Mr. BURGESS. It is fairly close.

Senator KERR. They are holding more now than they held at any time that I know of during that entire period when you gentlemen were criticizing the policy of supporting the market to maintain an artificially low level of interest rates.

Mr. BURGESS. At the end of June, they held \$23 billion. And that has been very steady.

Senator KERR. Well now, there was evidence here the other day, I think it is here in your statement—where is this chart about—

Mr. BURGESS. That took it to the end of the year. If you will take it to the end of the year, the holdings are always up, because the Christmas demand for credit means that the Federal Reserve has to—

Senator KERR. Well, how much was it?

Mr. BURGESS. At the end of 1956, it was \$24.9 billion.

Senator KERR. \$24.9 billion.

Well now, there was 1 day here in one of these charts that showed they had over \$25 billion, Doctor, I believe.

Mr. BURGESS. \$24.9 billion is practically \$25 billion.

Senator KERR. I know, but I think we had a larger figure than that, did we not, Mr. Mayo?

Mr. MAYO. I do not believe so, sir. We will look.

Senator KERR. Would you examine carefully these—

Mr. BURGESS. What the Federal Reserve does in periods of very tight money, and that includes times of financing—

Senator KERR. What was it in December of 1952?

Mr. BURGESS. \$24.7 billion.

Senator KERR. Then their holdings at the end of 1956 were higher than they were at the end of—

Mr. BURGESS. By only \$200 million.

Senator KERR. Well, but they were higher, were they not?

Mr. BURGESS. \$200 million.

Senator KERR. What were they at the end of 1951?

Mr. BURGESS. \$23.8 billion.

Senator KERR. \$23.8 billion.

What were they at the end of 1950?

Mr. BURGESS. \$20.8 billion.

Senator KERR. All right.

Then their holdings at the end of 1956, after you boys had been in for 4 years, were higher than they had been in any one of the last 3 years of the preceding administration.

Mr. BURGESS. Well, they had increased, also, during the preceding administration. In 19—

Senator KERR. Is not \$24.9 billion the highest figure that they have ever owned at the end of any year in their history, that you have a record of?

Mr. BURGESS. Well, I think that might be true.

Senator KERR. Well, do you not know it is true?

Mr. BURGESS. No. They had \$25.9 in December 1953. They have less now than they had in December 1953.

The reason for that is a certain amount of gold—

Senator KERR. All right, then. In 1954, you had \$24.9?

Mr. BURGESS. That is right.

Senator KERR. So that actually, the three highest years were 1953, 1954 and 1956.

Mr. BURGESS. That is right.

Senator KERR. So that during each one of the years under this administration Federal Reserve holdings of Governments were higher than they had ever been at the end of any other year in history.

Mr. BURGESS. Well, that, of course, means that they were putting more credit out to support the country's whole credit structure, and

with the growth of the country they need to put more out. That is not just the difference of a few hundred million.

Senator KERR. The hue and cry that has been raised Mr. Burgess—

Mr. BURGESS. Yes.

Senator KERR (continuing). Has been that the action of the Federal Reserve under the Democratic administration in supporting the market and in the acquisition of Government bonds amounted to the issuing of printing press money.

Mr. BURGESS. Senator, you cannot use that figure as a support for just Government security operations of the Treasury.

Senator KERR. Well, you said if they did not take them, they could break the country.

Mr. BURGESS. That is the underlying figure that provides Federal Reserve credit to the country without forcing the member banks to borrow. That is the one way they have, unless they—

Senator KERR. The member banks have been borrowing for 3 years.

Mr. BURGESS. Yes, but they would be borrowing—

Senator KERR. Is it not a fact that more member banks are in debt to the Fed today than have been for 10 years?

Mr. BURGESS. I do not know. We can look that up.

(This statement is correct.)

Senator KERR. What is your opinion about it?

Mr. BURGESS. My opinion is that is about right. That is probably so.

But there would still be more if they had not bought those Government securities.

Senator KERR. That is right. And it would be less if they had more Government securities. That is right, is it not?

Mr. BURGESS. That is right. That would be the way, if they wanted to move in the direction you suggested, in the way of greater ease, would be to go out and buy \$500 million more of Government securities, which would put that credit out into the country.

Senator KERR. Put that much more reserve in the Fed for the member banks to have that much more lending power and have that much less necessity for coming in there for rediscount. That is correct, is it not?

Mr. BURGESS. There are other ways they can do it.

Senator KERR. I understand. But that is correct, is it not?

Mr. BURGESS. They could reduce the reserve requirements in the banks.

Senator KERR. And they have done that twice.

Mr. BURGESS. Which is another way of doing the same thing.

Senator KERR. I say, they have done that twice, have they not?

Mr. BURGESS. Yes, they have. Those are both ways of furnishing credit to the country.

Senator KERR. Yes.

Is it not a fact that while this policy of the Federal Reserve supporting the Government bond market in the years of your predecessor was followed, they did so by the acquisition of less Governments than they have acquired during each of these past 4 years? And in addition to that, is it not correct that twice in the past 4 years they have lowered the reserve requirements to enable the commercial banks to help finance Treasury deficits?

Mr. BURGESS. I do not know just what you are arguing.

Senator KERR. I am not just arguing. I am just asking if that is the fact.

Mr. BURGESS. I am just trying to direct my answer at just the right point.

Senator KERR. I will ask it again.

In spite of their holdings under the policy of supporting the market—

Mr. BURGESS. All right. These are not acquired holdings for that purpose.

Senator KERR. I understand. My position is that the others were not all acquired for that, either.

Mr. BURGESS. Certainly not all for that purpose, Senator.

Senator KERR. But at the time they were supporting the market, they did so and kept the interest rate at what you referred to as an artificially low level.

Mr. BURGESS. That is right.

Senator KERR (continuing). They stabilized the bond market by the acquisition of a smaller total quantity of Government securities than they have held at the end of any one of the last 4 years.

Mr. BURGESS. Well, there was not such demand for credit in the country. The difference is largely due to the demand.

Senator KERR. But regardless of why it was, that is true, is it not?

Mr. BURGESS. Well, I will not answer it putting it in that form.

Senator KERR. Well, will you show me a year during the time that they were engaged in what you have criticized as a policy of supporting the bond market, at the end of which they held as many Governments as they have held at the end of each of the last 4 years?

Mr. BURGESS. Well, I think you are arguing strictly a non sequitur, Senator, if I may be frank.

Senator KERR. Well, I will tell you, I do not understand that, and therefore I am not offended. [Laughter.]

Mr. BURGESS. Thank you very much.

The thing we are arguing about—

Senator KERR. You see, you gentlemen with a technical education, and big vocabularies, have us country boys at a great disadvantage, You can say anything you want to about us, and we do not know but that you are complimenting us.

Mr. BURGESS. I apologize, Senator. You see, the trouble is, my father was a teacher of Latin. He taught Latin in prep school and so, I suppose, there is a little hangover that I cannot escape altogether.

Senator KERR. Well, that is all right.

Mr. BURGESS. I will try not to use too many of them.

Senator KERR. Let us get back to the question.

Mr. BURGESS. If I do, I will interpret them.

Senator KERR. Tell me if you can remember a year when the Fed was supporting the bond market that they ended up with as many Governments in their portfolio as they have had in the last 4 years.

Mr. BURGESS. They are entirely different operations. One—

Senator KERR. Well, you say the buying of securities by the Fed creates additional credit.

Mr. BURGESS. There are two entirely different purposes and methods you are dealing with here.

Senator KERR. I want to tell you that the purpose for which a banker loans me money neither diminishes its value nor should it enhance the interest rate.

Mr. BURGESS. Well, there is an awful lot of difference in how they do it, whether they do it grudgingly or come up with a smile.

Senator KERR. I would rather they do it grudgingly at a low interest rate than happily at a high interest rate. [Laughter]

I will put into the record, Mr. Chairman, since I cannot persuade the witness to answer, the following data from the Economic Report of the President, January, 1957. At the end of 1945 the Federal Reserve banks owned \$24.3 billion of Government securities.

At the end of 1946, they owned \$23.3 billion.

At the end of 1947, they owned \$22.6 billion.

At the end of 1948, they owned \$23.3 billion.

At the end of 1949, they owned \$18.9 billion.

In 1950, they owned \$20.8 billion.

In 1951, they owned \$23.8 billion. That is the year of the Accord whereby they were no longer required to purchase Treasury securities in order to support the price of Government bonds.

Is that correct, Doctor?

Mr. BURGESS. Your mathematics are correct.

Senator KERR. At the end of 1952, the first full year the Accord was in effect and the policy of supporting Government bonds had ended, according to the doctor's—

Mr. BURGESS. I did not say it ended. I did not say it ended at 1952. They kept on giving the market some support. The policy was only gradually effected.

Senator KERR. But they were gradually moving away from the posture of support?

Mr. BURGESS. That is right.

Senator KERR. That is right.

At the end of that year, it was \$24.7 billion.

Mr. BURGESS. That is right.

Senator KERR. They were totally freed in 1953, according to what the doctor told the committee over in the House, and at the end of the year they had \$25.9 billion.

At the end of 1954, they had \$24.9 billion.

At the end of 1955, they had 24—

Mr. BURGESS. There was a reduction in reserve requirements in that period, so they could let some of their Governments go.

Senator KERR. Yes, there was a reduction in reserve requirements in July 1953 for the purpose of enabling the commercial banks to finance the Treasury deficit.

Mr. BURGESS. So that made credit available.

Senator KERR. And in that year the Federal Reserve increased its holdings to the highest point in history.

Mr. BURGESS. No; I was talking about 1954.

Senator KERR. I know; but they made the initial reduction in reserve requirements in 1953, did they not?

Mr. BURGESS. That is right. That particular one enabled the banks to pay off some of their debt.

Senator KERR. Yes, and helped them to finance your deficit.

Mr. BURGESS. You see, you are dealing with a whole series of variables.

Senator KERR. In 1954, they made another reduction in member bank reserve requirements; yet the Federal Reserve wound up the year with \$24.9 billion of Governments.

Mr. BURGESS. That is right.

Senator KERR. At the end of 1955, they had \$24.8 billion; at the end of 1956, they had \$24.9 billion.

Mr. BURGESS. That is right. Practically steady for the last 3 years.

Senator KERR. Yet as you know, Doctor, by holding it practically steady while the economy has tried to move forward at the normal rate of growth of about  $3\frac{1}{2}$  percent a year, that has resulted in the situation where the Treasury has to pay 4 percent for short-term money.

Mr. BURGESS. Well, there was a reduction of reserve requirements in 1953 and 1954.

Well, you are quite right on this point, that those holdings are a way of putting money in or not putting it in.

Senator KERR. Increasing credit.

Mr. BURGESS. That is right.

Senator KERR. When the Federal Reserve buys a billion dollars worth of Governments from the banks, would the bank thereby have six times that much lending power?

Mr. BURGESS. Well, or——

Senator KERR. Approximately?

Mr. BURGESS. Or they can pay back 1 billion of loans.

Senator KERR. Yes; that is, to the Federal Reserve.

Mr. BURGESS. If they repay it in loans, it is only 1 billion.

Senator KERR. If they repay what they owe. But if they leave it there as a reserve——

Mr. BURGESS. That is right.

Senator KERR (continuing). It gives them about six times that much lending power?

Mr. BURGESS. Approximately that, yes.

Senator KERR. In your testimony Monday, you told the chairman we are in a capital-goods boom, and the inflation was a capital-goods inflation, underlying which there was a huge armaments program.

Yesterday when I asked you whether or not you were not repeating the mistakes of the twenties by relying so much on monetary policies, you said that today we have better fiscal policies to help us.

I presume you meant tax policies.

Mr. BURGESS. Well, I am talking about budget, budget and——

Senator KERR. Budget and tax policies?

Mr. BURGESS. Yes; that is right.

Senator KERR. Those are the elements, principally, of Government fiscal policy?

Mr. BURGESS. Yes.

Senator KERR. I would like to ask you these questions on tax policy, and its connection with the capital goods boom.

Were you in accord with the Treasury Department's 1954 tax recommendations?

Mr. BURGESS. Yes, although I had little direct responsibility. That was not my particular department.

Senator KERR. What was the purpose of the proposal to provide a dividend tax credit or an exemption of a certain percentage of dividends from income taxes?

Mr. BURGESS. Well, it was to try to get away, in some degree from double taxation.

Senator KERR. Was the argument made by the Treasury in support of that provision that it would increase the incentive of—

Mr. BURGESS. Yes.

Senator KERR (continuing). Of investors to put their money into the development of industry?

Mr. BURGESS. That is right.

Senator KERR. And naturally that would increase the demand for capital goods.

Mr. BURGESS. To the extent it was effective. It was a very small step in the direction—

Senator KERR. I understand. But the step taken by the Congress was much less than that recommended by the Treasury.

Mr. BURGESS. That is right.

Senator KERR. And the argument in favor of it was, No. 1, that it would begin to eliminate the double taxation of earnings.

Mr. BURGESS. Equity argument, yes; argument in equity.

Senator KERR. But the big argument was that it would increase the flow of equity capital and enable industry to expand more rapidly?

Mr. BURGESS. It would have a tendency that way over a period of time.

Senator KERR. Yes.

Why did the Treasury recommend amending the Internal Revenue Code to enable business to take faster depreciation on new investment?

Mr. BURGESS. Well, that again was a combination of an equity argument and an argument for encouraging people to build new plant, get new machinery, and so on.

Senator KERR. Build new plants and increase industrial capacity?

Mr. BURGESS. That is right. It is all good.

Senator KERR. Why has the Office of Defense Mobilization continued issuing accelerated amortization certificates since the close of the Korean war, especially in connection with facilities that clearly are not to be utilized exclusively for the production of defense equipment?

Mr. BURGESS. Well, sir, I think that has pretty well closed down now to things that do justify themselves on the basis of direct contribution to defense.

Senator KERR. But they were about 12 to 14—

Mr. BURGESS. I think they were slow in closing it down, Senator. I think you know the position Mr. Humphrey has taken on that. We were very reluctant to see that continued. Mr. Humphrey was among the first to come out in opposition to it.

Senator KERR. That is right.

Mr. BURGESS. And we have got it closed down now.

Senator KERR. But the administration continued issuing billions of dollars of accelerated amortization certificates for building new plant facilities not directly connected with the defense effort.

Mr. BURGESS. That needs definition, that last, as to how directly connected.

Senator KERR. Not exclusively devoted to the war effort.

Mr. BURGESS. Yes.

Senator KERR. The Korean war ended in June of 1953.

Mr. BURGESS. But the cold war was still on.

Senator KERR. But the Korean war ended in 1953.

Mr. BURGESS. That is correct.

Senator KERR. And the Defense Production Act had been passed to encourage the building of additional plant facilities to produce the equipment needed during the Korean war; had it not?

Mr. BURGESS. No, no. It was much broader than that, because we were trying to keep our place in the cold war, in the struggle with the Soviet.

Senator KERR. You know it just happened, Doctor. That bill was pretty well written in this very room right here.

Mr. BURGESS. I know, but you had in mind the Russian situation as well as the Korean business.

Senator KERR. Oh, yes. But the basis for the enactment of the new accelerated amortization bill was the Korean war crisis.

Mr. BURGESS. Yes. But the Korean war crisis was just not it in itself. That was a small war. It was because that convinced us that the Soviet threat was a grave danger, and we had to keep up in our defense program.

Senator KERR. Is it not a fact that this capital boom we have talked about can be traced largely to industry's effort to get under the tent of accelerated depreciation, either by those certificates which your administration has continued to issue since the close of the war, or the new provision in the 1954 code?

Mr. BURGESS. No, Senator; I think that is too strong a statement.

Senator KERR. Well, would you admit they had been influenced in part—

Mr. BURGESS. It is a contributing factor; that is right.

Senator KERR. They have been contributing factors?

Mr. BURGESS. Yes; that is right.

Senator KERR. Yesterday I read you the conclusions of an investigation made by the Institute for International Banking Studies.

The found that flexible monetary policies worked best by dampening down business activity, saying that was the only way it has effectively restored price stability.

I did not know whether you agreed with that conclusion or not.

Mr. BURGESS. Well, I do not like the expression "dampening down business activity." We have used here from time to time the "rolling readjustment."

Senator KERR. Rolling readjustment.

Mr. BURGESS. It cuts off some excesses.

Senator KERR. You think a little recession by another name smells a lot sweeter? [Laughter.]

You do not have to answer that question.

Mr. BURGESS. Thank you very much.

Senator KERR. I would like to read you the following excerpts, and ask you to comment on them.

David Lawrence in the Evening Star, Monday, July 15, 1957:

There is more than meets the eye in President Eisenhower's recent directive to all Government bureaus to hold down spending. It is plainly evident that the administration has concluded it can expect no help from either big business or big unionism in restraining the wage-price spiral. It is evident also that the Federal Reserve Board can do little to check the inflation merely by letting interest rates rise and curtailing credit.

Only one thing is going to stop the inflation and stabilize the purchasing power of the dollar for a while, and that is a recession. This means some unemployment. It will perhaps also halt the use of escalator clauses in labor contracts, because as living costs go down, wages will have to drop, and that is unpopular with the unions.

So the outlook now is for a readjustment sometime in 1958.

The Journal of Commerce, New York, July 15, 1957:

The evidence now points strongly to the conclusion that both the administration and the Federal Reserve authorities believe that a moderate recession now would be a small price to pay for the avoidance of another boom and bust later on. We fully agree with this conclusion. Actually, we have felt the same way for some time, and said so repeatedly.

Such a policy leads compellingly to the all-important psychological or public relations problem of whether the administration should take the public into its confidence by trying to explain its goals and methods, or whether it is better just to follow the course it deems necessary without attempting to make it palatable to the public by official explanations.

Do you have any comment to make on those two articles?

Mr. BURGESS. Well, I think they are both very ingenious and interesting articles. I do not think either of them represents the administration policy.

Senator KERR. Then you think Mr. Humphrey was mistaken when he said that this adjustment that is taking place is a very healthy thing?

Mr. BURGESS. I do not remember his language on that. I think——

Senator KERR. We will get——

Mr. BURGESS. I do not know just what the reference was on this "adjustment."

Senator KERR. It was the slowing down of production. He also said that it was hoped the higher interest rates would discourage overexpansion.

Mr. BURGESS. Overexpansion, yes. He did not say to bring about a recession.

Senator KERR. Well, he did not say "recession." He said "rolling readjustment."

Mr. BURGESS. Yes.

Senator KERR. Actually, everybody that I have talked to seems to think that the two terms are rather synonymous.

Mr. BURGESS. No; I do not.

Senator KERR. You do not?

Mr. BURGESS. No; I do not.

Senator KERR. What do you think about this statement:

Undeniably the widespread acceptance by governments of this full-employment philosophy poses a dilemma for central banks concerned also with preserving the value of money. But the idea that the central bank is powerless in this situation is inadmissible. Certainly no central bank would set out to deliberately create unemployment.

On the other hand, it is the duty of a central bank to exercise its best efforts toward ironing out the peaks and valleys of economic fluctuation. A central bank would be derelict in its obligations if it did not, when business is booming and people are attempting to undertake more projects than there is labor supply to handle, act to moderate the excess pressures and bring demand for labor into a sustainable relationship to supply.

The issue is not one of deliberately creating unemployment but of easing the stresses and strains of overemployment that promote and nurture the wage-price spiral.

Mr. BURGESS. I think that is a pretty good statement.

Senator KERR. That statement is from the First National City Bank Monthly Letter of July 1957.

Mr. BURGESS. I got the right answer.

Senator KERR. You sure did, Doctor.

Mr. BURGESS. Here is what Mr. Humphrey said.

Senator KERR. What page, now?

Mr. BURGESS. On page 264. Maybe the question was asked several times.

Senator KERR. It was. I want to tell you it was regarded as a fruitful field of interrogation by more than one member of this committee.

Mr. BURGESS. On page 364, about the third paragraph down, Senator Smathers asked:

Do you think we have to have some sort of a recession in order to bring about stoppage to this inflationary trend?

Secretary HUMPHREY. I do not believe so. I hope not. I think that what we need is a little less pressure forward, but that does not necessarily mean a recession. It means some readjustments here and there, but it does not necessarily mean that we go into a difficult time.

I agree with the Secretary.

Senator KERR. Well now, we are going to find some more of his statements.

Senator GORE. "Necessarily" or "not necessarily?"

Senator KERR. We are going to find some more of his statements in that regard.

(The statements referred to which appear at pp. 388 and 389, pt. 1, of these hearings are as follows:)

Senator SMATHERS. Now, with respect to this matter of industrial production which we talked about just a few minutes ago, I understood you to say that while you expected capacity to be getting bigger in the immediate future, you did not indicate whether you thought that production would continue to decline and level off or would increase.

Do you recall we were talking about that just a minute ago?

Secretary HUMPHREY. Yes; I do.

Senator SMATHERS. I wonder if you would care to comment on that. I forgot to ask you that question.

Secretary HUMPHREY. I suppose that is going to be selective in various industries. There are some industries where I think this adjustment is taking place, and we are always adjusting, you know, we are never static; we are always adjusting someplace, and as this adjustment is operating, I think you will find that production will be increasing in certain lines, and maybe decreasing in others.

Senator SMATHERS. On page 16 of the Economic Indicators, it shows that in December of 1956, total industrial production was at a figure of 147; that in January, February, March, April, May, it declined until in May it indicated 143, total industrial production, which would indicate that the trend, as far as production and business activity, is down.

Secretary HUMPHREY. Some leveling off.

Senator SMATHERS. You feel that that trend will continue for some time?

Secretary HUMPHREY. Well, I do not know whether it will continue. If the adjustment just rolls on in that sort of way, I think it probably would be a very salutary thing. It would help us all along the line.

Senator SMATHERS. If it continued to go down just a little bit?

Secretary HUMPHREY. Just a little leveling out.

Senator SMATHERS. It is your opinion that that would create unemployment and things of that nature?

Secretary HUMPHREY. Not if it is just a little. Not if it just levels off and we have just a continuing adjustment, first here and then there.

Senator SMATHERS. Do you think that that would result in less operation at plant capacity in many of the firms?

Secretary HUMPHREY. In some lines, there would be a little, and in others not. It is again, as I say, it will be an adjustment, and that, you see, Senator, is the happiest thing that can happen to this country, because if we let these excesses grow, if you let demand go and excesses do reach a point where the whole thing lets go at once, that is when we have a lot of trouble.

Now, if it can just happen a piece here and a piece there, readjust here and readjust there, a piece at a time, that is when we have our best times in America.

Senator SMATHERS. Some people might call this lessening of production a recession. How far would it have to go, do you think, before it might fall in that category?

Secretary HUMPHREY. Well, we had a lot of questions about terms before, and we had the terms "rolling readjustment," and "recessions." We had some people talking about a "depression." So you can go on down the scale, depending upon what happens.

Senator KERR. It would seem to me that both the statement of the First National City Bank, of the David Lawrence column, of the Journal of Commerce, and of Secretary Humphrey are all expressing the same general thought: that the best way to ease the problems of prosperity is to reduce the pressures and slow down the pace a little.

Mr. BURGESS. I think that is a fair statement. You are always up against that problem.

You have got an inflation which is a public attitude, a pressure, going ahead. How are you going to check the inflation without having a bad drop? That was the problem—you referred to the twenties—it was the problem of the late twenties. They let it go. They did not take adequate steps.

Senator KERR. They let it go too far, and then acted too hard.

Mr. BURGESS. Then they had, in order to stop it, they had to act hard, and "bang" she went.

Senator KERR. Lowered the boom.

Mr. BURGESS. Lowered the boom.

We do not want to do that. We all want to take timely action so that the adjustment occurs, a rolling adjustment, and you keep on a good volume of business. That is what we are trying to do.

Senator KERR. What I would like to do is to enlist your very powerful and influential help with the Federal Reserve to ease it up just a little the other way.

Mr. BURGESS. Well, now, you will discuss that with Bill Martin.

Senator KERR. I am going to.

Mr. BURGESS. Of course, what their feeling is, what the Board's feeling is, I gather is that now is the time to really stop this thing before it goes too far. And, if you stop it now instead of letting it go right on up, you can ease it off instead of having a big drop.

That is the whole question. It is a question of judgment. Maybe the readjustment is already on the way, I do not know. But that is the judgment that is in the hands of these people we talked about yesterday.

Senator KERR. In your statement you said:

This past December the debt was back down to \$277 billion, reflecting budget surpluses and a better balanced seasonal pattern of corporation tax payments.

Mr. BURGESS. Yes.

Senator KERR (reading):

Our debt of \$270½ billion on June 30, 1957, the seasonal low point, was \$2 billion below a year ago. While this reduction is not large, the important point is that despite huge defense expenditures the upward sweep of the debt has been checked and reversed.

We have put them in the record before, but I think it is pertinent at this point for you to tell us what defense expenditures were for the years 1953, 1954, 1955, 1956, and 1957, and the estimate for 1958.

Mr. BURGESS. We would be——

Senator KERR. He has them there.

Mr. BURGESS. Yes.

Total major national security—this includes atomic energy and the whole——

Senator KERR. That is the defense expenditure?

Mr. BURGESS. The whole works. You want me to start in 1952?

Senator KERR. For the fiscal year 1953.

Mr. BURGESS. Fiscal 1953, \$50.363 billion.

Senator KERR. All right.

Mr. BURGESS. 1954, \$40.904 billion.

Senator KERR. \$40.904 billion.

Mr. BURGESS. That is right.

1955, \$40.626 billion.

1956, \$40.641 billion.

1957, \$40.965 billion.

And the estimate for 1958, \$43.335 billion.

Senator KERR. In other words, then, for the 4 years since 1953, you have averaged spending about \$9½ billion a year less——

Mr. BURGESS. Excuse me.

Mr. Heffelfinger calls my attention to the fact that in 1954, I read it 40 when it should be \$46.904 billion.

Senator KERR. 1954?

Mr. BURGESS. In the year 1954.

Senator KERR. 1954.

Mr. BURGESS. The total should be 46——

Senator KERR. Yes.

Mr. BURGESS. It did not go down as fast as that.

Senator KERR. Then in 1953, it was \$50 billion. In 1954, it was about \$47 billion.

Mr. BURGESS. Yes.

Senator KERR. In 1955, it was \$40 billion.

Mr. BURGESS. \$41 billion.

Senator KERR. \$40½ billion.

Mr. BURGESS. Yes.

Senator KERR. In 1956, \$40½ billion.

Mr. BURGESS. Yes.

Senator KERR. 1957, \$41 billion.

Mr. BURGESS. Yes.

Senator KERR. 1958, approximately \$43 billion.

Mr. BURGESS. That is right.

Senator KERR. So that actually the defense expenditures have decreased nearly 20 percent, have they not?

Mr. BURGESS. That is right.

Senator KERR. And yet the estimated budget for 1958, by reason of the increase of nondefense expenditures, was just about on a level with the 1953 budget.

Mr. BURGESS. There was an increase of \$2 billion in 1958 on defense expenditures, so they are down \$7 billion from 1953?

Senator KERR. Let us talk a little bit about the reduction in surplus for fiscal 1957.

Mr. BURGESS. Yes.

Senator KERR. I sent you a list of questions.

Mr. BURGESS. Would you like to have the answers?

Senator KERR. Yes. I want to get them selectively.

Mr. BURGESS. All right, sir.

Senator KERR. No. 3:

Describe each change in the method of financing any Government program since December 31, 1952. Discuss the reasons for the change, describe its effect on the budget and on the public debt. Discuss the effect on the cost of financing after the change (1) to the Treasury on its own financing, (2) to the agency doing its own borrowing. Examples of changes I have in mind are (1) sale of certificates of interest to commercial banks by the Commodity Credit Corporation to finance price-support loans instead of borrowing directly from Treasury as it had been doing; (2) sale by FNMA of its own debentures to finance secondary mortgage market operations instead of getting money directly from the Treasury as it had been doing.

Mr. BURGESS. Yes.

Senator KERR (reading):

Show the rates FNMA has had to pay on its debentures in 1956 and 1957. Give me your estimate of the effect of that on Treasury borrowing costs, and the effect on discount which FNMA sets in purchasing guaranteed Government mortgages, and the effect on Veterans' Administration of FHA mortgage rates.

Now, can you give us the changes that had been made in financing Government programs since December 31, 1952?

Mr. BURGESS. Yes. I have the answers to this, and I think we have enough copies for the committee.

Senator KERR. All right. If I might have a copy here.

Mr. BURGESS. May I read this?

(Discussion off the record.)

Senator KERR. Do I read this or will you read it?

Mr. BURGESS. I will do it either way you like.

Senator KERR. I would like for you to do it.

Mr. BURGESS. As you know, at the time the new highway program was set up, it was provided that neither receipts nor expenditures applicable to that program would henceforth be included in the Federal budget.

During the fiscal year 1957, the receipts of the highway trust fund amounted to \$1,482 million. Expenditures out of that same fund amounted to \$966 million. If the highway program had been operated, therefore, as part of the Federal budget during the fiscal year 1957, the official budget surplus figure would have been \$2,161 million instead of \$1,645 million.

It was the intention, of course, of the Congress, with the approval of the administration, that the new highway program be self-supporting. It makes no difference, as far as the public debt outstanding is concerned, whether the highway program is operated as part of the budget or outside of the budget.

That relates to the technical debt limitation.

During the fall of 1953—this is going on to the Commodity Credit—the Commodity Credit Corporation formed a pool of price-support loans against which certificates of interest were sold to the commercial banks of the country.

The initial issue of \$357 million was followed by a second issue, in December 1953, of \$449 million, and a third issue, in February

1954, of \$351 million. Of these certificates of interest, \$940 million was outstanding at the close of the fiscal year 1954.

This meant that the budget deficit for that year, of \$3,117 million, would have been \$4,057 million if the certificates of interest had not been issued, that is, if they simply used Government money.

Senator KERR. As we go along here, tell us what interest rates the Commodity Credit paid on those certificates.

Mr. BURGESS. That is over on the next to the last page.

Senator KERR. All right.

Mr. BURGESS. It was  $2\frac{1}{2}$ ,  $2\frac{1}{4}$ ,  $2\frac{1}{8}$ , and then on November 12, 1954  $1\frac{5}{8}$ . Those are all.

The purpose of the certificates was to encourage greater private participation in Commodity Credit programs, and it was also of assistance to the Treasury in keeping within the debt limit of \$275 billion. We were pretty close in 1953.

All of these certificates of interest issued during the fiscal year 1954 were redeemed in August 1954; and in November 1954, \$1,169 million of similar certificates were issued to cover the pool of price-support loans available at that time.

Many of these were redeemed before maturity so that the total amount of Commodity Credit Corporation certificates of interest, on June 30, 1955, was \$538 million. Thus the fiscal 1955 deficit of \$4,180 million would have been less by that amount, would have been \$3,778 million had it not been for the operations in these certificates.

Senator KERR. How do you arrive at that conclusion with \$538 million handled outside the Treasury?

Mr. BURGESS. That was just that much less than the amount carried over in the previous fiscal year.

Senator KERR. I thought you said what had been carried over in the previous fiscal year had all been paid off, and this was the balance left on new issues.

Mr. BURGESS. Yes. But when you are figuring budget results, you take the amount on June 30 of each year, and the amount of reduced—

Senator KERR. Is it not the fact that the amount outstanding on June 30, 1955, had been issued during that year?

Mr. BURGESS. Yes, that was outstanding June 30, 1955.

Senator KERR. And they had been issued during that fiscal year?

Mr. BURGESS. That is right. But previously, in June, there were more than that, nearly a billion.

Senator KERR. But that billion had been paid off; had it not?

Mr. BURGESS. That is right. But if you take the net figure on June 30 each time, that is the thing that affects your deficit and surplus.

Senator KERR. How would the issuances the year before, have increased the Treasury deficit, and the following year have reduced the Treasury deficit?

Mr. BURGESS. Because there was less issued the second year than the first year.

Senator KERR. There was not any out the first year was there?

Mr. BURGESS. Oh, yes; at the beginning of the year; yes, sir.

Senator KERR. They never were reflected in the budget deficit; were they?

Mr. BURGESS. But they reduced the budget deficit. If we had to use our own money for that, the deficit would have been larger, you see, the first year.

Senator KERR. Would that not have been true of fiscal 1955?

Mr. BURGESS. Yes. But there was a smaller amount outstanding.

Senator KERR. Whatever amount it was, would it not have affected the budget deficit the same way as the outstanding certificates would have the year before?

Mr. BURGESS. It was that much larger, the deficit would have been if you had paid them off.

Senator KERR. I thought you said the ones the year before had been paid off.

Mr. BURGESS. Well, paid off during the year, but then they were picked up again, an equal amount, a somewhat smaller amount was picked up again.

Senator KERR. But, doctor, that is what they were supposed to be, issued and redeemed.

Mr. BURGESS. That is right; yes.

Senator KERR. But the operation for fiscal 1955 was not a part of the operations of fiscal 1954.

Mr. BURGESS. But the payoff was.

Senator KERR. But the payoff came from the proceeds of the Commodity Credit itself. It was not supplied by the Treasury; was it?

Mr. BURGESS. Yes, the Treasury had to redeem them eventually.

You see, when the Commodity Credit takes over the commodities from the loans, then the money comes right out of the Treasury.

Senator KERR. You just made a statement here that they were redeemed. You mean that the Treasury redeemed them?

Mr. BURGESS. That is right; yes.

Senator KERR. Then what you are saying is that had the deficit in fiscal 1954 been \$940 million more—

Mr. BURGESS. Yes.

Senator KERR. Then in fiscal 1955, it would have been \$538 million less.

Mr. BURGESS. Yes; that is right.

Senator KERR. But that was not the situation. The deficit was not a billion more.

Mr. BURGESS. You asked us for the effect on the deficit.

Senator KERR. Yes. And—

Mr. BURGESS. And if we had not carried out this obligation which relieved us of this amount, the deficit would have been greater in 1954.

Senator KERR. If you had carried all of this through the Treasury, your overall deficit for the 2 years would have been \$538 million more?

Mr. BURGESS. For the 2 years; that is correct.

Senator KERR. All right.

Mr. BURGESS. Yes.

There were no further issues of Commodity Credit certificates after November 1954. We did not like it, and we were glad to discontinue it. The budget surplus of \$1,626 million in the fiscal year 1956 would have been a budget surplus of \$2,164 million, if it were not for the fact that the Treasury had to redeem the remaining outstanding Commodity Credit certificates of interest during that year.

Senator KERR. Well, now, the overall deficit for 1954 and 1955 would not have been \$538 million more.

Mr. BURGESS. For the 3 years, it would not have been any different.

Senator KERR. But having given effect to it in those 2 years, you would not have to give effect to it again in 1956.

Mr. BURGESS. Yes.

Senator KERR. All right.

So what you are saying is that having given effect to what it would have done to the deficit in 1954 and 1955, then you cannot again give effect to it in the surplus of 1956.

Mr. BURGESS. That is right. It comes out of you then. You have got to pay it off sometime.

Senator KERR. That is right. But you had paid it off the year before.

Mr. BURGESS. You are robbing Peter to pay Paul.

Senator KERR. Well, I do not know about robbing. Just because I go to one bank and borrow enough money to pay another, that is not necessarily robbing it, is it? [Laughter.]

Mr. BURGESS. No.

Senator KERR. I hope not.

Of course, you know of the 2 cattlemen who were talking, and 1 of them said, "If the price of these cows don't get better, I am going to have to rob a bank." And the other says, "By George, if they don't get better, I already have." [Laughter.]

All right, go ahead.

Mr. BURGESS. The third one of these is the FNMA.

During fiscal 1955, the Federal National Mortgage Association issued \$570 million of management and liquidation notes, collateralized by their mortgage portfolios, which at that time amounted to approximately \$2½ billion (that is the old FNMA, the liquidating FNMA) to provide for greater private participation in the federally operated secondary mortgage market.

This issue of Federal National Mortgage Association notes will mature in January 1958, and is the only issue put out under the management and liquidation program.

This financing had no effect on the budget deficit during the fiscal year 1955. But on the debt ceiling problem this \$570 million came very close to offsetting the net redemption of Commodity Credit certificates of interest, as outlined above.

In other words, we docked the debt ceiling by that operation, too, and now we have got to pay them off in January or put out some more.

Senator KERR. Probably put out some more.

Mr. BURGESS. Very likely.

Senator KERR. Very likely?

Mr. BURGESS. Very likely.

Senator KERR. At what rate of interest?

Mr. BURGESS. The rates are shown on the next page. I gave the rates on the Commodity Credit. The rates on FNMA are 2½ percent.

Senator KERR. You know what I think you boys had better do?

Mr. BURGESS. What is that?

Senator KERR. You had better let FNMA and Commodity Credit Corporation borrow your money for you. They seem to be getting it a lot cheaper with your guaranty than you are getting it.

Mr. BURGESS. Well now, when you compare those rates of interest with what we borrowed at that time, they did not get it any cheaper.

Senator KERR. Maybe they should borrow more.

Mr. BURGESS. Or longer. [Laughter.]

Senator KERR. All right.

Mr. BURGESS. But they could not borrow longer, because the law says the Commodity Credit has got to take over the commodities at a certain time. You cannot leave the loans outstanding. We could have borrowed on longer terms on the FNMA's than the 3 years for which we did borrow.

Senator KERR. These debentures you put out here on the next page, in 1956 and 1957—

Mr. BURGESS. This is the current FNMA operation. That is the new FNMA, which, as you know, was set up about 3 years ago, and was supposed to become a self-dependent organization, supposed to be financing itself.

Senator KERR. All right. How much of those did you put out in fiscal 1956, and how much in fiscal 1957?

Mr. BURGESS. Well, in fiscal 1956 there was just \$100 million on February 20.

Senator KERR. It was \$100 million, then, in fiscal 1956.

Mr. BURGESS. Yes. A coupon rate of  $3\frac{1}{8}$ .

Senator KERR. And in fiscal 1957?

Mr. BURGESS. We put out \$100 million in August; \$100 million November 20; \$200 million January 21; \$250 million on March 11; April 10, \$200 million; May 20, \$200 million; and June 24, \$100 million.

That enabled FNMA to cover all of its mortgage purchase operations, which were very heavy. As you know, FNMA stood there and took them as a way of keeping that mortgage market alive.

Senator KERR. That is what—\$1,150 million in fiscal 1957?

Mr. BURGESS. That is right.

Senator KERR. Had the Treasury financed that as had been the case prior to this program's initiation, it would have reduced your surplus by that amount on June 30, 1957?

Mr. BURGESS. That is correct. We had—as a matter of fact, you notice, in an analysis of the budget, we were not sure when we came along in January whether we could sell these in the market, whether it would go, and we put into the budget several hundred million dollars as a contingency to take care of that. We did not have to use that.

Senator KERR. Well, your statement here about the surplus, and so forth, hardly agreed, for instance, with a statement that I saw in the U. S. News & World Report of the current issue, which reads as follows:

[U. S. News & World Report, August 3, 1957]

The inside story is that payment was delayed beyond June 30 on more than \$500 million worth of armament bills in order to make the 1957 budget year that ended June 30 look better than it actually was. The budget surplus of \$1.6 billion otherwise would have been about \$1 billion or less.

Mr. BURGESS. That is just a myth. That is not so.

Senator KERR. That is not so?

I would like to insert it in the record, with the observation that the Secretary says it is not so.

Mr. BURGESS. We gave out a statement yesterday from the Treasury, saying it was not so.

Senator KERR. Well, the Defense Department sent a directive to the Air Force in the latter part of 1956, so I understand—I did not see it—telling them to stretch out their commitments and reduce the amount of money that had to be paid prior to June 30.

Mr. BURGESS. I do not know about that.

Senator KERR. You do not know about that?

Mr. BURGESS. No.

Senator KERR. In the Wall Street Journal on July 23, there was quite an editorial, entitled "Balancing Act."

Mr. BURGESS. Yes.

Senator KERR. Did you read that?

Mr. BURGESS. I think I did, yes.

Senator KERR. You did not like that, either?

Mr. BURGESS. Not particularly.

Senator KERR. Not particularly?

Mr. BURGESS. No.

Senator KERR (reading) :

On the surface the Government's surplus for the fiscal year just ended looks pleasant. In reality, it is an extremely shaky surplus; this is budget balancing more by accident than by design.

You think that was a little unkind, coming from that source?

Mr. BURGESS. Well, sir, they have been unkind a number of times.

Senator KERR (reading) :

The surplus of more than \$1.6 billion is almost \$100 million lower than estimated, which in itself is hardly encouraging.

I will say to you frankly, I do not agree with that. I think any time you can either hit the actual surplus within \$100 million of it in a forecast, or operate in such a way as to come within \$100 million of a forecast, you are to be commended rather than to be criticized.

Mr. BURGESS. I think it is rather a miracle when you hit it that close.

I may say Mr. Heffelfinger's people and the others concerned do a wonderful job on estimating these receipts and payments.

Senator KERR (reading) :

The surplus could easily have been wiped out altogether if just a few things had turned out somewhat different.

For instance, last fiscal year's budget expected housing programs to cost \$719 million. But largely because the Federal National Mortgage Association sold debentures to the public instead of making heavy withdrawals from the Treasury, these programs actually put \$31 million into the Government's coffers.

Mr. BURGESS. Well, they did not actually put it in. They took care of their own expenditures. Of course, that program was intended, the way it was set up, to be a program that carried itself with its own financing.

Senator KERR. That was the program recently instituted?

Mr. BURGESS. That was the new FNMA.

Senator KERR. The new FNMA?

Mr. BURGESS. The old one—

Senator KERR. Under the old one, it would have been taken out of the surplus.

Mr. BURGESS. That is right. The old one, that \$500 million job we did was—

Senator KERR. Here is one I would like to get your comment on:

In addition, the Export-Import Bank paid \$100 million into the Treasury instead of taking out \$400 million. This was due to the happenstance that the British Government didn't draw any of its Ex-Im loan during the period.

Is that correct?

Mr. BURGESS. That is correct, yes. It is true they did not draw it, and it is true that we had some allowance in there——

Senator KERR. For it?

Mr. BURGESS (continuing). In case they should.

Senator KERR. And they have since drawn it?

Mr. BURGESS. No, they have not drawn it.

Senator KERR. But it is available?

Mr. BURGESS. It is still outstanding, still available until January.

Senator KERR. On the basis of a commitment made?

Mr. BURGESS. That is right.

Senator KERR (reading):

Finally, Federal revenues were almost \$300 million higher than the most recent estimate.

Thus, if just these three situations had developed the way the administration in fact originally thought they would, the surplus would have been microscopic; on this kind of basis, the Government could quite easily have wound up in the red. That is no way to run a budget.

I thought that was quite interesting. I would like to put this editorial in the record at this place as being somebody else's comment on the budget.

(The editorial referred to is as follows:)

#### BALANCING ACT

[Wall Street Journal, July 23, 1957]

On the surface the Government's surplus for the fiscal year just ended looks pleasant. In reality it is an extremely shaky surplus; this is budget balancing more by accident than by design.

The surplus of more than \$1.6 billion is almost \$100 million lower than estimated, which in itself is hardly encouraging. The surplus could easily have been wiped out altogether if just a few things had turned out somewhat different.

For instance, last fiscal year's budget expected housing programs to cost \$719 million. But largely because of the Federal National Mortgage Association sold debentures to the public instead of making heavy withdrawals from the Treasury, these programs actually put \$31 million into the Government's coffers.

In addition, the Export-Import Bank paid \$100 million into the Treasury instead of taking out \$400 million. This was due to the happenstance that the British Government didn't draw any of its Ex-Im loan during the period. Finally, Federal revenues were almost \$300 million higher than the most recent estimate.

Thus, if just these three situations had developed the way the administration in fact originally thought they would, the surplus would have been microscopic; on this kind of basis, the Government could quite easily have wound up in the red. That is no way to run a budget.

For one thing, it is a dubious matter for the Government to have to be bailed out by constantly rising income from existing tax rates. This rising income, while partly a reflection of inflation, is to a considerable degree the result of the people's economic enterprise. It should provide the basis for tax cuts, instead of higher Government spending, which is the case now. The Government, despite the Fannie May and Export-Import windfalls, spent nearly \$450 million more last fiscal year than it estimated.

Whatever else it may be, this is just plain bad fiscal practice. It is like a man who plans his spending on the assumption, but without any certainty, that he will get a raise before the year is out. Few would argue that this is a sensible fellow. The Government of the United States, far more than any individual, should budget its expenses so as to ensure a large and safe surplus.

If there were a war or a depression, rickety budgeting could perhaps be excused. In a condition of peace and unrivaled prosperity there is no excuse whatsoever for the Government to keep on piling up its outlays year after year. Now if ever is the time when Government spending can be cut sharply.

And that is the only way the Government can get off this frayed budget tight-rope without falling off, and balance its books in a way that won't look like a trick.

Mr. BURGESS. Of course, the thing that was disappointing was the fact the military ran \$2 billion over its budget. And if we had not been able to offset it by some of these other things where we spent less than we thought we might, why, we would not have had much surplus.

Senator KERR. In fact, you would have had a deficit.

Mr. BURGESS. Yes.

Senator KERR. And if the British Government had drawn down its loan and if FNMA had called on you for its money, you would have had a deficit.

Mr. BURGESS. Well, we would not have had much surplus.

Senator KERR. On page 3, let us look at your chart there. I want to see if you and I understand it the same way.

By the way, before we go to that, what was the Treasury balance on June 30, 1957?

Mr. BURGESS. The Treasury cash balance, the general fund balance, was \$5,590 million.

Senator KERR. Say that again.

Mr. BURGESS. \$5,590 million.

Senator KERR. What was it on July 1, 1956?

Mr. BURGESS. Of course, that is the general fund balance. That is not all readily available.

If you take the available funds, it is a little less than that. On June 30, 1956 the general fund balance was \$6,546 million. So our June 30, 1957 balance was more than half a billion less.

Senator KERR. A billion less, was it not?

Mr. BURGESS. No. \$956 million less.

Senator KERR. \$956 million.

Mr. BURGESS. Yes.

Senator KERR. So that if you would have had the same cash balance at the end of that fiscal year as you had at the first of the fiscal year, you would have had a billion less surplus, would you not?

Mr. BURGESS. That has nothing to do with the surplus. That is just a cash—

Senator KERR. The surplus figure is, then, based on receipts and disbursements?

Mr. BURGESS. That is right.

Senator KERR. All right.

Let us go back to the chart on page 3. I want to tell you, you have brought a little variety into this investigation by giving us these new slants on the public debt. No 1, the per capita debt.

Mr. BURGESS. Well, this is my statement you are talking about?

Senator KERR. Yes; that is right.

At the end of 1946, it was \$1,832 per capita; is that correct?

Mr. BURGESS. That is right.

Senator KERR. At the end of 1952, it was \$1,690 per capita.

Mr. BURGESS. That is right.

Senator KERR. How much was that reduction?

Mr. BURGESS. Well, it is \$150 million—

Senator KERR. No. This is dollars per capita.

Mr. BURGESS. This is dollars; yes. \$142.

Senator KERR. That was \$142 reduction in 6 years prior to your coming in.

Mr. BURGESS. That is right.

Senator KERR. How much was that a year?

Mr. BURGESS. \$24.

Senator KERR. It is \$23.67, really.

Mr. BURGESS. Yes. All right.

Senator KERR. The reduction from the end of 1952 to 1956 was how much?

Mr. BURGESS. \$59.

Senator KERR. That was \$15 a year?

Mr. BURGESS. That is right.

Senator KERR. Well, then, actually the reduction per capita, in spite of the fact the population grew at a higher rate per year—

Mr. BURGESS. Well, did it?

Senator KERR (continuing). Was 60 percent faster—

Mr. BURGESS. I do not know about that.

Senator KERR (continuing). During the 6 years before you came in than it has been for the 4 years you have been in, was it not?

Mr. BURGESS. Well, you say the population was growing faster. I am not sure about that.

Senator KERR. Well, aside from whatever the population was.

(The annual increase in the population according to the Census Bureau was 1,125,000 in the 1946-51 period and 1,350,000 in the 1952-56 period.)

Mr. BURGESS. That is right. You made a reduction in the debt in 1947 and 1948 of \$6 billion.

Senator KERR. Yes.

Mr. BURGESS. This includes, of course, the whole period from 1952. We had a deficit carried over in fiscal year 1953 for which we could hardly be held wholly responsible, of \$9 billion.

Senator KERR. I would not say that you should be. However, as I recall, it was out of all proportion to what you estimated it would be when you made your estimate early in 1953.

Mr. BURGESS. It was certainly larger than we thought, yes.

Senator KERR. And as I recall, when you approached the end of fiscal 1957, the Defense Department issued directives to shut down certain expenditures until you got into the next year.

Mr. BURGESS. I do not think so. You are talking about 1957?

Senator KERR. Yes, 1957.

Mr. BURGESS. You mean just—no, that is this whispering business. We did not do that.

Senator KERR. I think that you could have made similar orders in 1953, had the administration so decided.

Mr. BURGESS. We did not.

Senator KERR. Now, then, the debt as a percent of the national income, in 1946 was 136 percent.

Mr. BURGESS. That is right.

Senator KERR. At the end of 1952, it was 89 percent.

Mr. BURGESS. That is right.

Senator KERR. That was a reduction of 47 points in 6 years, was it not?

Mr. BURGESS. That is right.

Senator KERR. Between 1952 and 1956, it was reduced from 89 percent to 79 percent, which was a reduction of 10 points in 4 years.

Mr. BURGESS. And the reason for that, of course, Senator, was that the price level was rising much faster.

Senator KERR. Yes, but you gave us these figures to show the improvement in the per capita debt and the percent of the national income as between when you came in and now.

Mr. BURGESS. No. We pointed out, Senator, very clearly that that was due in part to the inflation of the early postwar years, which swelled up the national income in dollars, but not in real buying power.

Senator KERR. Well, on page 4, you say:

By December 1946, it had risen to a high point of \$1,832 for every man, woman, and child in America. By December 1956, it had shrunk by about \$200 per capita, by reason of the growth of the population.

Mr. BURGESS. That is just population, yes.

Senator KERR. And:

When the Federal debt is related to national income \* \* \* the reduction in burden is much greater.

Mr. BURGESS. Well——

Senator KERR. Those are your words I am reading.

Mr. BURGESS. It is a reduced burden, but the expense, the inflation, and what load that puts on people, some people are made worse off by inflation.

Senator KERR. You said:

Ten years ago the \$259½ billion public debt was one-third larger than our national income of about \$190 billion.

Mr. BURGESS. Yes.

I also want to point out, Senator——

Senator KERR. Now it has "grown to more than \$350 billion, so that our \$277 billion national debt in December 1956 was equal to only 79 percent of national income."

Mr. BURGESS. That is right. But I go on and I say:

Unfortunately, a part of this reduced ratio of debt to income \* \* \* was a reflection of the inflation of the earlier postwar years.

Senator KERR. I am about to ask a question of the Secretary, and I would like to have his careful attention.

Secretary Humphrey claimed that the Eisenhower administration had reduced the Federal debt and gave quite a description of the prosperity achieved by the administration.

Mr. BURGESS. Yes.

Senator KERR. You have made quite a dramatic presentation here, and a description of the increase in the population.

I just wondered if, in addition to claiming credit for the prosperity we have had, you are also claiming credit for the posterity we have got.

Mr. BURGESS. I would like to, Senator.

Senator KERR. I know. [Laughter.]

Mr. BURGESS. I think you may, just as well as I.

Senator KERR. Well, I am doing pretty well in the realm of grandchildren.

Mr. BURGESS. I have 10. How many do you have?

Senator KERR. You are one ahead of me. [Laughter.]

Senator FLANDERS. Mr. Chairman, I have 12. I am ahead of you both.

Senator KERR. I want to say, sir, that I have a great respect and regard for you generally, and especially in that realm of accomplishment. [Laughter.]

We will recess for 10 minutes.

(Short recess.)

Senator KERR. Mr. Secretary, you have just acknowledged that there is no basis for this administration claiming credit for this posterity. [Laughter.]

Mr. BURGESS. That I will have to admit.

Senator KERR. But you call attention here to the inflation and you were making that point before the recess. Would you repeat that now?

Mr. BURGESS. Well, of course, when you have figures on national income, they are increased by inflation. If the prices go up, why the income goes up, due partly to more production and so on, but partly to inflation.

Now, that is certainly true of these figures from 1946 to 1952 and it is true this year compared with last year. But from 1952 to 1956, that flattened off so that the figures are much more representative of production, of real change in income, so we have to make some allowance when you are comparing the figures for these changes in prices during those periods.

Senator KERR. You have told the chairman and you reiterated to me that you think the capital building boom is the principal cause of the inflation that we are witnessing today and have had for the last 18 months.

Mr. BURGESS. Well, I would say it is one of the principal causes. I think the increase in costs is another one.

Senator KERR. Are not increasing costs the result of inflation just as well as the cause of it?

Mr. BURGESS. Yes, it is both. It is both the cause and the effect.

Senator KERR. What I cannot harmonize is the claim that the reason for this tightening of credit by the Federal Reserve Board has been to reduce, or retard inflation.

Yet, after 4 years of relative price stability, and during a period here in this last 6 months when they have increased the money supply at the lowest rate for 8 or 10 years, we have got the largest peacetime increase in the cost of living in our history, outside of the 3 years immediately after World War II.

Mr. BURGESS. Well, I have not checked that last statement, but we have an increase in the cost of living—I think I have commented on that the best I could, Senator.

I think it is due to three causes. I think some of it is a lag, some of it is a result of things that have gone before. This increase in rents; it is not anything, we did this last year. That has been going up, after World War II, and gradually it climbs up. Rent contracts are made over a period of a year or two, and gradually you raise it \$10 a month or what have you.

You take this medical services, doctors' fees; they can only bring them up gradually.

You take——

Senator KERR. They have done pretty well at that.

Mr. BURGESS. They are doing pretty well.

The wages of other people who perform services, the bootblacks and the haircutters, and so on, some of these things are lags that are breaking out.

Of course, just this last burst is partly due to food prices which had a long decline and now are making up a little ground. Food prices are the biggest single element in the cost-of-living index.

Senator KERR. But they have not had anything like the overall amount of increase like the overall average is.

Mr. BURGESS. Yes; they have increased recently more than the average.

Senator KERR. Let us look and see. If that is the case, my memory is playing a little trick on me.

Mr. BURGESS. Well, you take the figures from the——

Senator KERR. Page what is it of the Indicators?

Mr. BURGESS. Take the past year, page 23, April. April of 1956, the food prices were 109.6.

Senator KERR. April of 1956, the food prices were 109.6.

Mr. BURGESS. And they are up now to 114.6.

Senator KERR. 114.6, and that was at the end of May?

Mr. BURGESS. Yes.

You look across at the "All items," and that was a smaller increase, you see. That was five points. Well, pretty nearly the same.

Senator KERR. Let us bring it down to the end of June. What was food for June?

Mr. BURGESS. June was 116.2.

Senator KERR. Food is what?

Mr. BURGESS. 116.2. That is a six and six-tenths points increase.

Senator KERR. It went up from 114.6.

Mr. BURGESS. 109.6.

Senator KERR. In May, to 116.2 in June.

Mr. BURGESS. That is right. Yes; that was—this last index, this last figure is very largely affected by an increase in food.

Senator KERR. But the overall, from 114.9.

Mr. BURGESS. That is 5.3 points.

Senator KERR. Point two.

Mr. BURGESS. And food, you see, went up 6 points.

Senator KERR. 6.6.

Mr. BURGESS. Yes. So that the food index rose faster than the "All items," and the food index is, I do not know, 35 percent or 30 percent.

Senator KERR. 30 percent.

Mr. BURGESS. Of the whole index.

Now, the other items here——

Senator KERR. Actually, the most revealing thing about that food price situation, to me, is that only by holding it down were you able to give us the degree of price stability we had in 1953, 1954, 1955, and 1956.

Mr. BURGESS. It certainly was part of it.

Senator KERR. Which looks to me like the farmer was made the goat of the whole deal.

Mr. BURGESS. Well, of course, we ought to be very thankful to see that food price up, in a way, except it costs us more.

Senator KERR. If it were reflected in an increased price to the farmer, yes, but it is not.

Mr. BURGESS. Well, a little, a little.

Senator KERR. How much of the increase has gone to the farmer?

Mr. BURGESS. They have got somewhere, farm prices received by farmers. Here you are, "Wholesale prices, farm products."

Senator KERR. "Farm income," there on page 7.

Mr. BURGESS. Page 7. Of course, you have got a lot of wages in between there. The cost of distribution, transportation, and so forth.

Senator KERR. The farmers' income in 1951 was \$16.1 billion and in the second quarter of 1957 was \$11.7 billion.

Mr. BURGESS. Well, if you take the same figures we are looking at, "Realized gross farm income"—

Senator KERR. Where is that now?

Mr. BURGESS. This table down at the foot.

Senator KERR. Now, Doctor, you do not think that the gross is the basis, do you, in view of the fact they are producing 20 percent more to get it?

Mr. BURGESS. No, the net income is not up any, no. The net income is up a little from the low. The low point was the third quarter of 1956; 2.3.

Senator KERR. Including the net change in inventory it was \$11.5 billion and in the second quarter this year it was running at the rate of 11.7 billion per year.

Mr. BURGESS. That is right.

Senator KERR. And the \$11.7 billion compares with \$15.1 billion for 1952.

Mr. BURGESS. That is right.

Senator KERR. So that during a period of time when farm net income has gone down over 20 percent, food prices have gone up.

Mr. BURGESS. Wait, we have got to get the same period here.

Senator KERR. Well, take it from 1951. We took it from 1952.

Mr. BURGESS. Food prices, you see, are the same in 1952 and in May 1957.

Senator KERR. Food prices in May 1957 were identical to what they were for the year 1952?

Mr. BURGESS. That is right.

Senator KERR. So that none of the reduced income to the farmer has been reflected in reduced prices to the consumer?

Mr. BURGESS. That is right.

Senator KERR. All right, sir.

Mr. BURGESS. Of course, his gross farm income is up.

Senator KERR. But, his gross expenses are up more than his income, and in addition he has had to produce about 20 percent more to get that gross income.

Mr. BURGESS. That is right. Of course, if you took a per capita basis, it would be a little different.

Senator KERR. What?

Mr. BURGESS. A per capita basis would be a little different, because there are fewer farmers getting the income.

Senator KERR. Yes, but he is not in too good shape there, either.

Mr. BURGESS. Well, of course, what it means is the average farmer is operating a bigger tract, I suppose.

Senator KERR. Well, the net income per farm.

Mr. BURGESS. Yes, but the average, what does that mean per farm?

Senator KERR. I presume that means per farmer.

Mr. BURGESS. I guess it does. I am not sure.

Senator KERR. It was \$2,340 per year the second quarter of this year, and it was \$2,875 in 1952. And that was a better dollar in 1952 than he is getting now.

Mr. BURGESS. Yes, in terms of cost.

Senator KERR. In terms of purchasing power, too.

Mr. BURGESS. Yes.

Senator KERR. All right.

Now, then, back to your statement.

Mr. BURGESS. Of our document?

Senator KERR. Of your thesis.

The computed interest charge on the national debt, you said, went up from \$5.3 billion to \$6.2 billion from 1946 to 1952.

Mr. BURGESS. That is right.

Senator KERR. Which was how much, in 6 years?

Mr. BURGESS. Point 9; \$900 million.

Senator KERR. \$900 million in 6 years.

Mr. BURGESS. Yes.

Senator KERR. And then it went up how much in 4 years?

Mr. BURGESS. It went up 1.1 billion.

Senator KERR. 1.1 billion.

Mr. BURGESS. It went up faster, there is no doubt about that.

Senator KERR. Now, on the interest charged as a percent of the national income—

Mr. BURGESS. Yes.

Senator KERR. You called attention to the fact that it had been reduced from 2.8 percent in 1946, to 2.1 percent in 1956.

Mr. BURGESS. Yes. That, of course, is partly due to inflation, again.

Senator KERR. What was the reduction between 1952 and 1956?

Mr. BURGESS. It just stayed the same.

Senator KERR. Although the national income had been considerably increased?

Mr. BURGESS. That is right.

Senator KERR. Where do you think we would be if we continued to pay 2.1 percent of an increasing national income on a national debt remaining substantially stable? Would that be a healthy situation?

Mr. BURGESS. I do not think so, no.

Senator KERR. I do not either.

Mr. BURGESS. It would be a pity. I think we should do something about it.

Senator KERR. At the bottom of page 6:

The current rates are high only in comparison with the abnormally low rates during periods of depression, war, and rate pegging.

We are talking about interest rates?

Mr. BURGESS. That is right.

Senator KERR (reading):

In terms of history, these are not very high interest rates.

Mr. BURGESS. Yes.

Senator KERR. That is what I refer to as a kind of fairy story.

Mr. BURGESS. Well, take the last chart on Mr. Mayo's presentation, Senator, long-term interest rates since 1920.

Senator KERR. Where is that?

Mr. BURGESS. That is the last page, the very last page.

Senator KERR. What were they in 1920?

Mr. BURGESS. Of course, we were talking about that the other day. They were higher than a cat's back. They were—Aaa corporates were up to 6½ percent.

Senator KERR. Well, now, aside from the depression years, was not the trend of those interest rates steadily down from 1920 to 1950?

Mr. BURGESS. Well——

Senator KERR. 1946?

Mr. BURGESS. I would not analyze it just that way. It went down during the depression years.

Senator KERR. Well, it went down through the twenties.

Mr. BURGESS. It went down from that very high point in 1920, but if you take the figures through the twenties, there was not so very much movement.

Senator KERR. As I read this chart, it was nearly 6 percent in 1920, and it was down to about three point something in 1930.

Mr. BURGESS. Well, it depends at what rate you take.

Senator KERR. I am taking the heavy black line, that is the Government bonds.

Mr. BURGESS. Of course, we were paying off a lot of Government bonds. We decreased the debt.

Senator KERR. But the point is that the interest rate curve was down.

Mr. BURGESS. Well, the Governments were down more than the general rates, but it moved generally downward.

Senator KERR. Well, we are talking primarily about Governments.

Mr. BURGESS. O. K.

Senator KERR. In 1931, 1932, and 1933, it went up.

Mr. BURGESS. That is right.

Senator KERR. 1934, it went back down again—1933, it went back down. 1934, it went up. Then it went down almost without interruption to 1941. And moved up a little bit in 1943.

Mr. BURGESS. There was a little bump in 1937, back there.

Senator KERR. Not much, though, not much.

Mr. BURGESS. No.

Senator KERR. The difference between 2.2 and 2.3 may be.

Mr. BURGESS. It started up in 1946, right after the war.

Senator KERR. It started up in 1946?

Mr. BURGESS. Yes.

Senator KERR. Let me ask you this, what period in history do you have in mind?

Mr. BURGESS. Well, this is not as high as it was in the twenties.

Senator KERR. Well, it is not as high——

Mr. BURGESS. If you go back of that, you will find over a long period——

Senator KERR. It is higher than it was in some of the twenties, Mr. Burgess.

Mr. BURGESS. Well, for governments it is higher than it was in the last——

Senator KERR. That is what we are directly addressing ourselves to, that is what you are responsible for directly.

Mr. BURGESS. I am not even directly responsible for that, Senator.

Senator KERR. I do not agree with you.

Mr. BURGESS. The rates on governments——

Senator KERR. That is the part you are directly connected with.

Mr. BURGESS. That is right.

Senator KERR. And actually, the rates today are higher than they were in some of the twenties.

Mr. BURGESS. The rates on Governments, that is right.

Senator KERR. So that——

Mr. BURGESS. It is not true of the State and local. It is not true of the corporates.

Senator KERR. Well, I will tell you this, that there are some of us who believe that other interest rates eventually reconcile to governments.

Mr. BURGESS. Well, it works both ways.

I would call attention to the fact that the figures for the governments in the early years were partially tax exempt, they were exempt from the normal tax.

Senator KERR. Well, a lot of them are tax exempt now.

Mr. BURGESS. Not United States Government bonds.

Senator KERR. You and I decided here yesterday that about half of the Governments are in the hands of those who do not pay any taxes on them.

Mr. BURGESS. Yes, but that is not because the bonds themselves are tax exempt.

Senator KERR. I understand.

Mr. BURGESS. Because they do not pay taxes generally.

Senator KERR. Well, the Senator from New Mexico and the Secretary had quite a discussion here. You will find it in the record at 551.

Mr. BURGESS. I was very interested in that.

Senator KERR. As I look at that, it looks to me as though the historic trend of interest rates is down, it being only about a fourth today of what it was in 1873.

Mr. BURGESS. Yes.

Well, I think it is fair to say that as a country gets older and accumulates capital, you naturally expect the interest rates to work lower over a period.

Senator KERR. But we have reached a peak here in 1957, have we not?

Mr. BURGESS. Well, we have reached a peak compared with the past 20 years.

Senator KERR. Well, is it not—yes, 25 years, is it not?

Mr. BURGESS. Yes; just about.

Senator KERR. The last 25 years.

Mr. BURGESS. Twenty-three, to be safe, because your thirties, early thirties, are pretty high.

Senator KERR. The peaks set forth in this little chart here were in 1873, under Grant; in 1893, in the last part of the administration of Harrison and the first part of the administration of Cleveland. Ac-

cording to another statement here, and I read there the second paragraph below that chart, in 1899, for example, the 46-month rate reached a peak of 7.38 in December. Now, that was under William McKinley. You are not trying to get these rates back up to his level, are you?

Mr. BURGESS. No; we are trying to keep them under Mr. Wilson's level.

Senator KERR. Of the peaks that are set forth here, except the one in 1920, which was right after World War I, all of these peaks were reached under Republican administrations, were they not?

Mr. BURGESS. Well, I do not know what the basis of selection of those periods here is.

I have got here, and you might like to have this for the record, the interest rates on the public debt running quite back, and they show a rate running through the nineties, when Mr. Cleveland came back in, that is just as high as it was when Mr. Harrison was in.

Senator KERR. Yes, and then they went even higher under McKinley.

Mr. BURGESS. Well, not the rates on the public debt. Those are a little special, perhaps.

Senator KERR. Well, it is a Government obligation.

Mr. BURGESS. I think it would be interesting to have a continuous period rather than just picking out the years.

Senator KERR. What is significant, as I see it, is that after nearly 25 years of generally stable and low interest rates, we have now reached a new high level which exceeds the rates on Government obligations in the late 1920's, and yet you tell us that in terms of history they are not very high.

Mr. BURGESS. That is right. And, if you make a comparison with other countries, we are not very high.

Senator KERR. Well, we cannot do a very good job in this country staying in office on the basis of how other countries are run, can we?

Mr. BURGESS. Well, it is a pretty good thing if we can manage our affairs better than they do. This is a worldwide business, this inflation and this pressure on money. There have been a number of indications of that every day, you see them, that the effect of this inflation is worldwide.

Senator KERR. Yes, and this International Institute for Banking Studies that made the report I referred to yesterday said that their survey results indicated flexible monetary policies worked best by damping down business activity and that this was substantially the only way that it had restored price stability.

I just cannot believe that any government that operates on that principle will be kept in office. But that is the controversy between us.

Now, talking about interest rates, do you have the total amount of interest paid by Government in 1952 and 1956?

Mr. BURGESS. Yes. That is very close to what we gave here in the chart.

Senator KERR. I think it is.

Mr. BURGESS. It is the computed interest charge, 5.3; that is as of the end of December 1946.

Senator KERR. I am talking about all governments. You see, I am talking about Federal, State, and local.

Mr. BURGESS. Oh, yes.

I do not have that. We can get it. I think we can get an estimate on it.

Senator KERR. I will give it to you.

Mr. BURGESS. All right, sir.

Senator KERR. That is from the United States Department of Commerce.

Mr. BURGESS. That is a pretty good source.

Senator KERR. Well, I have found it is reliable.

In 1952 interest payments amounted to \$7,023 million on a total Government debt of \$298.6 billion.

In 1956, the total interest was \$8,840 million and the total Government debt was \$326.7 billion.

This is a 9.4 percent increase in total government debt but a 25.8 increase in interest rates.

Business paid total interest in 1952 of \$9,911 million on a business debt of \$202 billion—\$203 billion, practically.

In 1956, business paid \$15,484 million on a total debt of \$249.3 billion. This is a 22.9-percent increase in business debt, but a 56.2-percent increase in interest paid.

Consumers had a total debt in 1952 of \$135.5 billion on which they paid \$2,466 million interest.

In 1956 they had \$207.5 billion debt on which they paid \$4,259 million interest, or a 53-percent increase in their debt and a 72.7-percent increase in their interest payments. The overall total of debt in 1952 was \$637 billion and the overall interest cost was \$19,400 million. The overall debt in 1956 was \$783½ billion, with an overall interest cost of \$28,583 million, being a 23-percent increase in the total debt, but a 47.3-percent increase in the total interest bill.

I would like to have you check that and see if you find any errors in it.

Mr. BURGESS. We would be glad to.

Senator GORE. Does not the Senator think that this enormous increase in interest payments is bound to be reflected in higher prices of products and commodities?

Senator KERR. It has been, and is, as was discussed by the Secretary with me yesterday.

The thing that is in tightest supply in the country today is credit. The thing for which the available supply is being the most avidly sought and highly competed for is credit.

Senator GORE. Would it not follow, then, that one of the principal sources of inflationary pressure is spiraling interest rates?

Senator KERR. I think it is the primary pressure in our inflation picture.

But now, this pattern, Dr. Burgess, follows from the policy of flexible interest rates; does it not?

Mr. BURGESS. No, sir—well, to this extent: Here you have got an enormous, you say, "pressure" for money.

Senator KERR. If we had an interest rate pegged by the Federal Reserve.

Mr. BURGESS. Then, what you would have would be a great many more people would be getting money and spending it and you would have an increase in the inflation.

Senator KERR. Well, not necessarily.

Mr. BURGESS. You have got an inflation right now, and if you pour out a lot more money you would simply put it through the roof, that is all.

Senator KERR. Mr. Secretary, is it not a fact that controlling the amount of credit is one thing, and fixing the tariff that it bears or the cost of it, is another thing?

Mr. BURGESS. They are very closely related, Senator.

Senator KERR. You know that the Executive can control the amount of credit, as well as the interest rate, can he not?

Mr. BURGESS. Well, they can put in additional credit, and increase the inflation if they regarded that as a proper performance of their duties.

Senator KERR. Well, Mr. Secretary, is it not a fact that the President has the authority under laws that have been on the books for a quarter of a century to control the total amount of credit?

Mr. BURGESS. No.

Senator KERR. I wonder if you would not look that up and see if that is possible.

Mr. BURGESS. Well, they can appoint a new Federal Reserve Board. The Congress can reorganize the Board, put a new Board in.

Senator KERR. Well, then, the Federal Reserve Board—

Mr. BURGESS. Congress has given specifically to the Federal Reserve System a certain power over credit.

Senator KERR. But is it not a fact that they can control the amount of credit and the interest rate, both?

Mr. BURGESS. Well, of course, one derives a good deal from the other.

Senator KERR. If permitted to have its own way.

Mr. BURGESS. If you put out enough credit, the interest rate will fall. The interest rate is a direct reflection of the volume.

Senator GORE. Not direct.

Senator KERR. Mr. Secretary, you cannot be serious about that.

Mr. BURGESS. Why, certainly. If you had a smaller demand for credit than you had savings, the interest rate would drop.

Senator KERR. But this 47 percent increase in interest costs is the result of flexible policies with reference to the control of credit and interest rates, is it not?

Mr. BURGESS. I would say there is the result of a tremendous demand for credit and a very prosperous country that wants to use more money than is being saved.

Senator KERR. But is it not a fact that the principle that you yourself have so often proclaimed of permitting the money market to find its own level, as you say, but actually finding the level fixed by the Federal Reserve Board—

Mr. BURGESS. Finding its own level.

Senator KERR. Is what has resulted in the increased interest costs; that has been your thesis all the way through this investigation, has it not?

Mr. BURGESS. The one way that could change that would be for the Federal Reserve to toss in a lot more money, and that is as directly inflationary as anything you can conceive. It seems to me what you are advocating, Senator, is inflation.

Senator KERR. I am not agitating, I am questioning you.

Mr. BURGESS. I did not say agitating. I said advocating, as nearly as I can make it out.

Senator KERR. I told you quite frankly at the beginning of this discussion this morning, after you acknowledged that you now sought certain action by the Federal Reserve Board to improve the environment at times of floating of Government issues, that the difference between you and me was one of quantity and not one of principle.

Mr. BURGESS. Yes.

Senator KERR. And that I was just as much opposed to a flood as I was to a famine.

Mr. BURGESS. Well, I think, Senator, that any additional increase in the volume of credit at this time is inflationary. I do not see how it could be otherwise.

Senator KERR. But I read you here yesterday from your record, in any number of activities over a long period of years during which your thesis was to free the Federal Reserve Board from the Treasury control and permit flexible monetary policies and flexible interest rates.

Mr. BURGESS. That is their job, to make the decision, not ours.

Senator KERR. And that is what you advocate.

Mr. BURGESS. I advocate that the Federal Reserve should be free to carry out the functions given it by the Congress.

Senator KERR. But over and over again yesterday, and I did not think there was any question about this, I asked if one of the things you sought through this Committee on Public Debt Policy and these other positions you held was the implementations of the principle of flexible interest rates.

Mr. BURGESS. That is right.

Senator KERR. That is correct.

Mr. BURGESS. I interpret it the way I think we have agreed to interpreting it.

Senator KERR. That is correct.

The thing I want to call your attention to here is, on the one hand, we have got a Treasury advocating flexible interest rates.

Mr. BURGESS. That is right.

Senator KERR. That has resulted in my judgment, in a 47½ percent increased interest costs for a 23 percent larger total debt.

Mr. BURGESS. Wait a minute. That is not a direct—

Senator KERR. On the other hand, we have got a Secretary advocating flexible price supports that has resulted in the income of the farmer being reduced about 30 percent. I want to emphasize the fact, that the flexible principles you advocate have increased the cost of credit, and the flexible principles that Benson advocates have decreased the income of the farmer. And I just wonder if it would not be possible for both of you to retain your devotion to the principles of flexibility but to shift the effect whereby it would result in better prices to farmers, would reduce the cost of credit.

Mr. BURGESS. That is a very good speech, Senator.

Senator KERR. What?

Mr. BURGESS. That is a very good speech.

Senator KERR. Would you acknowledge that it is a very worthy objective; or that it has certain elements of desirability?

Mr. BURGESS. Of course, the implication in it is that we turned something that puts these rates up.

Senator GORE. Well, you do.

Mr. BURGESS. We stand aside and let the natural forces of the market operate. What is the opposite? The opposite of that is to intervene.

Senator KERR. How can you say that you let natural forces operate when the Federal Reserve maintains a tight credit policy and holds back in the matter of increasing the available money supply. Their own data that we put into the record shows that they are expanding it now at less than 1 percent a year. You said it took from 2 to 3 percent a year increase in the money supply for normal expansion.

How you can say that natural forces—

Mr. BURGESS. I pointed out that has been more than offset by the velocity of the money that has been put out, so that the whole thing—

Senator KERR. That is a thing about which men differ.

Mr. BURGESS. Velocity?

Senator KERR. No; that it has been more than offset by the velocity.

Mr. BURGESS. Well, the one test is that your prices are going up, your commodity prices are going up.

Senator KERR. Sure, they are going. The consumer prices are going up.

Mr. BURGESS. Yes.

Senator KERR. Because credit has been held in such tight control and limited supply and interest rates which are costs like any other costs have been increased sharply.

Mr. BURGESS. That is just where we differ.

Senator KERR. I understand that.

Mr. BURGESS. Completely.

Senator KERR. I understand that.

Mr. BURGESS. Yes.

I say the interest cost is a very small element in the cost of doing business—it is an element, but it is a small one.

Senator KERR. Well, now, you say it is a small element, yet I have just read you figures that show that it amounts to more than twice as much as the net income of all the farmers in the Nation.

Mr. BURGESS. Well, this is to be remembered, too, that these interest payments which are payments to one man are receipts to somebody else; that this is a flow from one person to another. This is not a net loss to the economy.

Senator KERR. You forget there are more borrowers than there are lenders.

Mr. BURGESS. Well, I am not so sure about that, Senator. I think there are just as many lenders as borrowers.

Senator KERR. I do not want you to get in the position of the Secretary of the Treasury, who, the other day, figured up finally there were 195 lenders in this country—

Mr. BURGESS. 195 million?

Senator KERR. 195 million lenders in this country.

Mr. BURGESS. Well, there are an awful lot of them.

Senator KERR. I know there are.

Mr. BURGESS. Every holder of life insurance.

Senator KERR. Now, this interest we talked about, in the final analysis, Doctor, is just the wages paid for money, is it not? The rental paid for the use of money?

Mr. BURGESS. That is right.

Senator KERR. It would not be entirely inappropriate to refer to it as the wages earned by money.

Mr. BURGESS. I think that is a fair statement if one does not carry too many implications.

Senator KERR. Well, subject to the qualifications that you notified me you were going to put on all answers.

Mr. BURGESS. Yes.

Senator KERR. Yes.

If I read the record correctly, you have doubled the wages of money in 2 years.

Mr. BURGESS. We have not doubled the wages of money. They have doubled.

Senator KERR. Well, you are paying an amount which is double what you were paying.

Mr. BURGESS. You mean the Treasury is.

Senator KERR. The Treasury.

Mr. BURGESS. All right; yes.

Senator KERR. In 1955 you put out an 8 months' tax anticipation certificate at  $17\frac{1}{8}$  percent.

Mr. BURGESS. Yes.

Senator KERR. Is that correct?

Mr. BURGESS. I think so.

Senator KERR. Is that correct, Mr. Mayo?

Mr. BURGESS. It sounds about right.

Senator KERR. I do not believe we could get along without Mr. Mayo, could we?

Mr. BURGESS. I know I could not.

What year was that?

Senator KERR. June 1955.

Mr. BURGESS. That is a tax certificate?

Senator KERR. Yes, an 8 months' tax anticipation certificate at  $17\frac{1}{8}$  percent.

Mr. BURGESS. That is right.

Senator KERR. That was evidently considered a fair wage for money, because you wanted to sell \$2.2 billion of those certificates and got subscriptions for \$10.6 billion.

Mr. BURGESS. I think that is probably correct.

Senator KERR. Two years later, that was this month, you advertised for the hire of money at nearly twice that rate, or  $35\frac{1}{8}$ , and cut the working time from 8 months to 4 months.

Mr. BURGESS. Wait. A similar certificate bid for in the same way was 3.48.

Senator KERR. It is 3.48.

Mr. BURGESS. Excuse me. That was a tax certificate; that was not bid for. So that your comparison is all right,  $35\frac{1}{8}$ , that is a reasonable—

Senator KERR. Would you say there has been as great an increase in the productivity of money in the past 2 years as indicated by the straight time hourly wage rate that you are paying?

Mr. BURGESS. In the productivity of money? Well, now, you are getting over into the question of equity.

Senator KERR. I am just asking a question.

Mr. BURGESS. I knew when you used the word "wages" we were going to get into—you were introducing a new concept that interest rates should be fixed from the point of view of their productivity.

Senator KERR. No, I do not say that. I just asked the question, if you think there has been that great an increase in the productivity of money.

Mr. BURGESS. No. That is not what has determined it. It is the demand for it.

Senator KERR. I understand. Well, now, wages have gone up for Government workers 15 percent in 4 years.

Mr. BURGESS. Yes.

Senator KERR. And Congress is now considering giving them a raise. The President however has said that he is against it because an increase in their wages would be inflationary.

Mr. BURGESS. Yes.

Senator KERR. That is correct?

Mr. BURGESS. That is correct.

Senator KERR. Now, the wage rate of Federal employees is fixed by law; is it not?

Mr. BURGESS. Yes; it is.

Senator KERR. Including yours and mine.

Mr. BURGESS. That is right.

Senator KERR. And the President opposes a wage-rate adjustment for Government employees and that is the position of the administration.

But the administration does not want the wages paid for money to be fixed by law. They want it to be entirely free of regulation or even influence.

Mr. BURGESS. No, we never said that. We never said that.

Senator KERR. Well, now, you said here that you were devoted to the principle of having the Federal Reserve free of any——

Mr. BURGESS. The Federal Reserve is not just the complete absence of any influence. The Federal Reserve is an influence on money. They have charge under the law, with influencing the cost of money and the volume of money.

Senator KERR. Well, now, you said——

Mr. BURGESS. So, we have an agency——

Senator KERR. At one time you answered me by saying it has reached this point by the market demand.

Mr. BURGESS. That is the force, but there is an agency which has some power in relation to that situation.

Senator KERR. That is right, and you said you approved what they have done.

Mr. BURGESS. That is right. I do not say I have approved every single act.

Senator KERR. Well, you sure have not let me know of anything you disapproved.

Mr. BURGESS. I approve in general what they have been doing.

Senator KERR. Yes. And I gather from your statement that you are unalterably opposed to their keeping the interest rates artificially

low or operating to keep them low, and that you favor their operation to let them find their own level.

Mr. BURGESS. I have not indicated that I was indicating any particular policy to them. I am saying that they are faced with the problem of a natural situation where there is this enormous demand for money, more than this amount of savings, and the only thing they can do about it is to pour some more money in; and that, in the face of an inflationary situation, I would say would be very inadvisable.

Senator KERR. Well, then, you approve what they have done?

Mr. BURGESS. In general, yes.

Senator KERR. And you say that you have issued your securities at the rate that the market required?

Mr. BURGESS. That is right. That is right.

Senator KERR. Without interference by the Treasury and practically without influence.

Mr. BURGESS. Well, the Federal Reserve has the power to influence that if they think it is wise.

Senator KERR. But they have not.

Mr. BURGESS. In performing the duties set for them by the Congress.

Senator KERR. They have exercised a lack of control or a lack of influence to where the rate has doubled in 2 years.

Mr. BURGESS. They have stood aside and allowed this force of supply and demand to push these rates up.

Senator KERR. Yes, sir.

What I would like you to tell this committee is what is there about wages for money that it should be treated as though it were sacred and with such a greater amount of tenderness and deference than the way you treat wages for human beings.

Mr. BURGESS. Well, I think you are dealing with a problem of, in dealing with money, as to what is going to result in the greatest good for the people of this country. That is your problem. If you allow money to be too easy, to pour it out in the form of credit, so it leads to an inflation, you are penalizing these very people whose wages are being paid; the Government worker particularly is being penalized by it.

Senator KERR. But yet, Doctor, you admit that here, in a period when they have kept the increase in the money supply down to the lowest point in a decade, we have got this inflation, and we are in the midst of it, and it is all around us, which proves that the tight-money, high-interest policies have not checked inflation.

You acknowledge, Secretary Humphrey proclaimed, and the Federal Reserve Board reported that we had price stability from 1952 through 1955. Yet here today, with interest rates up to a 25-year peak, and the increase in the available supply of money kept down to the lowest level in the 25 years, we have had develop in the last 18 months a severe price inflation, which proves that the policies you advocate have not accomplished the objective which you say they were put into effect to achieve, but they have resulted in penalizing the users of credit, including the Government.

Mr. BURGESS. That is just a point where we differ. You say it has not accomplished the objective. I say, if they followed a contrary policy and poured the money out to keep these rates low, that you would penalize every person in America.

The objective here—

Senator KERR. You yourself put into the record here this morning the increase in the amount of money in 1950.

Mr. BURGESS. That is right.

Senator KERR. In 1951, 1952; how much was it in 1952? How much was the increase in the available supply of money in 1952?

Mr. BURGESS. We decided about 4 percent, I think.

Senator KERR. You have got it there.

Mr. BURGESS. Four percent.

Senator KERR. Four percent.

And what did the cost of living go up in 1952?

Mr. BURGESS. It did not go up any, practically.

Senator KERR. It did not go up any?

Mr. BURGESS. No, not much.

Senator KERR. How much was the increase—

Mr. BURGESS. It went up 2 percent.

Senator KERR. Two percent?

Mr. BURGESS. Two percent.

Senator KERR. All right.

Mr. BURGESS. Two percent.

Senator KERR. Wait a minute. Is that reflected—

Mr. BURGESS. That is correct.

Senator KERR (continuing). By the Economic Indicator?

Mr. BURGESS. Yes.

Senator KERR. What page?

Mr. BURGESS. Well, I have here a chart made up—

Senator KERR. What page? Page 23?

Mr. BURGESS. Here we are. It was buried.

Senator KERR. It is 2½ points; and as applied to 111, it is nearly 2 percent, or about 2 percent.

Mr. BURGESS. That is right.

Senator KERR. All right.

Now, then, in 1953, how much did the supply of money go up?

Mr. BURGESS. In 1953, it went up \$1.5 billion, or—

Senator KERR. No, it went up more than that, did it not?

Mr. BURGESS. There is a little difference here in gospel according to Mayo and according to somebody else's gospel.

In 1953, it was \$2.1 billion on a seasonally adjusted basis; December to December was \$1.5 billion.

Senator KERR. What was it for 1953?

Mr. BURGESS. \$1.5 billion, which is a percentage of 1.2.

Senator KERR. Where is that found in the Economic Report of the President?

Mr. BURGESS. The way they got their money supply—here it is, page 26.

Senator KERR. Page 26 of the Report?

Mr. BURGESS. It does not carry it back.

Senator KERR. Here is total—

Mr. BURGESS. \$1.5 billion, in the Economic Report, page 165.

Senator KERR. Yes.

All right, \$1.5 billion. How much was that?

Mr. BURGESS. Well, the percentage is about 1.2 percent.

Senator KERR. 1.2 percent. And how much did the living costs go up?

Mr. BURGESS. In 1953, they went up 0.8 percent.

Senator KERR. It went up from 129 to 130.5?

Mr. BURGESS. That is right.

Senator KERR. All right.

What did it go up in 1954?

Mr. BURGESS. It went up \$3.9 billion.

Senator KERR. Which is how much percent?

Mr. BURGESS. Which would be about 3 percent.

Senator KERR. About 3 percent.

Mr. BURGESS. A little under 3 percent.

Senator KERR. How much did the cost of living go up?

Mr. BURGESS. 0.3 percent.

Senator KERR. 0.03, is that right?

Mr. BURGESS. No. It is 0.3—three-tenths of 1 percent.

Senator KERR. Three-tenths of 1 percent?

Mr. BURGESS. Yes.

Senator KERR. What did it do in 1955?

Mr. BURGESS. In 1955, the money supply went up \$3.8 billion.

Senator KERR. \$3.8 billion.

Mr. BURGESS. About 3 percent.

Senator KERR. A little over 3 percent.

Mr. BURGESS. Yes.

Senator KERR. What was it, about  $3\frac{1}{4}$ ?

Mr. BURGESS. No.

Senator KERR.  $3\frac{1}{6}$ ?

Mr. BURGESS. No. Closer to 3.

Senator KERR. Mr. Mayo can tell us. [Laughter.]

How much?

Mr. MAYO. Just about 3 percent.

Senator KERR. Three percent. All right.

Mr. BURGESS. And the cost of living went down.

Senator KERR. How much?

Mr. BURGESS. It went down 0.3.

Senator KERR. It went down three-tenths of 1 percent?

Mr. BURGESS. Yes.

Senator KERR. There was a 4-year period in which the money supply went up an average of nearly 3 percent a year, and yet the cost of living went up very little.

Mr. BURGESS. Very little. Less than 1 percent.

Senator KERR. Less than two-thirds of 1 percent a year.

Mr. BURGESS. That is right.

Senator GORE. About 16; is it not?

Mr. BURGESS. That just goes to show—

Senator KERR. And yet, Doctor, in the last 18 months the money supply has gone up—let's see, what was it at the end of 1956 compared to 1955? \$1.4 billion, which is at the rate of just about 1 percent; is it not?

Mr. MAYO. Yes; almost exactly.

Senator KERR. And this last 6 months it has gone up at a rate of less than 1 percent.

Mr. BURGESS. Yet the cost of living keeps on going up.

Senator KERR. And the cost of living has gone up. It has gone up more in the last 18 months than it did in the 4 years prior to that time.

Mr. BURGESS. That just goes to show you have got to take something else into consideration; does it not?

Senator KERR. Not only that, but it goes to show that the policy which you and Mr. Humphrey have told us was instituted to accomplish a certain purpose has not accomplished it, and that the opposite result has been attained.

Mr. BURGESS. Senator, I do not think it means any such thing.

Senator KERR. I am just telling you what the record shows.

Mr. BURGESS. First, you have got an enormous other element here, which is the element of the rate at which people use their money, the turnover.

Now, that reflects things outside of bank operations, for example. It reflects loans that corporations make.

Senator KERR. How much did the rate of turnover go up from the end of 1952 to the end of 1955?

Mr. BURGESS. Mr. Mayo can find it.

Senator KERR. Mr. Mayo can tell us. [Laughter.]

Is that in his statement somewhere, Mr. Mayo?

Mr. MAYO. No. This is in the Flanders committee reports.

Mr. BURGESS. Well, the rate of turnover, annual rate of turnover, of demand deposits—

Senator KERR. As of 1955 as compared to 1952.

Mr. BURGESS. Well, let us take all these years, just for fun.

Senator KERR. All right. 1952—

Mr. BURGESS. Here is 1950. It was—

Senator KERR. We started this other with 1952. Let us start this with 1952.

Mr. BURGESS. It does not make much difference.

Senator KERR. What was it in 1952?

Mr. BURGESS. Twenty-one times.

Senator KERR. What was it in 1953?

Mr. BURGESS. Excuse me. It was 20 in 1952.

Senator KERR. All right.

Mr. BURGESS. And in 1953, it was 21.

Senator KERR. All right.

Mr. BURGESS. On 1954, it was 21.

Senator KERR. All right.

Mr. BURGESS. 1955, it was 22.

Senator KERR. All right.

Mr. BURGESS. 1956, it was 24.

Senator KERR. 1956, it was 24.

Mr. BURGESS. There is a jump of 10 percent in your rate of turnover.

Senator KERR. When you brought about the reduction of the increase in the money supply from 3 percent in 1955 to 1 percent in 1956, the rate of turnover had to go up.

Mr. BURGESS. Well, which was the hen and which was the egg? That is the question.

Senator KERR. Well, the rate of turnover went up the year the percentage of available money was reduced.

Mr. BURGESS. Yes. But there is not any such tracing of that linking that you can find as you go back.

Senator KERR. I must say, in the eyes of one who is unlettered in the higher principles of fiscal policy and the laws of economics, I

would be more persuaded to think that a condition created a result rather than that the result had created the condition. The condition of tight money increased the velocity.

Mr. BURGESS. Well, then you would have to find which was the condition and which was the result. This thing was turning over very rapidly, and the prices were rising, so that the Federal kept its hand on the throttle and held the money supply a little.

Senator KERR. Yes, sir.

The higher the pressure of steam in the boiler went, the tighter they fastened the exhaust valve, with the result that the pressure went on up.

And I want to say to you, if you do not release it, she is going to explode.

Mr. BURGESS. Well, now you are talking about the Federal Reserve Board's business and not mine, but the thing you must remember in the background—

Senator KERR. I have not seen you prone to disassociate yourself from anything that they do. Nor have I been able yet to get you to make but one concession as to your attitude toward their policy in this whole thing.

Mr. BURGESS. Well, let me just go back to a very simple thing that I think ought to appear in the record, that the whole object, the objective of this business is to try to keep stable money, sound money, for the American people.

That is what they are charged with; that is what they are trying to do. They are using, for that purpose, the implements given them by the Congress.

Senator KERR. Who are? The people?

Mr. BURGESS. The Federal Reserve System. The Federal Reserve System. They are using the methods that have worked over the years with a great many countries.

Senator KERR. But they are changing, Doctor. They are changing.

Mr. BURGESS. I do not think they are changing.

Senator KERR. Why, they provided an average increase of 3 percent in the money supply each year for 4 years prior to 1953 and now they have changed to where they are providing an increase of only 1 percent a year.

Mr. BURGESS. I am sorry; we are not talking about the same thing. I was talking about methods of credit restraint in the face of an increase in the cost of living.

Senator KERR. Well, the net result of that is either increase or decrease in the available money supply, is it not?

Mr. BURGESS. Well, that is affected by it. It affects it.

Senator KERR. Well, it is brought about by it, is it not?

Mr. BURGESS. They do not absolutely control the money supply.

Senator KERR. I thought you said this morning—

Mr. BURGESS. Oh, no.

Senator KERR (continuing). If they went out and bought another billion dollars—

Mr. BURGESS. They could ease it up, they could increase it faster.

Senator KERR. Could anybody else ease it up or make it increase faster?

Mr. BURGESS. If the banks undertook to borrow money from the Federal Reserve.

Senator KERR. They would not have to do that if the Federal Reserve undertook to loan it to them.

Mr. BURGESS. The Federal Reserve is in it, but there are other influences in it.

Senator KERR. Well, the Federal Reserve has the primary power.

Mr. BURGESS. Well, all right, I will agree to that, Senator.

Senator KERR. All right.

You maintain that you just pay the interest rate for your securities that the market requires; is that right?

Mr. BURGESS. That is correct.

Senator KERR. What was the going rate, not at the time you issued the  $3\frac{1}{4}$ 's in 1953, but at the time you announced or decided that you were going to issue them?

Mr. BURGESS. We discussed that in a good deal of detail in my statement, Senator.

Senator KERR. Well, you did. You and I did not. I just thought I would ask you a question or two about it.

Mr. BURGESS. We had no issue as long as the one we wanted to put out. The nearest one was the Victory  $2\frac{1}{2}$ 's.

Senator KERR. What was the date it was issued?

Mr. BURGESS. It was issued on May 1. The announcement date was April 8.

Senator KERR. All right.

Now, back of the announcement date was the time when you arrived at the decision to issue them, was it not?

Mr. BURGESS. No. We did not decide to issue them until it was announced, until the day it was announced.

Senator KERR. When did you begin to contemplate the issuance?

Mr. BURGESS. We began talking about that about 3 weeks before that—

Senator KERR. And what—

Mr. BURGESS (continuing). Exploring the markets.

Senator KERR. What were long-term Governments selling to yield at that time?

Mr. BURGESS. There were not any as long as the ones we were proposing to put out.

Senator KERR. I understand.

Mr. BURGESS. They were  $2\frac{1}{2}$ 's, which were 10 years shorter, that were selling around a 2.90 basis.

Senator KERR. Is it not a fact that 2 or 3 weeks before that, they were selling at lower than 2.90?

Mr. BURGESS. No. In the beginning of the year, they were selling at about a 2.80 basis.

Senator KERR. I have an article by J. A. Livingston, a nationally syndicated columnist.

Mr. BURGESS. Yes.

Senator KERR. He is an economist, and he writes a column that I see on a lot of financial pages.

Mr. BURGESS. That is right.

Senator KERR. This is from the Washington Post, April 1953:

It's a pretty good bet that Rocky Marciano, who's training for a championship fight, doesn't know it. Nor Joe Pilsudsky, who works in a coal mine. Nor Helen Hayes, who plays the lead in "Mrs. McThing." Nor Amy Smith, who's

secretary to the sales manager of a vacuum cleaner company. They can't feel it yet. But they will.

This is a new business era. It's bound to affect everybody—eventually. America has moved from Roosevelt-Truman economics to Eisenhower economics, from the economics of control, regulation, and planning to the economics of the marketplace.

That was signaled last week by a major economic decision most people in the United States won't even read about. Yet it's an important event. Secretary of the Treasury George M. Humphrey announced a new issue of a 30-year 3½ percent bonds. In doing so, he shattered the "sacrosanct" 2½ percent interest rate of his predecessors—Henry Morgenthau, Jr., and John W. Snyder.

In raising the rate to 3½ percent, highest since 1933, President Eisenhower and Secretary Humphrey say, in effect: "Government bonds can get along without controls. The Government must compete for money in the open market just like Allied Chemical & Dye; Atchison, Topeka & Santa Fe; American Telephone; and other corporations."

I resented a little bit he did not name one near and dear to my heart.

Mr. BURGESS. I sympathize with you.

Senator KERR (reading). "We don't need Federal Reserve support."

This decision reaches beyond Wall Street, Washington, and high finance. It involves more than the price Humphrey is willing to pay to borrow money. It will have an impact on farmers, merchants, manufacturers, builders, home-buyers, and consumers. It can't help influencing industrial production, employment, and prices. It's definitely anti-inflationary. You could even say it's disinflationary.

He is agreeing with you on that.

Humphrey and W. Randolph Burgess, his deputy in charge of Government debt, took no chances. They wanted to make sure the new bonds would go over. They consulted bankers and insurance companies beforehand. They limited the initial amount of 3½s to \$1 billion. But they also offered holders of F and G savings bonds, of which \$1,100 million will mature this year, the right to swap them for new bonds. The expectation was that heavy demand would send the bonds to a premium—more than 100 cents on the dollar.

#### WHY IT WAS SO JUICY

Humphrey and Burgess deliberately made the interest rate juicy—3½ percent—at a time when 19-year Governments were selling to yield 2.9 percent. They weren't going to cut the rate as close as when they put out 5-year-and-10-month 2½s in February. Thus the Government is completing with business for money. It means that businessmen who need funds to increase plants, install new equipment, or expand inventories will have to pay more. It means operating costs will go up a notch—at a time when increased competition is squeezing profit margins. It means that mortgage rates will tend to go up too.

Now, it seems that that fellow was quite impressed with the thought that you put it out at a good deal above the market.

Mr. BURGESS. Well, he said put it out at a yield where we thought it would sell, and that is right. I am sure we could not have priced that any less generously and have sold the bonds.

Senator KERR. On April 1, he wrote:

A poker game has been going on in Government bonds. Insurance companies, banks, large investors, Government bond dealers, and speculators have been trying to preguess Secretary of the Treasury George M. Humphrey: How would he raise new money for the Treasury? Was he really going to put out a 3½ percent bond? Or a 3 percent? Or both?

By the same token, Humphrey was playing poker, too. He had to anticipate what the market anticipated. He had to figure out what the collective investors in Government bonds would go for, and then give them what they wanted. \* \* \*

The rumor got around that W. Randolph Burgess, Humphrey's adviser on debt management, had been discussing with bankers a 30-year 3½ percent bond and a 15-year 3 percent bond. Immediately, the anticipators—the poker players—

went to work. The Treasury 2½'s of 1967-72 (called the Victories because they were issued after the surrender of Japan), had been selling around 94. At that price, the interest rate worked out to about 2.9 percent to maturity.

So, the poker players reasoned, they'd have to go lower. A 3 percent Humphrey bond would put them down to 92½ for a comparable yield. A 3¼ percent, to 89½. So the Victories dropped to about 93. Then bids began to appear.

Another set of poker players was at work. Apparently they decided that the Victories were attractive even if Humphrey did put out a 3 percent or a 3¼ percent. Their reasoning went like this:

Many people are waiting for the Victories to go down to 92 or maybe 89. They've got orders under the market. Well, if a lot of bids are under the market, prices won't get down there.

As I read that, Mr. Burgess, it looks to me like you not only offered these bonds above the market for outstanding long-term Governments, but that by your announcement that you were going to pay whatever the market required, you set in motion this operation he refers to as pitting one set of poker players against another, which results in making speculative securities out of Government bonds.

Mr. BURGESS. Well, let me say first that I think we priced that issue as closely as we could and have it sell. We followed there the rule that we have always followed: that we did not pay any more than we felt we had to pay in order to sell the bonds.

Let me go back of that a little bit. We have been watching this Treasury financing over the years. For the years from 1946, after the war, right through 1952, the Treasury had not sold any long-term bonds. The debt had been going down in the average maturity from over 6 years to a little under 4 years.

The debt was piling up in a short period. The advisory group of the Bankers Association, of which you know I was a member, had repeatedly recommended that they should sell a long-term bond.

And when we came in, the problem was whether we should not start lengthening the debt a little bit, spreading it out. We had all those years when very little had been done to handle that debt in the way that you, as a businessman, or anybody else, would want to handle his debt.

So we decided, if the market would take it, to put out a long-term bond. We explored that very carefully, and we determined that the lowest interest yield at which we could sell that bond was 3¼.

If we had tried to sell at 3, I do not think we would have been successful in our sales in selling that number of bonds. We might have put out a 15-year 3, but that would have gone to banks, gone to the old sources, and it would not have reached out to the savers, the people outside the banking field.

And we decided that that was the lowest rate at which we could sell it.

We knew—

Senator KERR. And subsequent events proved you were so close to the market that within less than 12 months it sold at the highest price on the market, with reference to par, of any Government bond I know of in my lifetime.

Mr. BURGESS. But when the bond was put out, it sold for 9 thirty-seconds of a point premium only, and then went below par, and did not get up above par for another 3 months.

Senator KERR. Three or four months, and then it just shot up like a skyrocket; did it not?

Mr. BURGESS. No. But all the market went up, and we had easy money in 1954. This bond did not go up any faster than any other.

Senator KERR. Do you know of any other Government bond that went to 112?

Mr. BURGESS. No. But it went up comparably; these bonds that had been 95 when we came in, these 21½'s, went up above par again in 1954.

Senator KERR. I am going to go into that with you tomorrow.

Mr. BURGESS. All right.

Senator KERR. That fluctuation.

Mr. BURGESS. Yes.

But when you sell a bond, you have got to sell it on the market at that time.

Senator KERR. Whether the Federal Reserve helps you or not?

Mr. BURGESS. Well, they did not help us on this one.

Senator KERR. When you put out your last one here, I noticed in the Wall Street Journal on the 22d of July 1957 this comment:

Some traders mentioned the Treasury financing announcement last Thursday as an important influence on the week's market.

You see, the way these financial writers interpret it is in terms of effect of your issue on the market.

Mr. BURGESS. That is right.

Senator KERR. Rather than the way you view it, of the effect of the market on your issues.

Mr. BURGESS. Well, Senator, I would not deny that our issues have an important effect on the market. They are bound to. If you are going to refund \$24 billion, the rate at which that is done is very important. The whole operation is.

Senator KERR. Here is what the Wall Street Journal said:

The street was lowering prices all week in anticipation of the news, explained one dealer, but the 4 percent coupon on 2 issues forced still further adjustments Friday.

In other words your selling on the market, means the state of the market by the time the rumors got around, and by the time the period expires between the announcement and the offering, by that time the market has adjusted itself to the rate you have decided on.

Mr. BURGESS. Of course, it is an influence, because the announcement by the Treasury on this huge volume is an indication of what the rate is.

But I can assure you, Senator, that we could not have sold this last issue any cheaper.

Senator KERR. Well—

Mr. BURGESS. As it was, as the chairman has pointed out, there were over a billion dollars worth of holders who did not convert.

Senator KERR. Yes. There were about 12 percent.

Mr. BURGESS. We shaved this as close as we could and sell the securities.

Senator KERR. Yes.

Mr. BURGESS. Just as close as we could shave it.

Senator KERR. You shaved it so close that the market for a week was adjusting itself up to what they thought the rate was going to be; and then when they learned what it actually was, the dealers said,

the 4 percent coupons on 2 issues forced still further adjustments Friday.

Mr. BURGESS. Well, it was simply that 4 percent was a recognition by the Treasury of a condition that existed, and so it was a very important piece of news.

Senator KERR. And if it was a condition which existed, then these dealers had misappraised it?

Mr. BURGESS. No, I do not think they misapprised it very much. The market did not move so much, so very much.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

Mr. BURGESS. Thank you.

(Whereupon, at 1:10 p. m., the committee recessed, to reconvene at 10 a. m., Friday, August 2, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

FRIDAY, AUGUST 2, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Gore, Martin, Williams, Flanders, Carlson, Malone, and Bennett.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary, Treasury Department; Paul Wren, assistant to the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator Kerr?

Senator KERR. The Secretary has indicated that he has a couple of insertions that he would like to read into the record.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Mr. BURGESS. Mr. Chairman, and Senators, thank you very much.

Thinking about our matters we ran over yesterday, I think we left the question of the Federal Reserve's policy in purchasing Government securities just a little bit fuzzy, and I thought it might be helpful if I brought before the committee two quotations from the official language of the Federal Reserve System.

Senator KERR. You mean the law?

Mr. BURGESS. These are quoted from the annual report of the Board of Governors of the Federal Reserve.

Senator KERR. I see.

Mr. BURGESS. The first quote which I think would be helpful is from the 38th Annual Report of the Board of Governors of the System for the calendar year 1951. That covers the full year and came out in the spring of 1952.

The 38th annual report contains this statement:

In periods of Treasury refinancing, the Federal Reserve acted to steady the market for short-term Government securities. During such a refunding period a substantial volume of securities is shifted in the market. Some holders want to redeem the maturing securities for cash, while some nonholders want to buy maturing issues at current prices in order to obtain the new issue on exchange.

In several of the refunding operations in 1951, demand for the maturing securities for exchange purposes was not equal to the volume of the maturing issue for which holders wanted cash. Under these circumstances, Federal Reserve open market operations, by absorbing securities temporarily in excess of current demand, helped to assure larger exchanges and smaller cash redemptions. More than a billion dollars of securities were purchased by the Federal Reserve in June in this type of operation, and more than half a billion in September and October combined. There was only slight support of refunding operations in December but the Federal Reserve made large purchases late in the month to meet seasonal needs in the money market. In all of these cases, the purchases were either concurrently or subsequently offset by sales of short-term securities from the open market account.

That shows what they were doing at that time.

Now, the annual report for the year 1953 contains a long account of discussions in the Open Market Committee of whether they would change that practice.

For example, at the September 24 meeting of the Open Market Committee—

Senator KERR. September 1953?

Mr. BURGESS. September 24, 1953.

Senator KERR. Yes.

Mr. BURGESS (reading) :

Mr. Mills, a member of the Board, 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 was being offered; (2) when-issued securities; or (3)—

Senator KERR. What was (2) ?

Mr. BURGESS. "(2) when-issued," that is the new issue which would be available after the issue date. You see, there is a maturing security.

Senator KERR. There would be no operation in buying or selling them?

Mr. BURGESS. They would not buy them.

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.

That motion split them, but the votes for the motion were several of the Governors; the votes against the motion, Messrs. Sproul and Powell.

That same position was subsequently confirmed, and I will give you a copy of it. I have it in the material that we prepared for you, Senator.

Senator KERR. Yes.

Mr. BURGESS. The basic principle governing Federal Reserve actions—

Senator KERR. If you would read the question, it would clarify the record.

Mr. BURGESS. Yes.

The question which Senator Kerr asked us, and on which we prepared the material, was:

I. (b) Describe each Treasury financing action, other than the regular weekly bill offerings, but including regular weekly bill offerings where the Treasury increased the amount in order to raise additional cash—

And then a sub (2) under that:

Identify those Treasury financing actions which in your judgment were supported by the Federal Reserve either through (1) open market operations, or (2) reductions in reserve requirements.

On this, we start by stating the basic principle governing Federal Reserve actions now, by citing a policy adopted in the annual meeting of the Federal Open Market Committee in March 1956. And that is very similar to the action which I read, adopted in 1953.

Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

I think those two statements show the change in what they are doing. There is a lot of theology about this, Senator, and they spell out this language in detail, but that is what we really mean by saying the policies changed in supporting the Treasury operations.

(The complete answer is as follows:)

1. (b) Describe each Treasury financing action, other than the regular weekly bill offerings, but including regular weekly bill offerings where the Treasury increased the amount in order to raise additional cash.

(2) Identify those Treasury financing actions which in your judgment were supported by the Federal Reserve either through (1) open market operations or (2) reductions in reserve requirements.

The basic principle governing Federal Reserve actions during Treasury financing operations is set forth in the continuing operating authorities or statements of operating policy adopted in the annual meeting of the Federal Open Market Committee in March 1956:

"Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

The Federal Reserve System in its open market operations generally has followed a policy of maintaining stable conditions in the money market during periods of refunding and of taking into account additional needs for reserve funds when the Treasury comes to the market for cash.

The only deviation from the above directions occurred on November 30, 1955, when the Federal Open Market Committee authorized the purchase of up to \$400 million of 2½-percent: December 1, 1956, certificates of indebtedness on a when-issued basis. This action was taken in response to a request made by the Secretary of the Treasury for assistance directed toward preventing undue cash redemption of the maturing issue and with cognizance of the possibility of psychological deterioration of the whole securities market if the Treasury offering came to be regarded as a failure. Total purchases made under this authority amounted to \$167 million.

Reserve requirements were reduced in the summers of 1953 and 1954 and in both cases the reductions were designed to supply reserves for seasonal demands including Treasury financing needs. In each year these were large cash offerings of Treasury securities which required temporary increases in commercial bank deposits and required reserves.

Senator KERR. In view of the fact that this statement in March of 1956 is so similar to the one in September 1953, had there been an interval during which they had had a different policy—

Mr. BURGESS. No.

Senator KERR (continuing). And then in March 1956, reverted to the September 1953, policy, or did they just feel they ought to reiterate the obvious?

Mr. BURGESS. Reaffirm. I think so.

There had been, late in 1953, some shifts, but this has been the policy through this entire period, really. As a matter of fact, there have been very few exceptions to this rule. They say they can make an exception by the action of the committee. They did in December 1955.

Senator KERR. Or in the correction of disorderly markets.

Mr. BURGESS. That is right.

Senator KERR. Which they have done in some instances in these 4½ years?

Mr. BURGESS. Well, I think they have not purchased other than short-term securities—

Senator KERR. But they did—

Mr. BURGESS. (continuing). During those periods. They purchased Treasury bills.

Senator KERR. They did that in connection with what I would presume they regarded, to some degree, a disorderly market.

Mr. BURGESS. The bills and the short-term?

The bills and the short-term securities, they do, in and out, as a matter of current operation of keeping the general reserve position about steady.

Senator KERR. They have been doing that for the last few days, have they not, Doctor?

Mr. BURGESS. Yes. There has been very little net change, but they have been in and out.

Their ins and outs recently have been largely under what they call repurchase agreements, that is, they will buy securities from dealers with an agreement on the part of the dealer to repurchase them at a later period.

Senator KERR. I want to put into the record—

Mr. BURGESS. May I supplement it by one additional statement of fact? I do not want to appear to fail to state something:

That in December 1955, as was publicly announced at the time, the Federal Reserve did support our Treasury refunding. That looked as though it were going badly. They had a telephone meeting of their Open Market Committee and agreed to buy the new when-issued securities that we were putting out, and they did that to the extent of \$167 million.

That is the only time since the first of 1953 that they have carried on an operation similar to what was described in this annual report for 1951 in supporting a Treasury financing operation.

Senator KERR. It is your positive conviction now, though, that they should be available and, when the circumstances indicate, support the Treasury issues during the flotation period?

Mr. BURGESS. That is correct. I think they should, and they have never said they never would. They just say you have to have a meeting of the committee, and it has to be clearly demonstrated that it is necessary, before they do.

And there has been a difference of opinion in the system. Mr. Sproul has always felt they should be more active at those times, and the rest of the people voted against him.

Senator KERR. I think he was one of the toughest fellows down there, but he was also, in my judgment, one of the most frank and realistic.

Mr. BURGESS. That is right.

Senator KERR (continuing). And has laid it on the line—repeatedly, that to control this economy by Federal Reserve actions, you have got to be prepared really to lower the boom; has he not?

Mr. BURGESS. Yes, and to raise it.

Senator KERR. Yes.

Mr. BURGESS. To raise it and lower it.

Senator KERR. That is Sproul's position; is it not?

Mr. BURGESS. I think so. I think that is a fair statement.

Senator KERR. We talked a good deal yesterday about the fact that the increase in the money supply had dwindled to where it was now less than 1 percent a year, and the money market is the tightest it has been in 4½ years.

Mr. BURGESS. That is right.

Senator KERR. And price inflation is at the most vigorous rate of increase in the last 6 years.

I would like to note the additional fact that those policies have not prevented but, in my judgment, they have actually aggravated inflation to the penalty of the average disposable personal income of the American income earner.

I believe that is shown on page 6 of the Economic Indicators.

In the second quarter of 1956, that was \$1,703 per capita.

Mr. BURGESS. Thirteen; is it not?

Senator KERR. No, the second quarter of 1956, \$1,703.

Mr. BURGESS. Yes, current prices. I was looking at the deflated one.

Senator KERR. And the second quarter of 1957; it was \$1,754.

Mr. BURGESS. That is right.

Senator KERR. Which, when corrected for the change in the purchasing power of the dollar, leaves, I believe—well, in adjusted prices for the second quarter 1956 it was \$1,713; and for the second quarter of this year, it is \$1,705.

Mr. BURGESS. That is right.

Senator KERR. So that despite an increase in the per capita disposable income from \$1,703 to \$1,754, there was actually a loss from \$1,713 to \$1,705 in comparable dollars, proving, in my judgment, that this tight money policy, rather than relieving the penalty of inflation, has accentuated it.

I do not expect you to agree to that, but I know you will agree to the figures I have put in there.

Mr. BURGESS. Well, that undoubtedly has flattened off. It is not enough change to—

Senator KERR. Well, there actually has been a reduction.

Mr. BURGESS. It is a slight reduction; yes. It is a slight reduction. These statistics, the difference is well within the range of the errors in computing figures of this sort.

Senator KERR. That is the first time that either one of us has taken refuge in that possibility.

Mr. BURGESS. Yes. [Laughter.] Perhaps not the last, Senator. [Laughter.]

Senator KERR. It might not be the last, but we will remember you were the one who set the precedent.

Mr. BURGESS. All right. I will run up the flag. [Laughter.]

Senator KERR. I want to read you some observations on the operations of the Federal Reserve Board through the late twenties when, as I called attention to yesterday, they had the same policies with reference to monetary control and interest rates in effect as those that are governing or controlling today, and I would like to see what your reaction to these quotations is.

No. 1:

The consequences of the Federal Reserve Board action were disastrous to our economy.

No. 2:

I protested to Daniel Crissinger, the Governor of the Board. I got nowhere. President Coolidge insisted the Board had been set up by Congress as an agency independent of the administration and we had no right to interfere. I was so alarmed, however, that I took up the matter with members of the Senate Banking and Currency Committee, the legislative father of the Board.

No. 3:

Referring to the spring of 1927, at this time again I urged President Coolidge, as I had done 18 months before, to send for Crissinger and express alarm at the situation. Mr. Coolidge, a strict legalist, again insisted that the Reserve Board had been created by the Congress entirely independent of the Executive and that he could not interfere.

No. 4:

I do not attribute the whole of the stock boom to mismanagement of the Federal Reserve System, but the policies adopted by that System must assume the greater responsibility.

No. 5:

The fact that action of such gigantic movement may be set on foot in a democracy without adequate public consideration or check, emphasizes the dangers of undue powers in the hands of mere individuals, governmental or private.

Mr. BURGESS. What are those dates?

Senator KERR. The first one was 1925; the second was 1925; the third one was with reference to 1927; and the last two were with reference to what happened in 1929.

Mr. BURGESS. I think, as it turned out, the policies in 1927 certainly were probably too stimulating, too easy. You got a stock market boom going that overrode all restraints at a later period.

I think the critic there is saying that the Board was allowing the boom to get out of hand in not acting more vigorously.

Senator KERR. And then acting too vigorously?

Mr. BURGESS. Well, or too late.

Senator KERR. Yes.

Mr. BURGESS. I would say too late.

Senator KERR. Do you agree with the remarks of this critic?

Mr. BURGESS. I do not think it was very well handled, from the point of view of hindsight.

Senator KERR. Do you know who this critic is?

Mr. BURGESS. No; that may have been Parker Willis.

Senator KERR. No; it was a fellow named Herbert Hoover.

Mr. BURGESS. Well, he was about right.

Senator KERR. I will read you two more of his statements in his memoirs:

At one moment the Federal Reserve's actions forced money rates for speculative purposes up to 20 percent per annum. But people who dreamed of a hundred percent profit in a week were not deterred by an interest rate of 20 percent a year. Mr. Young fully demonstrated the futility of the idea upon which the Reserve System had been founded, that it could control booms. Mr. Young—

I will read that last sentence again—

fully demonstrated the futility of the idea upon which the Reserve System had been founded, that it could control booms.

Would you agree with that?

Mr. BURGESS. No; I do not quite agree with that. I think it did show that there were gaps in the whole thing that had to be filled in; the particular gap I commented on the other day, that the major part of stock market credit was outside of the mechanisms of any control. The loans that were made, not by the banks but by corporations, loans that they called "for account of others," corporations lending their surplus money on the stock exchange, which the banks could not control, and the Federal Reserve could not control, ran up to a stupendous figure, \$5 billion or \$6 billion, and fed these fires of inflation.

Now, the margin requirement provision has, I think, plugged that loophole, that particular one.

Whether that is adequate, of course, is still open to question.

Senator KERR. Here is another observation he made:

As I look back over our whole era of boom and slump and our passage through the valley of the shadow after the European panic, I feel our own banking and financial system was the worst part of the dismal tragedy with which I had to deal.

Mr. BURGESS. I think that is a little bit strong. I sympathize with that, I certainly sympathize with his feeling that way in the face of his experience.

Senator KERR. One more:

The theory of the Federal Reserve System can well be repeated here. The idea was that speculation could be checked by increasing interest rates and restricting credit by open market operations.

That sounds like it has just been taken out of your remarks, Doctor.

And, on the other hand, that business could be activated by decreasing interest rates and expanding credit by open market operations. Experience had amply demonstrated that decreased rates and open market operations could stimulate speculation in good times, but we were soon to prove that they could not activate business in bad times. Thus, these activities proved incapable of either checking booms or checking depression, and the System stimulated a false sense of security which in itself led to excesses.

Mr. BURGESS. Well, while it may be a little strong, it is nevertheless a true statement. If people think they can rely solely on the Reserve System to take care of this economy, and all the rest of us can go right along and do just whatever we please, why, of course it is wrong.

Senator KERR. I think that those observations from one who had to walk through that valley of the shadow—

Mr. BURGESS. That is right. I walked there, too.

Senator KERR. Yes. Well, so did I, but in a less responsible situation and one less disastrous.

Mr. BURGESS.. I also.

Senator KERR (continuing). Should compel us to reevaluate the situation wherein similar policies are being used, if not to a comparable, to a considerable extent, and apparently for the same spoken justifications as were given then.

Mr. BURGESS. No. I think there is a difference there.

Of course, Mr. Hoover's statement emphasized the fact that earlier in the twenties, in 1925 and 1927, he felt that the Reserve System was not exercising its powers wisely in restraint, and I think that is a fair statement.

Senator KERR. They have the same powers today they had then; do they not?

Mr. BURGESS. No. They have more.

Senator KERR. They have more?

Mr. BURGESS. They have more.

Senator KERR. And they are exercised today as they were then, by a limited group of men?

Mr. BURGESS. Yes.

Senator KERR. And they are now equally isolated from approach or control by the people whose welfare is so dependent upon their action.

Mr. BURGESS. Well, I do not agree to that, Senator.

Senator KERR. Well, do you remember the remark you made here yesterday when I asked you what would have happened if the Federal Reserve had not taken the 60 percent of your offering last week?

Mr. BURGESS. Well, that is another question.

Senator KERR. I say, Do you remember what you said?

Mr. BURGESS. I do; yes. I do.

Senator KERR. You said they could——

Mr. BURGESS. They had to.

Senator KERR. You said they could have broken the country.

Mr. BURGESS. Yes; that is right.

Senator KERR. Yet——

Mr. BURGESS. They could have made it very difficult.

Senator KERR. And yet, they, and they alone, made that decision; did they not?

Mr. BURGESS. Yes; I think that is a fair statement.

Senator KERR. Seven men.

Mr. BURGESS. No. That was the whole System made that decision. Let's go back to our 127.

Senator KERR. What?

Mr. BURGESS. Let's go back to our 127.

Senator KERR. We are discussing this thing philosophically and, after a good deal of discussion the other day, I thought we agreed that the seven men had the power of ultimate decision.

Mr. BURGESS. No; I never agreed to that, Senator. I said that the whole System had its opinion brought to bear on all these decisions. If they had——

Senator KERR. They had the advice of the whole group if they wanted it.

Mr. BURGESS. No. It goes further than that.

Senator KERR. Who voted on the action?

Mr. BURGESS. That is the Open Market Committee.

Senator KERR. Well, how many members do they have on the Open Market Committee?

Mr. BURGESS. Twelve actually voting members.

Senator KERR. I know; but how many of the 12 are Governors of the System here?

Mr. BURGESS. Seven.

Senator KERR. Seven out of the twelve.

Mr. BURGESS. And then 5, but the five come from banks all over the country, representing the opinion of their directors and of the opinion throughout their areas. They are very open to information about the whole situation.

Senator KERR. Suppose the 7 men had decided they would not do it; could the 5 have done it?

Mr. BURGESS. No.

Senator KERR. No; they could not?

Mr. BURGESS. No. And the 5—the 7 would have had to be unanimous among themselves.

Senator KERR. But had the seven Governors decided not to do it, that would have been the decision; would it not, Doctor?

Mr. BURGESS. Yes.

Senator KERR. Now then, let us look for a moment again at that overall group. Every one of them comes from the banking fraternity?

Mr. BURGESS. No, sir. No, sir.

Senator KERR. What percentage of them?

Mr. BURGESS. The majority of the directors of the Federal Reserve banks are nonbankers. They are businessmen.

Senator KERR. Who elects them?

Mr. BURGESS. The banks elect them, but without any commitments on their part.

Senator KERR. Now, Doctor, I do not presume to reach into the innermost recesses of your mind and state what is there, nor do I credit you with being able to reach into the innermost recesses of the minds of others and categorically state what is there, and I doubt if you want to get into the posture of so claiming yourself. You are entitled to the opinion that they do it without commitments.

Mr. BURGESS. Well, I have seen them operate for a great many years.

Senator KERR. I say you are entitled to an opinion, but you are not in position to make that statement——

Mr. BURGESS. I will go beyond that. I have seen these directors operate year after year. I know that when they are elected by these banks, country banks and city banks, they do not regard themselves as having any commitments. They are elected in the public interest for a public service. And they do not want these positions.

Senator KERR. I do not ever remember having a chance to vote for a director.

Mr. BURGESS. Well, I do not know whether you are a director——

Senator KERR. There are two million three hundred-some thousand people in Oklahoma, and I do not believe there are more than 20 of them that ever get to vote on that.

Mr. BURGESS. I think there are more than that, Senator.

Senator KERR. Well, a hundred, maybe.

Mr. BURGESS. Are you a director of a bank there?

Senator KERR. No; I am not.

Mr. BURGESS. I am surprised they let you get away this long without being a director of a bank.

Senator KERR. I will tell you about that, Doctor. I always insist on speaking my piece.

I sent you a letter, and you have brought some answers here. Do you have the rest of the answers now to those questions?

Mr. BURGESS. Yes, sir.

Senator KERR (reading) :

Beginning in January 1953, and thereafter, would you state the policy directives adopted by Federal Open Market Committee. Indicate whether each marked a change in previous monetary policy and the direction of the change.

Now, is the one you gave us here a while ago your answer to that?

Mr. BURGESS. Well, I would like to hand over a very complete tabulation which we asked the Federal Reserve Board to compile from their records; they are from published records in the annual report, which show the changes from month to month, and so on.

The law required—the Banking Act of 1935, I think it was—that the Federal Reserve should publish in its annual report every policy decision taken by the Board or by the Open Market Committee, and so they are all recorded.

Those are quoted here, together with an indication of the purpose. Of course, you can interpret that in terms of broad swing, Senator. Could I summarize it instead of going through it in detail?

Senator KERR. I want the entire answer in the record.

Mr. BURGESS. Yes, sir.

Senator KERR. And I would rather reserve the time for some specific detailed questions a little further on.

Mr. BURGESS. Yes.

(The information referred to is as follows:)

I. Beginning in January 1953 and thereafter, (a) state the policy directives adopted by Federal Open Market Committee. Indicate whether each marked a change in previous monetary policy and the direction of the change.

The policy directives adopted by the Federal Open Market Committee and the reasons for their adoption are set forth in the Record of Policy Actions of the Federal Open Market Committee prepared annually by the Board of Governors of the Federal Reserve System, in accordance with the requirements of the Federal Reserve Act, and published in the annual reports of the Board of Governors. Copies of these reports for the years 1953-56 are submitted herewith. The record for 1957 will not be available until next year.

The records of Open Market Committee actions may be found in the annual reports on the following pages:

	<i>Pages</i>
1953 annual report.....	86-105
1954 annual report.....	92-98
1955 annual report.....	89-111
1956 annual report.....	17-47

Attached are summaries of the principal Federal Reserve policy actions from the beginning of 1953 to the end of 1956, with brief explanations of the purposes of such actions. These summaries have been prepared by the Board of Governors of the Federal Reserve System and previously published by the Joint Economic Committee of Congress or by the Board of Governors.

*Use of Federal Reserve instruments, January 1953–December 1956*

Date	Action	Purpose of action	
		Intent with respect to effect on credit and money	Explanation
<b>January 1953</b> .....	Raised discount rates from 1½ to 2 percent and buying rates on 90-day bankers' acceptances from 1⅞ to 2½ percent.	Restrictive.....	To bring discount rates as well as buying rates on acceptances into closer alignment with open market money rates and to provide an additional deterrent to member bank borrowing from the Reserve banks.
<b>February 1953</b> .....	Reduced margin requirements on loans for purchasing or carrying listed securities from 75 to 50 percent of market value of securities.	None.....	To reduce margin requirements from the high level imposed early in 1951, in the judgment that the lower requirement would be adequate to prevent excessive use of credit for purchasing and carrying stocks.
<b>May and June 1953</b> .....	Purchased in open market about \$900,000,000 U. S. Government securities.	Relief of credit market tensions.	To provide banks with reserves and to permit a reduction of member bank borrowing from the Reserve banks at a time when such borrowing was high, credit and capital markets were showing strain, and seasonal needs for funds were imminent.
<b>July 1953</b> .....	Reduced reserve requirements on net demand deposits by 2 percentage points at central Reserve city banks and by 1 percentage point at Reserve city and country banks, thus freeing an estimated \$1,200,000,000 of reserves.	Expansive.....	To free additional bank reserves for meeting expected seasonal and growth credit demands, including Treasury financing needs, and to further reduce the pressure on member bank reserve positions.
<b>July to December 1953</b> .....	Made net purchases in open market of U. S. Government securities totaling \$1,700,000,000.	.....do.....	To provide banks with reserves to meet seasonal and growth needs and to offset a continuing gold outflow with little or no additional recourse to borrowing. This action and the one below were taken in pursuance of a policy of active ease adopted in view of the business downturn.
<b>January to June 1954</b> .....	Limited net sales to about \$900,000,000 of U. S. Government securities in open market.	.....do.....	To absorb only part of the reserves made available by the seasonal deposit contraction and return flow of currency, thereby further easing bank reserve positions.
<b>February 1954</b> .....	Reduced discount rates from 2 to 1¾ percent and buying rates on 90-day bankers' acceptances from 2¼ to 1¾ percent.	.....do.....	To bring discount rates as well as buying rates on bankers' acceptances into closer alignment with market rates of interest and to eliminate any undue deterrent to bank borrowing from the Reserve banks for making temporary reserve adjustments.
<b>April and May 1954</b> .....	Reduced discount rates from 1¾ to 1½ percent and buying rates on 90-day bankers' acceptances from 1¾ to 1½ percent.		

## Use of Federal Reserve instruments, January 1953–December 1956—Continued

Date	Action	Purpose of action	
		Intent with respect to effect on credit and money	Explanation
June to August 1954.....	Reduced reserve requirements on net demand deposits by 2 percentage points at central Reserve city banks and by 1 percentage point at Reserve city and country banks, and requirements on time deposits by 1 percentage point at all member banks, thus freeing about \$1,500,000,000 of reserves in the period June 16–Aug. 1.	.....do.....	To supply the banking system with reserves to meet expected growth and seasonal demands for credit and money, including Treasury financing needs.
Do.....	Sold or redeemed U. S. Government securities totaling about \$1,000,000,000 in July and August.	Cushioning.....	Reductions in reserve requirements were offset in part by temporary sales of securities in order to prevent excess reserves from increasing unduly at the time, but security purchases were resumed as need for funds developed.
September and November 1954.	Made net purchases in open market of approximately \$850,000,000.	Expansive.....	To supply the banking system with reserves to meet expected growth and seasonal demands for credit and money.

Date	Action	Purpose of action
December 1954.....	Made net purchases of U. S. Government securities in open market of less than \$50,000,000, all under repurchase agreements with dealers and brokers. Member bank borrowing increased to an average of \$250,000,000 in December.	To meet part of the temporary end-of-year needs of banks for reserve funds, but in view of rising credit demands, to permit these needs to be reflected in part in slightly less easy reserve positions.
January-June 1955.....	Sold in the open market or redeemed U. S. Government securities totaling \$1,300,000,000. Member bank borrowing increased to an average of more than \$400,000,000 in the 2d quarter.	To offset effects of seasonal factors affecting bank reserve positions and, in view of strong credit demands, to bring about somewhat greater member bank borrowing from Federal Reserve banks.
January 1955..	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 60 percent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities in a period of increasing use of credit for carrying securities.
April 1955...	Raised margin requirements on loans for purchasing or carrying listed securities from 60 to 70 percent of market value of securities.	Do.
Do.....	Raised discount rates from $1\frac{1}{4}$ to $1\frac{3}{4}$ percent.	To bring discount rates into closer alignment with open market money rates and make borrowing by individual banks more expensive.
March-December 1955...	Made net purchase of bankers' acceptances in open market totaling \$28,000,000.	To recognize increased use of bankers' acceptances by business as a means of financing international trade.
July-December 1955.....	Made outright purchases of Treasury bills in the open market totaling \$700,000,000 net and increased repurchase agreements with dealers and brokers by \$300,000,000. Member bank borrowing increased to an average of about \$850,000,000 in September and more than \$1,000,000,000 in November but declined to about \$850,000,000 in December.	To meet part of reserve needs associated with seasonal factors, thus requiring banking system to meet needs in part by further increasing indebtedness. This action was taken with a view to providing for seasonal needs while limiting undue expansion of bank credit.
November-December 1955.	Purchased when-issued Treasury certificates of indebtedness totaling \$167,000,000.	To facilitate Treasury refunding in period of money market stringency. Supply of reserve was consistent with overall open-market policy at time.
August-September 1955..	Increased discount rates from $1\frac{1}{4}$ to $2\frac{1}{4}$ percent. This increase was made in 2 steps at all Reserve banks except Cleveland.	To keep discount rates in an appropriate relationship with market rates of interest and thus maintain a deterrent on excessive borrowing by individual banks at the Reserve banks.
November 1955.....	Increased discount rates from $2\frac{1}{4}$ to $2\frac{3}{4}$ percent.	
January 1956.....	Reduced System holdings of United States Government securities by over \$1,400,000,000 through sales in the market, redemption of maturing bills, and termination of repurchase agreements. Member bank borrowings increased to weekly averages of \$900,000,000 in late January.	To offset seasonal return flow of currency and reduction in reserve needs and restore degree of restraint prevailing before December action to moderate restraint temporarily.
February and March 1956.	Bought small amounts of Government securities at times. Member bank borrowings declined somewhat in February but increased substantially in March as result of sharp increase in required reserves.	To meet changing reserve needs and avoid an increasing degree of credit restraint in view of growing tone of uncertainty as to economic prospects.
April and May 1956....	Discount rates raised from $2\frac{3}{4}$ percent to 2 $\frac{1}{2}$ percent at 10 reserve banks and to 3 percent at 2 banks around middle of April; System holdings of U. S. Government securities reduced by \$350,000,000. Member bank borrowings at Reserve banks rose to over \$1,000,000,000.	To increase restraint on credit expansion, in view of sharp increase in bank credit in March and indications of broad increase in spending, growing demands for credit, and upward pressures on prices and costs.
Late May to early August 1956.	Increased System holdings of U. S. Government securities around end of May and end of June and maintained holdings at higher level than in previous period.	To meet currency needs around holidays, to cover added demands for reserves around tax payment and midyear settlement periods, and to avoid increasing the degree of restraint in view of uncertainties in economic situation.

Date	Action	Purpose of action
August–November 1956...	Discount rates raised late in August to 3 percent at the 10 reserve banks with rates of 2½ percent. System holdings of U. S. Government securities increased by nearly \$1,000,000,000; member bank borrowings at reserve banks rose to average of \$900,000,000 in August and averaged between \$700,000,000 and \$800,000,000 in other months.	Discount rates increased in conformity with rise in market rates resulting from vigorous credit demands. Policies designed to increase and maintain restraint on undue credit expansion while covering seasonal and other temporary variations in reserve needs, including effects of frequent Treasury financing operations.
December 1956.....	System holdings of U. S. Government securities and bankers' acceptances increased by over \$550,000,000, including substantial repurchase agreements with dealers. Member bank borrowings declined to weekly averages of around \$600,000,000, except in last week of year, and at times were less than excess reserves.	To supply reserve funds in recognition of additional pressures in money, credit, and capital markets resulting from seasonal factors and international conditions, at a time when lower liquidity ratios of banks were themselves exerting restraint on bank lending.

Sources: Flanders Subcommittee Hearings on Monetary Policy, Dec. 6 and 7, 1954, pp. 14–15. Joint Committee Hearings on the President's Economic Report, January–February 1956, p. 258. 43d Annual Report of the Board of Governors of the Federal Reserve System, p. 16.

Prepared by Government Finance Section, Board of Governors, July 26, 1957.

Senator KERR (reading) :

(b) Describe each Treasury financing action, other than the regular weekly bill offerings but including regular weekly bill offerings where the Treasury increased the amount authorized to raise additional cash.

Do you have a tabulation of those?

Mr. BURGESS. Yes, I have.

Senator KERR. Let the clerk have one.

Mr. BURGESS. Yes.

Shall we pass all the answers around so you will have the whole thing?

Senator KERR. I think you should do it as we come to it.

Mr. BURGESS. All right.

To go over this in detail——

Senator KERR. I take it the last two pages get down——

Mr. BURGESS. The last page gives you the Treasury bills where we increased the amounts. We have, over this period, increased our weekly bill offerings by several hundred million a week.

Senator KERR. As I read this, the total increase, against which I see no reductions, is \$4.7 billion.

Mr. BURGESS. That is correct; yes.

We have found the market would take those Treasury bills and they wanted them. That is partly due to the fact that the amount of cash in corporations has increased a great deal, and they are very desirous of investing in this kind of obligation.

It takes it out of the banking system. It provides them with liquidity, and they carry bills partly as tax reserves. So just by experience, we have found that that was a good way to get some of the money we needed.

Senator KERR. Now then, as of March 14, the overall increase in the weekly bill offerings, as compared to the start of them in 1953, is \$4.7 billion.

Mr. BURGESS. Yes, that is right. Yes.

Senator KERR. There has been none since March 14?

Mr. BURGESS. None since March 14.

Senator KERR. Will the reporter put that into the record, Mr. Chairman, at this point?

The CHAIRMAN. Without objection, it will be inserted.

(The information referred to is as follows:)

I. (b) Data on Treasury financing actions since January 1953 are covered in considerable detail in appendix B attached to my opening statement to the Senate Finance Committee. In addition, you may be interested in the following tables on (1) offerings of marketable issues of Treasury bonds, notes and certificates, and (2) disposition of matured marketable issues of Treasury bonds, notes and certificates, beginning with January 1953, as excerpted from the Treasury Bulletin. There is also attached a table showing the increases in offerings of regular weekly Treasury bills since January 1953.

## DEBT OPERATIONS

Table 3.- Offerings of Marketable Issues of Treasury Bonds, Notes, and Certificates of Indebtedness

Date subscription books were opened	Date of issue	Description of security	Period to -		Amount of subscriptions tendered		Amount issued		Allotment ratio
			Maturity	First call	Cash 1/	Exchange	Per cash 1/	In exchange for other securities 1/	
							(In millions of dollars)		
2/2/53	2/15/53	2-1/4% Certificate - 2/15/54-A	1 yr	.....	-	8,113	-	8,113	100
	2/15/53	2-1/2% Bond - 12/15/56 1/	5 yr 10 m	.....	-	620	-	620	
1/	4/1/53	1-1/2% Note - 4/1/56-BA	5 yr	.....	-	383	-	383	100
4/13/53	3/1/53	3-1/4% Bond - 6/15/58-B	30 yr 1 1/2 m	25 yr 1 1/2 m	5,250	418 1/2	1,188	418 1/2	5/
5/20/53	6/1/53	2-5/8% Certificate - 6/1/54-B	1 yr	.....	-	4,858	-	4,858	100
7/6/53	7/15/53	2-1/2% Certificate - (tax amt. 1/)	1 yr	.....	6,607	-	5,902	-	8/
8/5/53	8/15/53	2-5/8% Certificate - 8/15/54-B	1 yr	.....	-	2,788	-	2,788	100
9/2/53	9/15/53	2-5/8% Certificate - 9/15/54-B	1 yr	.....	-	4,724	-	4,724	100
	9/15/53	2-7/8% Note - 3/15/57-A	3 yr 6 m	.....	-	2,997	-	2,997	100
1/	10/1/53	1-1/2% Note - 10/1/56-20	5 yr	.....	-	121	-	121	100
10/28/53	11/5/53	2-3/4% Bond - 9/15/61	7 yr 10 m	.....	12,343	-	2,239	-	2/
11/18/53	12/1/53	1-7/8% Note - 12/1/54-B	1 yr 3 m	.....	-	6,175	-	6,175	100
	12/1/53	2-1/2% Bond - 12/15/56 1/	5 yr 10 m	.....	-	1,748	-	1,748	100
1/1/54	2/15/54	1-5/8% Certificate - 2/15/55-A	1 yr	.....	-	7,007	-	7,007	100
	2/15/54	1-1/4% Bond - 11/15/61	7 yr 9 m	.....	-	11,177	-	11,177	100
1/	4/1/54	1-1/2% Note - 4/1/56-BA	5 yr	.....	-	119	-	119	100
5/4/54	5/1/54	1-7/8% Note - 8/15/59-A	4 yr 9 m	.....	9,750	-	2,805	-	10/
7/5/54	5/1/54	1-1/4% Certificate - 5/1/55-B	1 yr	.....	-	2,897	-	2,897	100
	7/5/54	15 Certificate - (tax amt. 11/)	7 1/2 m	.....	-	3,086	-	3,086	100
7/21/54	8/8/54	15 Certificate - (tax amt. 11/)	7 1/2 m	.....	9,250	-	1,774	-	12/
8/5/54	8/15/54	1-1/8% Certificate - 8/15/55-B 11/	1 yr	.....	-	3,258	-	3,258	100
	8/15/54	2-1/8% Bond - 11/15/60	6 yr 3 m	.....	-	3,806	-	3,806	100
9/23/54	10/4/54	1-5/8% Note - 5/15/57-B	2 yr 7 1/2 m	.....	8,190	-	4,195	-	15/
1/	10/1/54	1-1/2% Note - 10/1/56-20	5 yr	.....	-	99	-	99	100
11/28/54	8/15/54	1-1/8% Certificate - 8/15/55-B 11/	1 yr	.....	-	4,919	-	4,919	100
	12/15/54	1-1/4% Certificate - 12/15/55-B	1 yr	.....	-	5,359	-	5,359	100
	12/15/54	2-1/2% Bond - 8/15/63	8 yr 8 m	.....	-	6,755	-	6,755	100
	2/15/55	1-5/8% Note - 3/15/56-A	1 yr 1 m	.....	-	8,472	-	8,472	100
2/1/55	2/15/55	2% Note - 8/15/57-C	2 yr 6 m	.....	-	3,798	-	3,798	100
	2/15/55	3% Bond - 2/15/59 15/	40 yr	.....	-	1,924	-	1,924	100
3/22/55	4/1/55	1-3/8% Certificate - (tax amt. 16/)	2 1/2 m	.....	7,938	-	3,210	-	12/
1/	4/1/55	1-1/2% Note - 4/1/56-BA	5 yr	.....	-	198	-	198	100
5/3/55	5/1/55	2% Note - 8/15/56-B 11/	1 yr 3 m	.....	3,989	3,174	2,332	3,174	18/
7/8/55	7/18/55	1-7/8% Certificate - (tax amt. 11/)	8 m	.....	10,600	-	2,202	-	25/
7/11/55	2/15/55	3% Bond - 2/15/59 15/	40 yr	.....	1,720	-	821	-	21/
	8/1/55	2% Certificate - 6/22/56-B	10 1/2 m	.....	-	1,486	-	1,486	100
7/20/55	5/1/55	2% Note - (tax amt. 22/)	1 yr 3 m	.....	-	6,841	-	6,841	100
10/1/55	10/11/55	2-1/4% Certificate - (tax amt. 22/)	8 m	.....	8,778	-	2,970	-	11/
1/	10/1/55	1-1/2% Note - 10/1/56-20	5 yr	.....	-	278	-	278	100
11/28/55	12/1/55	2-5/8% Certificate - 12/1/56-D	1 yr	.....	-	9,083	-	9,083	100
	12/1/55	2-7/8% Note - 6/15/58-A 25/	2 yr 6 m	.....	-	2,283	-	2,283	100
3/5/56	3/5/56	2-5/8% Certificate - 2/15/57-A	11 1/2 m	.....	-	7,219	-	7,219	100
	12/1/55	2-7/8% Note - 6/15/58-A 25/	2 yr 6 m	.....	-	2,109	-	2,109	100
1/	4/1/56	1-1/2% Note - 4/1/61-BA	5 yr	.....	-	144	-	144	100
7/16/56	7/16/56	2-3/4% Note - 8/1/57-D	1 yr 3 m	.....	-	12,056	-	12,056	100
8/6/56	8/15/56	2-1/4% Certificate - (tax amt. 22/)	7 m	.....	10,613	-	3,221	-	25/
1/	10/1/56	1-1/2% Note - 10/1/61-20	5 yr	.....	-	332	-	332	100
	12/1/56	3-1/4% Certificate - 6/24/57-C	6 1/2 m	.....	-	1,312	-	1,312	100
11/19/56	12/1/56	3-1/4% Certificate - (tax amt. 21/)	10 m	.....	-	7,271	-	7,271	100
	12/1/56	3-1/4% Certificate - 10/1/57-D	10 m	.....	-	7,271	-	7,271	100
2/4/57	2/15/57	3-7/8% Certificate - 2/15/58-A 25/	1 yr	.....	-	8,424	-	8,424	100
	2/15/57	3-1/4% Note - 5/15/60-A 25/	3 yr 3 m	.....	-	1,464	-	1,464	100
3/18/57	2/15/57	3-7/8% Certificate - 2/15/58-A 25/	1 yr	.....	7,439 p	-	2,417 p	-	25/
	2/15/57	3-1/2% Note - 5/15/60-A 25/	3 yr 3 m	.....	5,868 p	-	962 p	-	100
1/	4/1/57	1-1/2% Note - 4/1/62-BA	5 yr	.....	-	80	-	80	100
5/6/57	5/1/57	3-1/2% Certificate - 4/15/58-A	11 1/2 m	.....	-	2,351 p	-	2,351 p	100
	5/1/57	3-5/8% Note - 2/15/62-A	4 yr 9 m	.....	-	647 p	-	647 p	100

Footnotes on following page.

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## DEBT OPERATIONS

## Footnotes to Table 3

Sources: Bureau of the Public Debt. Preliminary figures are from subscription and allotment reports; final figures are on "clearance" basis in daily Treasury statement.

✓ Consists of all public cash subscriptions and subscriptions by United States Government investment accounts.

✓ For maturing securities exchanged for the new issues, see Table 3. The 2-1/2% bonds dated February 15, 1953, were reopened with all the bonds of the series identical in all respects, as an exchange offering for the 2-1/8% notes which matured December 1, 1953. Total exchanges in the two offerings amounted to \$2,368 million.

✓ Exchange offering available to owners of nonmarketable 2-3/4% Treasury Bonds, Investment Series B-1975-80, dated April 1, 1951. For further information on the original offering see "Treasury Bulletin" for April 1951, page A-1. Amounts shown are as of June 30, 1951.

✓ The bond offering was made available for exchange of Series F and G savings bonds maturing from May 1 through December 31, 1953.

✓ Total allotments on cash subscriptions were limited to approximately \$1,000 million. Nonbank subscriptions in amounts up to and including \$5,000 were allotted in full. All other subscriptions were allotted 20 percent. Commercial banks' subscriptions were restricted to an amount not exceeding 5 percent of their time deposits as of December 31, 1952. The Treasury also reserved the right to allot limited amounts of these bonds to Government investment accounts, which subscribed to a total amount of \$118 million.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due March 15, 1954.

✓ Subscriptions for amounts up to and including \$100,000 were allotted in full. Subscriptions for amounts over \$100,000 were allotted 67 percent but in no case less than \$100,000.

✓ Subscriptions for amounts up to and including \$10,000 were allotted in full. Subscriptions from mutual savings banks, insurance companies, pension and retirement funds, and State and local governments were allotted 26 percent. All others, including commercial banks, were allotted 16 percent but not less than \$10,000 on any one subscription.

✓ Subscriptions for amounts up to and including \$10,000 were allotted in full. All other subscriptions were allotted 22 percent but in no case less than \$10,000.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due March 15, 1955.

✓ Subscriptions for amounts up to and including \$50,000 were allotted in full. Subscriptions for amounts over \$50,000 were allotted 50 percent but in no case less than \$50,000.

✓ The 1-1/8% certificates dated August 15, 1954, were reopened with all the certificates of the series identical in all respects, as an exchange offering for the 1-7/8% notes which matured December 15, 1954. The 2% bonds which matured December 15, 1954, and the 2% bonds which were called for redemption on December 15, 1954, total exchanges in the two offerings amounted to \$4,477 million.

✓ Subscriptions for amounts up to and including \$50,000 were allotted in full. Subscriptions for amounts over \$50,000 were allotted 50 percent but in no case less than \$50,000.

✓ The 2% bonds dated February 15, 1955, were reopened with all the bonds of the series identical in all respects, as an additional cash offering on July 11, 1955. The total amount issued in the two operations was \$2,745 million.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1955.

✓ The 2% notes dated May 17, 1955, were reopened with all the notes of the series identical in all respects, as an exchange offering for the 1-1/8% certificates maturing August 15, 1955. Total exchanges in the two offerings amounted to \$10,015 million.

✓ Cash subscriptions for \$100,000 or less were allotted in full. Subscriptions for more than \$100,000 were allotted 62 percent but in no case less than \$100,000.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due March 15, 1956.

✓ Subscriptions for \$100,000 or less were allotted in full. Subscriptions for more than \$100,000 were allotted 19 percent but in no case less than \$100,000.

✓ Subscriptions from savings-type investors totaled \$749 million and were allotted 65 percent. Subscriptions from all other investors totaled \$700 million and were allotted 30 percent. Subscriptions for \$25,000 or less were allotted in full. Subscriptions for more than \$25,000 were allotted not less than \$25,000. In addition to the amount allotted to the public, \$25 million of the bonds were allotted to Government investment accounts. Savings-type investors were given the privilege of deferring payment for the bonds, provided that not less than 25 percent of the bonds allotted were paid for by July 20, 1955, not less than 60 percent by September 1, 1955, and full payment by October 3, 1955.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1956.

✓ Subscriptions for \$100,000 or less were allotted in full. Subscriptions for more than \$100,000 were allotted 32 percent but in no case less than \$100,000.

✓ The 2-7/8% notes dated December 1, 1955, were reopened with all the notes of the series identical in all respects, as a partial exchange offering for the 1-5/8% notes maturing March 15, 1956. Total exchanges in the two offerings amounted to \$6,192 million.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due March 15, 1957.

✓ Subscriptions for \$100,000 or less were allotted in full. Subscriptions for more than \$100,000 were allotted 29 percent but in no case less than \$100,000.

✓ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1957.

✓ The 3-3/8% certificates dated February 15, 1957, and the 3-1/2% notes dated February 15, 1957, were reopened with all the certificates and notes of each series identical in all respects, as an additional cash offering on March 18, 1957. Total issues in the two offerings amounted to \$10,451 million for the certificates and \$2,406 million for the notes.

✓ Subscriptions in excess of \$100,000 were allotted 31 percent for the certificates and 12 percent for the notes. Subscriptions for \$100,000 or less for both issues were allotted in full and subscriptions for more than \$100,000 were allotted not less than \$100,000. In addition to the amount allotted to the public, \$100 million of the notes were allotted to Government investment accounts.

✓ Preliminary.

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## DEBT OPERATIONS

Table 5.- Disposition of Matured Marketable Issues of Treasury Bonds, Notes, and Certificates of Indebtedness

Date of refunding or retirement	Called or maturing security 1/			Disposition offered by Treasury		Results of exchange offers		Description of new security offered
	Description	Issue date	Amount outstanding	Cash retirement	Exchange security offered	Exchanged	Turned in for cash 2/	
(In millions of dollars)								
2/15/53	1-7/8% Certificate - 2/15/53-4	3/1/52	8,868	-	8,868	8,734 1/	134	2-1/8% Certificate - 2/15/54-4 2-1/8% Bond - 12/15/58 1/
6/1/53	5-7/8% Certificate - 6/1/53-5	7/1/52	4,363	-	4,363	4,440	777	
6/15/53	5% Bond - 6/15/53-55	10/7/50	722	-	722	448	274	2-7/8% Certificate - 6/15/54-5
	Total.....		5,688	-	5,688	4,888	800	
8/15/53	5% Certificate - 8/15/53-5	8/15/52	2,882	-	2,882	2,768	95	2-5/8% Certificate - 8/15/54-5
9/15/53	5% Bond - 9/15/53-55	9/15/53	7,986	-	7,986	7,781 1/	206	2-5/8% Certificate - 9/15/54-5 2-7/8% Note - 3/15/57-4
11/1/53	2-1/8% Note - 12/1/53-4	10/1/52	10,342	500 3/	10,048	9,983 1/	118	1-7/8% Note - 12/15/54-4 2-1/8% Bond - 12/15/58 1/
	2-1/8% Certificate - 2/15/53-4	8/15/53	8,114	-	8,114	7,647 4,360	108	1-5/8% Certificate - 2/15/54-4 2-1/8% Bond - 11/15/54
	1-3/8% Note - 3/15/54-4	12/15/53	4,675	-	4,675	4,237	78	1-5/8% Certificate - 2/15/54-4 2-1/8% Bond - 11/15/54
2/15/54	5% Bond - 6/15/52-54	6/26/54	5,825	-	5,825	4,081	1,743 6/	
	2-1/8% Bond - 6/15/52-55	2/25/52	1,501	-	1,501	1,128	373 5/	2-1/8% Bond - 11/15/54
	2-1/8% Bond - 6/15/54-56	7/22/50	681	-	681	369	312 5/	
	Total.....		20,796	-	20,796	18,184	2,612 5/	7,007 of 1-5/8% Certificate 11,177 of 2-1/8% Bond
3/28/54	2-1/8% Certificate - 3/28/54-5	7/15/53	5,902	5,902 1/	-	-	-	
	5% Bond - 6/15/52-54	6/26/54	1,743	-	1,743	1,509	234	
	2-1/8% Bond - 6/15/54-56	8/25/52	373	-	373	322	51	1-1/8% Certificate - 5/17/55-5
	2-1/8% Bond - 6/15/54-56	7/22/50	311	-	311	273	38	1-7/8% Note - 2/15/59-4
5/17/54	2-7/8% Certificate - 6/15/54-5	6/1/53	4,858	-	4,858	4,786 2,827	175	1-3/8% of 1-1/8% Certificate 2,827 of 1-7/8% Note
	Total.....		7,285	-	7,285	6,783	502	1,086 of 1-1/8% Certificate 2,827 of 1-7/8% Note
8-5/54	2-5/8% Certificate - 8/15/54-5	8/15/53	2,788	-	2,788	1,005 1,128	75	1-1/8% Certificate - 8/15/55-5 2-1/8% Bond - 11/15/58
8/15/54	2-5/8% Certificate - 9/15/54-5	9/15/53	4,724	-	4,724	2,553 2,078	91	1-1/8% Certificate - 8/15/55-5 2-1/8% Bond - 11/15/58
	Total.....		7,512	-	7,512	7,364	148	3,228 of 1-1/8% Certificate 5/ 1,177 of 2-1/8% Bond
12/1/54	1-7/8% Note - 12/1/54-5	12/1/53	8,175	-	8,175	4,498 3,289	43	1-1/8% Certificate - 8/15/55-5 1-1/8% Certificate - 12/15/55-5 2-1/8% Bond - 8/15/58
	5% Bond - 12/15/52-54	12/1/54	8,662	-	8,662	407 6,008	243	1-1/8% Certificate - 8/15/55-5 1-1/8% Certificate - 12/15/55-5 2-1/8% Bond - 8/15/58
12/15/54	5% Bond - 12/15/51-55	12/15/51	510	-	510	14 88 360	29	1-1/8% Certificate - 8/15/55-5 1-1/8% Certificate - 12/15/55-5 2-1/8% Bond - 8/15/58
	Total.....		17,347	-	17,347	17,093	315	4,919 of 1-1/8% Certificate 6/ 5,359 of 2-1/8% Bond 6,755 of 2-1/8% Bond
2/15/55	1-5/8% Certificate - 2/15/55-4	2/15/54	7,007	-	7,007	5,735 1,166	106	1-5/8% Note - 3/15/56-4 2% Note - 8/15/57-4
	1-1/8% Note - 3/15/55-4	3/15/55	5,365	-	5,365	2,418 2,606	326	1-5/8% Note - 3/15/56-4 2% Note - 8/15/57-4
	2-7/8% Bond - 3/15/55-60	3/15/55	2,611	-	2,611	123 1,904	364	1-5/8% Note - 3/15/56-4 3% Bond - 2/15/59
	Total.....		14,983	-	14,983	14,188	795	8,472 of 1-5/8% Note 3,792 of 2% Note 1,904 of 3% Bond
3/28/55	1% Certificate - 3/28/55-5	8/2/54	3,734	3,734 2/	-	-	-	2% Note - 8/15/56-5 10/
5/17/55	1-1/8% Certificate - 5/17/55-5	5/17/54	1,886	-	1,886	3,174	712	2% Note - 8/15/56-5 10/
6/22/55	1-3/8% Certificate - 6/22/55-5	4/1/55	3,210	3,210 11/	-	-	-	2% Certificate - 6/22/56-5 11/
8/1/55	1-1/8% Certificate - 8/15/55-5	8/15/54	8,477	-	8,477	1,486 6,841	149	2% Certificate - 6/22/56-5 11/
	1-1/8% Certificate - 12/15/55-5	12/15/54	5,359	-	5,359	1,158 814	387	2-5/8% Certificate - 12/15/56-4 2-7/8% Note - 6/15/58-4
12/15/55	1-3/8% Note - 12/15/55-5	12/15/55	6,824	-	6,824	1,404 1,404	460	2-5/8% Certificate - 12/15/56-4 2-7/8% Note - 6/15/58-4 11/
	Total.....		12,213	-	12,213	11,366	847	9,083 of 2-5/8% Certificate 2,281 of 2-7/8% Certificate

(Continued on following page)

## Treasury Bulletin

## DEBT OPERATIONS

Table 5.- Disposition of Matured Marketable Issues of Treasury Bonds, Notes, and Certificates of Indebtedness - (Continued)

Date of refunding or retirement	Called or maturing security 1/			Disposition offers by Treasury		Results of exchange offers		Description of new security offered
	Description	Issue date	Amount outstanding	Cash retirement	Exchange security offered	Ex- changed	Turned in for cash 2/	
(In millions of dollars)								
3/5/56	1-5/8% Note - 3/15/56-A	2/15/55	8,472		8,472	{ 6,215 2,109 }	146	{ 2-5/8% Certificate - 8/15/57-A 2-7/8% Note - 6/15/56-B 11/ 2-5/8% Certificate - 8/15/57-A 7,219 of 2-5/8% Certificate 2,109 of 2-7/8% Note
	1-1/2% Note - 4/1/56-EA	4/1/51	1,007		1,007	1,005	2	
	Total.....			9,479	-	9,479	9,320	
3/28/56	1-7/8% Certificate - 3/22/56-A	7/18/55	2,202	2,202 12/	-	-	-	{ 2-3/4% Note 8/1/57-B
6/26/56	2% Certificate - 6/22/56-B	8/1/55	1,486	1,486 12/	-	-	-	
8/26/56	2-1/8% Certificate - 6/22/56-C	10/11/55	2,970	2,970 12/	-	-	-	
7/26/56	2% Note - 8/15/56-B	2/17/55	12,547	12,547 12/	12,388	11,288	860	
	1-1/2% Note - 10/1/56-BD	10/1/51	550		550	528	22	
	Total.....		13,097	159	12,938	12,096	882	
9/13/56	2-3/4% Bond - 9/15/56-99	9/15/56	982	982		-	-	
12/1/56	2-5/8% Certificate - 12/1/56-B	12/1/55	9,081		9,081	{ 7,132 1,949 }	500	{ 3-1/8% Certificate - 6/24/57-C 12/ 3-1/8% Certificate - 10/1/57-B
	2-5/8% Certificate - 2/15/57-A	3/5/56	7,219		7,219	{ 6,394 825 }	982	{ 3-1/8% Certificate 3-1/2% Note
8/15/57	2-7/8% Note - 3/15/57-A	9/15/53	2,997		2,997	{ 1,498 900 }	578	{ 3-1/8% Certificate 3-1/2% Note
	1-1/2% Note - 4/1/57-EA	4/1/52	531	-	531	522	9	{ 3-1/8% Certificate
	Total.....		10,747	-	10,747	9,878	870	{ 8,414 of 3-1/8% Certificate 1,464 of 3-1/2% Note
1/28/57	2-3/4% Certificate - 3/22/57-B	8/15/56	3,221	3,221 12/	-	-	-	
3/15/57	1-5/8% Note - 5/15/57-B	10/4/54	4,155		4,155	{ 2,351 647 }	1,157 1/	{ 3-1/2% Certificate - 4/15/58-B 3-5/8% Note - 2/15/58-A
6/24/57	1-1/8% Certificate - 6/24/57-C	8/15/56	1,312	1,312 12/	-	-	-	

Source: Bureau of the Public Debt. Preliminary figures are from subscription and allotment reports; final figures are on "clearance" basis in daily Treasury statements.

1/ Original call and maturity dates are used.

2/ All by investors other than Federal Reserve Banks.

3/ For breakdown of total exchange between the two new securities, see Table 3.

4/ The 2-1/8% bonds maturing December 15, 1956, were resopped for the December 1, 1955, refunding (see Table 3).

5/ On December 9, 1955, the Treasury purchased from the Federal Reserve System and retired \$500 million of the 2-1/8% Treasury notes maturing December 1, 1955. For further detail see "Treasury Bulletin" for December 1, 1955, Page A-1.

6/ It had been announced that holders of these bonds would be given an opportunity to exchange them for another Treasury issue after February 15, 1954. This exchange offering was included in the refunding of May 17, 1954.

7/ Tax anticipation series; \$2,669 million redeemed for taxes due March 15, 1956, and \$1,233 million redeemed for cash.

8/ The 1-1/8% certificates maturing August 15, 1955, were resopped for the December 15, 1955, refunding (see Table 3).

9/ Tax anticipation series; \$2,216 million redeemed for taxes due March 15, 1955, and \$1,318 million redeemed for cash.

10/ The 2% notes maturing August 15, 1956, were resopped for the August 1, 1955, refunding (see Table 3).

11/ Tax anticipation series; \$1,917 million redeemed for taxes due June 15, 1955, and \$1,293 million redeemed for cash.

12/ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1956.

13/ The 2-7/8% notes maturing June 15, 1956, were resopped for the March 5, 1956, refunding (see Table 3).

14/ Tax anticipation series; \$1,678 million redeemed for taxes due March 15, 1956, and \$528 million redeemed for cash.

15/ Tax anticipation series; of the 24 certificates \$1,013 million were redeemed for taxes and \$473 million for cash; and of the 2-1/8% certificates \$1,591 million were redeemed for taxes and \$1,079 million for cash.

16/ During June 1956, \$159 million of 25 Treasury notes, maturing August 15, 1956, were purchased by the Treasury for account of the Slating Fund and retired.

17/ Also designated tax anticipation certificates, acceptable at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1957.

18/ Tax anticipation series; \$1,922 million redeemed for taxes due March 15, 1957, and \$1,299 million redeemed for cash.

19/ Tax anticipation series; approximately \$620 million redeemed for taxes due June 15, 1957, and approximately \$632 million redeemed for cash.

20/ Preliminary.

*Increases in offerings of regular weekly Treasury bills, calendar years 1953 to 1957*

[In billions of dollars]

Issue date	Maturing issue	New issue	Increase	Issue date	Maturing issue	New issue	Increase
1953—Apr. 23.....	\$1.4	\$1.5	+\$0.1	1955—Aug. 11.....	\$1.5	\$1.6	+\$0.1
May 7.....	1.3	1.5	+ .2	Aug. 18.....	1.5	1.6	+ .1
May 21.....	1.3	1.5	+ .2	Aug. 25.....	1.5	1.6	+ .1
May 28.....	1.3	1.5	+ .2	Sept. 1.....	1.5	1.6	+ .1
June 4.....	1.3	1.5	+ .2	Sept. 8.....	1.5	1.6	+ .1
June 11.....	1.2	1.4	+ .2	Sept. 15.....	1.5	1.6	+ .1
June 18.....	1.2	1.5	+ .3	Sept. 22.....	1.5	1.6	+ .1
June 25.....	1.2	1.5	+ .3	Sept. 29.....	1.5	1.6	+ .1
July 2.....	1.2	1.5	+ .3	1956—None.....			
July 9.....	1.4	1.5	+ .1	1957—Jan. 31.....	1.6	1.7	+ .1
July 16.....	1.4	1.5	+ .1	Feb. 7.....	1.6	1.7	+ .1
Sept. 10.....	1.4	1.5	+ .1	Feb. 14.....	1.6	1.7	+ .1
1954—None.....				Feb. 21.....	1.6	1.8	+ .2
1955—July 7.....	1.5	1.6	+ .1	Feb. 28.....	1.6	1.8	+ .2
July 14.....	1.5	1.6	+ .1	Mar. 7.....	1.6	1.8	+ .2
July 21.....	1.5	1.6	+ .1	Mar. 14.....	1.6	1.8	+ .2
July 28.....	1.5	1.6	+ .1	Total.....			+4.7
Aug. 4.....	1.5	1.6	+ .1				

Senator KERR (reading) :

Give the amount of each offering taken by the Federal Reserve or the Treasury for the trust funds and other Government investment accounts, and by the commercial banks.

Mr. BURGESS. Yes. I will give you that ahead of the others.

Senator KERR. These columns are not totaled, are they?

Mr. BURGESS. No, I think that is not. We did not total it. The totals shown in my statement, the totals of the amounts we handled.

Senator KERR. I understand. I am seeking to develop detailed information as to the holdings of the Treasury and Federal Reserve and the commercial banks; but the information is here from which those totals can be computed is that right?

Mr. BURGESS. That is right.

Senator KERR. Mr. Chairman, I would like that table to go into the record at this point.

The CHAIRMAN. Without objection it will be inserted in the record.  
(The information referred to is as follows:)

I. (b) (1) Data on allotments of each Treasury offering from January 1953 to date are shown in the attached table. Data are shown for Federal Reserve banks, Government investment accounts, and commercial banks, plus further detail for other investors. We have no information which would lead to a tabulation by investor classes of the cash raised from additions to weekly bill offerings.

## DEBT OPERATIONS

Table 4.- Allotments by Investor Classes on Subscriptions for Marketable Issues of Treasury Bonds, Notes, and Certificates of Indebtedness 1/

(In millions of dollars)

Issue		Allotments by investor classes													
Date of financing	Description of security	Amount issued		Federal Reserve Banks	U. S. Government investment accounts	Commercial banks 2/	Individuals 3/	Insurance companies	Mutual savings banks	Corporations 4/	Private pension and retirement funds	State and local government 5/		Dealers and brokers 6/	All other 7/
		Per cash	In exchange for other securities									Function and revolving funds	Other funds		
2/15/53	2-1/2% Cert. 2/15/53-A	-	8,114	3,688	10	2,279	187	150	55	2/	1/	230		158	1,363
	2-1/2% Bond 12/15/52	-	600	-	9	144	6	9	20	2/	2/	13		150	25
5/1/53	3-1/4% Bond 6/15/53-B	1,188	-	-	118	131	261	98	59	12	12	75		156	248
6/1/53	2-5/8% Cert. 6/1/53-A	-	4,858	1,138	15	2,015	98	113	77	2/	2/	366		164	874
7/15/53	2-1/2% Cert. 3/22/53-A 2/	5,902	-	-	-	4,500	56	40	100	917	4	1	68	115	81
8/15/53	2-5/8% Cert. 8/15/53-B	-	2,788	170	9	1,329	117	82	27	111	48	2	156	79	366
9/15/53	2-5/8% Cert. 9/15/53-A	-	4,724	896	7	1,279	106	131	96	654	50	6	279	219	1,041
	2-1/2% Note 3/15/53-A	-	2,997	-	-	2,287	82	140	86	125	36	2	40	188	69
12/8/53	2-1/2% Bond 9/15/53	2,235	-	-	50	1,295	127	100	165	91	49	19	16	170	64
12/1/53	1-7/8% Note 12/15/53-B	-	8,175	6,598	5	1,661	112	32	2	319	1	1	100	80	209
	2-1/2% Bond 12/15/53 2/	-	1,748	-	5	1,174	43	61	28	110	13	1	26	169	94
2/15/54	1-5/8% Cert. 2/15/53-A	-	7,007	3,988	-	1,508	128	46	7	756	6	-	269	121	218
	2-1/2% Bond 12/15/53	-	11,177	-	18	8,753	209	467	218	235	98	7	161	550	899
5/1/54	1-7/8% Note 8/15/54-A	2,205	-	-	26	1,110	175	146	139	816	36	-	37	219	73
	1-1/2% Cert. 5/17/54-B	-	3,886	1,686	-	1,282	11	78	21	287	20	-	109	878	110
8/8/54	2% Cert. 3/28/55-A 2/	3,754	-	-	1	2,011	39	59	41	1,146	3	1	126	198	85
10/1/54	1-1/2% Cert. 8/15/54-B	-	3,558	991	16	887	215	47	10	731	49	4	569	117	838
	2-1/2% Bond 12/15/53	-	3,806	-	10	3,091	24	105	11	120	13	2	68	108	135
10/1/54	1-5/8% Note 5/15/55-B	4,155	-	-	12	2,718	141	98	70	497	69	2	87	144	117
12/1/54	1-1/4% Bond 12/15/55-E	-	4,919	4,763	-	57	9	1	-	10	13	-	6	14	34
	2-1/2% Bond 8/15/55	-	5,359	2,980	-	1,299	103	41	14	682	37	-	312	120	286
	2-5/8% Bond 12/15/55	-	6,750	-	-	5,503	144	226	142	128	37	11	156	240	144
2/15/55	1-5/8% Note 3/25/56-A	-	8,472	4,012	-	3,369	112	61	15	1,065	36	-	308	256	290
	2% Note 8/15/57-C	-	3,752	-	1	2,704	69	121	13	379	9	-	102	212	160
	1% Bond 2/15/55	-	1,924	-	1	1,190	70	130	44	84	10	1	23	134	17
4/1/55	1-7/8% Cert. 6/22/55-A 2/	1,210	-	-	-	1,914	24	39	4	1,009	1	-	59	135	29
5/1/55	2% Note 8/15/56-B	2,532	-	-	-	1,747	16	10	4	345	2	4	21	66	101
7/8/55	1-7/8% Cert. 3/22/56-A 2/	2,200	3,174	1,686	-	614	53	39	6	355	20	-	203	82	134
7/8/55	1% Bond 2/15/55 11/	821	-	-	29	1,047	17	17	1	988	1	1	15	34	28
8/1/55	1% Note 6/22/56-B 2/	-	1,406	-	-	1,087	29	21	10	666	5	2	96	222	48
	2% Note 8/15/56-B 10/	-	6,841	5,754	-	400	64	32	9	209	11	3	151	7	189
10/1/55	2-1/4% Cert. 6/22/56-C 2/	2,970	-	-	-	1,782	44	18	4	976	-	-	1	38	65
12/1/55	2-5/8% Cert. 12/15/56-D	-	9,088	5,754	1	1,349	108	31	16	998	4	2	340	240	234
	2-7/8% Note 6/15/56-A	-	2,283	-	1	1,099	36	62	37	478	4	1	261	137	131
3/5/56	2-5/8% Cert. 8/15/57-A	-	7,213	5,012	16	370	69	21	6	892	26	1	319	39	688
	2-7/8% Note 6/15/56-A 11/	-	8,109	-	18	903	35	32	14	245	13	-	125	101	140
7/8/56	2-3/4% Note 6/15/57-B	-	12,056	7,940	136	2,134	140	67	28	1,113	20	19	680	77	146
8/15/56	2-3/4% Cert. 3/22/57-B 2/	3,221	-	-	-	2,175	24	10	5	947	1	-	99	18	129
12/1/56	1-1/4% Cert. 6/15/57-C 2/	-	1,312	-	12	358	48	7	4	269	3	-	39	60	129
	3-1/4% Cert. 10/15/57-D	-	7,271	5,961	114	754	66	10	9	198	7	-	161	21	168
2/15/57	1-3/8% Cert. 2/15/58-A	-	8,141	5,312	194	1,129	116	48	26	371	49	1	148	168	118
	1-3/2% Note 2/15/60-A	-	1,464	-	131	725	21	47	31	114	14	2	64	209	110
3/8/57	1-3/8% Cert. 2/15/58-A 11/	2,437	-	-	-	2,361	20	2	2	13	1	-	1	1	14
	3-1/2% Note 2/15/60-A 11/	989	-	-	108	786	19	4	4	12	2	-	2	7	4
5/1/57	1-1/2% Cert. 4/15/58-A	-	2,151	9	-	1,042	25	62	14	487	42	-	272	92	204
	1-3/8% Note 2/15/60-A	-	647	-	365	166	3	14	3	45	1	-	9	29	12
8/1/57	1-5/8% Cert. 12/1/57	100 12/	9,871	7,050	-	-	-	-	-	-	-	-	-	-	-
	1% Note 8/1/58	100 12/	10,459	6,528	-	-	-	-	-	-	-	-	-	-	-
	4% Note 8/1/61	100 12/	2,489	-	-	-	-	-	-	-	-	-	-	-	-

Source: Based on subscription and allotment reports.

1/ Excludes the issuance of 1-1/2% Treasury notes available in exchange to holders of nonmarketable 2-3/4% Treasury bonds, Investment Series 2-1975-00.

2/ Includes trust companies and stock savings banks.

3/ Includes partnerships and personal trust accounts.

4/ Exclusive of banks and insurance companies.

5/ Consists of trust, sinking, and investment funds of State and local governments and their agencies.

6/ Includes savings and loan associations, nonprofit institutions, and investments of foreign balances and international accounts in this country. Also includes corporation and private pension and retirement funds prior to July 15, 1953, financing.

7/ Included in "All other."

8/ Also designated tax anticipation certificates.

9/ Additional offering of bonds issued February 15, 1953.

10/ Additional offering of certificates issued August 15, 1954.

11/ Additional offering of bonds issued February 15, 1955.

12/ Additional offering of notes issued May 17, 1955.

13/ Additional offering of notes issued December 1, 1957.

14/ Additional offering of certificates and notes issued February 15, 1958.

15/ Issued in special allotment to Government Investment Account.

= Less than \$500,000.

g Preliminary

Senator KERR. Identify those Treasury financing actions which, in your judgment, were supported by the Federal Reserve, either through open market operations or by reductions in reserve requirements.

Mr. BURGESS. That is the one I distributed a few minutes ago where we quoted the purpose, and I cited the December 1955 instance. Reserve requirements were reduced in the summers of 1953 and 1954.

Senator KERR. By what amounts, just briefly?

Mr. BURGESS. In 1953, the reserve requirements of the central reserve city banks were reduced from 24 percent to 22 percent.

The requirements of the Reserve city banks from 20 percent to 19 percent.

And the requirements of the country banks, from 14 to 13 percent.

Those are the requirements on net demand deposits.

Senator KERR. That was the change made in 1953?

Mr. BURGESS. In July, early in—in July 1953.

Senator KERR. Then in 1954?

Mr. BURGESS. In 1954, the central Reserve city banks were reduced to 20 percent.

Senator KERR. From 22 percent?

Mr. BURGESS. To 20 percent, in 2 steps; the reserve city banks from 19 to 18 percent; the country banks from 13 to 12 percent; and the rate on time deposits was reduced from 6 to 5 percent.

Those are the requirements that are in effect at the present time.

Senator KERR. Fine.

Do you have another copy of that, so I may put it together here with mine?

Mr. BURGESS. Yes.

Senator KERR. I do not seem at the moment to be able to put my hand on it.

Mr. BURGESS. Here it is. I had better write it out for you.

Senator KERR. Mr. McIlwain has just handed it to me here.

Mr. BURGESS. No, that does not give it.

Senator KERR. No, that is not it.

Mr. BURGESS. Here are the figures. We will write it out for the record.

Senator KERR. That is fine. Thank you.

(The information requested is as follows:)

*Member bank reserve requirements*

[Percent of deposits]

Effective date of change	Net demand deposits <sup>1</sup>			Time deposits	
	Central reserve city banks	Reserve city banks	Country banks	Central reserve and reserve city banks	Country banks
1917: June 21.....	13	10	7	3	3
1936: Aug. 16.....	19½	15	10½	4½	4½
1937:					
Mar. 1.....	22½	17½	12½	5½	5½
May 1.....	26	20	14	6	6
1938: Apr. 16.....	22½	17½	12	5	5
1941: Nov. 1.....	26	20	14	6	6
1942:					
Aug. 20.....	24				
Sept. 14.....	22				
Oct. 3.....	20				
1948:					
Feb. 27.....	22				
June 11.....	24				
Sept. 16, 24 <sup>2</sup> .....	26	22	16	7½	7½
1949:					
May 1, 5 <sup>2</sup> .....	24	21	15	7	7
June 30, July 1 <sup>2</sup> .....		20	14	6	6
Aug. 1, 11 <sup>2</sup> .....	23½	19½	13	5	
Aug. 16, 18 <sup>2</sup> .....	23	19	12		5
Aug. 25.....	22½	18½			
Sept. 1.....	22	18			
1961:					
Jan. 11, 16 <sup>2</sup> .....	23	19	13	6	6
Jan. 25, Feb. 1 <sup>2</sup> .....	24	20	14		
1963: July 1, 9 <sup>2</sup> .....	22	19	13		
1964:					
June 16, 24 <sup>2</sup> .....	21			5	5
July 29, Aug. 1 <sup>2</sup> .....	20	18	12		
In effect June 1, 1967.....	20	18	12	5	5
Present statutory requirements:					
Minimum.....	13	10	7	3	3
Maximum.....	26	20	14	6	6

<sup>1</sup> Demand deposits subject to reserve requirements, which beginning Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and series E bond accounts during the period Apr. 13, 1943-June 30, 1947).

<sup>2</sup> First-of-month or midmonth dates are changes at country banks, and other dates (usually Thursdays) are at central reserve city or reserve city banks.

Senator KERR. Now, would you explain the overdraft privilege?

Mr. BURGESS. We have got a document on that.

Senator KERR. I know you have.

Mr. BURGESS. Would you like me to summarize it?

Senator KERR. I would like you to summarize it for the record.

Mr. BURGESS. Yes.

Senator KERR. First, however, I want the entire report put into the record, Mr. Chairman, if it may be done at this point.

The CHAIRMAN. Without objection, it will be inserted.

(The information referred to is as follows:)

II. Explain the overdraft privilege and list the instances when the Treasury made use of the overdraft privilege instead of borrowing from the public. Give the amount borrowed.

Under the original Federal Reserve Act, the Federal Reserve banks had authority to purchase Government obligations either in the market or directly from the Treasury. The Banking Act of 1935 limited this authority, however, to open market transactions. In 1942, the Second War Powers Act restored the authority of the Federal Reserve banks to make purchases directly from the Treasury, up to \$5 billion outstanding at any one time. This authority, which was initially granted only through December 31, 1944, was subsequently extended by the Congress from time to time. The most recent extension (Public Law 622, 84th Cong.) was for 2 years and will expire on June 30, 1958, unless it is extended further by the Congress.

This direct purchase authority permits the Treasury, in cooperation with the Federal Reserve, to smooth out the effect on the economy of short-run peaks in its cash receipts and disbursements, especially at quarterly tax dates. These short-run peaks involve large figures. Sound financial management requires that the disturbing effect of such a tremendous flow of funds be held to a minimum. This direct borrowing authority is one of the tools that the Treasury and the Federal Reserve use for this purpose.

The authority is used only occasionally and only for short periods. The last time this authority was used was more than 3 years ago. On March 15, 1954, the Treasury borrowed \$134 million from the Federal Reserve and the next day an additional \$56 million. All of this was paid back on March 17 as tax receipts became available. The Treasury has never used this borrowing authority on other than a temporary basis and has no intention of doing so. There has been only 1 day since the end of World War II when the amount of such borrowing outstanding has exceeded \$1 billion, and typically the borrowing has been repaid within 2 weeks. The attached tables indicate the amounts of this borrowing (1) on a daily basis since January 1952 and (2) annually from 1942 to date.

If the Treasury did not have this authority it would have to maintain larger cash balances in order to meet its disbursement requirements just before heavy tax receipts.

The direct borrowing authority is a useful mechanism in handling Treasury funds economically and with least economic disturbance. In addition, it provides flexibility to meet possible emergency situations.

In its report on the bill (H. R. 9285, 84th Cong., 2d sess.) which led to the enactment of the present authority, the Committee on Banking and Currency made this statement in part in support of the legislation:

"The Treasury and the Federal Reserve have used the direct borrowing authority only to meet temporary requirements of the nature previously discussed. The authority is also, however, a safeguard that could be used in the event of any sudden nationwide emergency requiring heavy cash payments from the Treasury before securities could be sold.

"While admittedly this is a broad power, properly used it is a very useful one. It is a power which the committee believes automatically should be brought before the Congress for periodic review and hence the proposed extension of the authority for only a 2-year period. When the authority is utilized a record of its use is included in the weekly statement of condition of the 12 Federal Reserve banks, which is published in newspapers on Thursday of each week. Further, it may be pointed out existing law requires that the Board of Governors of the Federal Reserve System include detailed information with respect to use of this authority in its annual report to Congress" (House Banking and Currency Committee).

**TABLE 1.—Direct borrowing from Federal Reserve banks (certificates of indebtedness, special series, bearing interest at the rate of one-fourth of 1 percent per annum)**

[In millions]

Date	Amount borrowed	Amount retired	Balance	Date	Amount borrowed	Amount retired	Balance
Total, 1942-51.....	\$5,388	\$5,388	-----				
<i>1942</i>				Mar. 26.....		14	49
Jan. 22.....	55		\$55	Mar. 27.....		49	196
Jan. 23.....		33	22	June 5.....	196		196
Jan. 24.....		22		June 6.....			196
Mar. 17.....	811		811	June 7 <sup>1</sup> .....			196
Mar. 18.....		369	442	June 8.....	178		374
Mar. 19.....		131	311	June 9.....	117		491
Mar. 20.....	27		338	June 10.....		40	451
Mar. 21.....			338	June 11.....		93	358
Mar. 22.....			338	June 12.....	148		506
Mar. 23 <sup>1</sup> .....			338	June 13.....			506
Mar. 24.....		149	189	June 14 <sup>1</sup> .....			506
Mar. 25.....		19	170	June 15.....	493		999
Mar. 26.....		156	14	June 16.....	173		1,172
Mar. 27.....	109		123	June 17.....		349	823
Mar. 28.....		123		June 18.....		459	364
June 16.....	472		472	June 19.....	628		992
June 17.....	64		536	June 20.....			992
June 18.....		123	413	June 21 <sup>1</sup> .....			992
June 19.....		164	249	June 22.....		84	908
June 20.....		18	231	June 23.....		300	608
June 21.....		61	170	June 24.....		312	296
June 22 <sup>1</sup> .....			170	June 25.....		296	
June 23.....		96	74				
June 24.....		27	47	<i>1954</i>			
June 25.....		47		Jan. 14.....	22		22
Sept. 15.....	103		103	Jan. 15.....	147		169
Sept. 16.....	154		257	Jan. 16.....			169
Sept. 17.....		36	221	Jan. 17 <sup>1</sup> .....			169
Sept. 18.....	21		242	Jan. 18.....	154		323
Sept. 19.....		108	134	Jan. 19.....	101		424
Sept. 20.....			134	Jan. 20.....		101	323
Sept. 21 <sup>1</sup> .....			134	Jan. 21.....		17	306
Sept. 22.....		128	6	Jan. 22.....		23	283
Sept. 23.....		6		Jan. 23.....			283
<i>1953</i>				Jan. 24 <sup>1</sup> .....			283
Mar. 18.....	110		110	Jan. 25.....		80	203
Mar. 19.....		6	104	Jan. 26.....		200	3
Mar. 20.....	85		189	Jan. 27.....		3	
Mar. 21.....			189	Mar. 15.....	134		134
Mar. 22 <sup>1</sup> .....			189	Mar. 16.....	56		190
Mar. 23.....	144		333	Mar. 17.....		190	
Mar. 24.....		147	186				
Mar. 25.....		123	63	Total to date.....	10,090	10,090	

Public Law 405, approved June 23, 1952, extends until July 1, 1954, the authority granted Federal Reserve banks to buy Government securities directly from the Treasury Department.

NOTE.—These figures are net. During the period prior to June 15, 1943, it was the custom for the Treasury to take up a security daily and to issue a new security for either the increased or decreased amount as the case may be. The reason for stating on a net basis is to avoid a padding of the figures due to this method of handling the account.

<sup>1</sup> Sunday.

### Direct borrowing from Federal Reserve banks

Year	Days used	Maximum amount at any time	Year	Days used	Maximum amount at any time
		<i>Millions</i>			<i>Millions</i>
1942.....	19	\$422	1950.....	2	108
1943.....	48	1,320	1951.....	4	320
1944.....	None		1952.....	30	811
1945.....	8	484	1953.....	29	1,172
1946.....	None		1954.....	15	424
1947.....	None		1955.....	None	
1948.....	None		1956.....	None	
1949.....	2	220	1957 (through July).....	None	

Mr. BURGESS. The original Federal Reserve Act had no limitation on the amount of securities that the Federal Reserve could buy directly from the Treasury. There was, however, this limitation: that they could not use Government securities directly as collateral for Federal Reserve notes.

Senator KERR. Say that again.

Mr. BURGESS. They could not use Government securities directly as collateral for Federal Reserve notes.

Senator KERR. You mean the Federal Reserve could not?

Mr. BURGESS. That is right.

Senator KERR. Yes.

Mr. BURGESS. So that limited the amount of their credit they could put out in these Government securities.

That was changed in Glass-Steagall bill of February 1932, which I helped to prepare down here. But the other change in this law was that—

Senator KERR. Let us go over that again. Under the original Federal Reserve Act, the Reserve banks had authority to purchase Government obligations in an unlimited amount.

Mr. BURGESS. Yes.

Senator KERR. Either in the market or directly from the Treasury.

Mr. BURGESS. Now, the only limitation was their own position after that. If they poured out all the money, and it increased the volume of deposits and of notes, they would not have enough collateral for the notes, because they could not use these Government securities as collateral. They could only use the discounts of member banks or gold as collateral for their Federal Reserve notes.

So that acted as a limitation on how much they could buy.

Senator KERR. Yes.

Mr. BURGESS. So that Glass-Steagall bill of early 1932 was designed to—

Senator KERR. Improve that?

Mr. BURGESS. Improve that situation, give them more leeway.

Senator KERR. And as a result of it, they had a greater credit leeway than they had had previously?

Mr. BURGESS. That is correct.

The circumstances that led to that were that in the fall of 1931, England went off the gold standard, and the gold began moving out of this country. The foreigners withdrew the gold by drawing down their dollar balances in the New York banks, and so forth, in part, and then they had to buy the gold at the Federal.

That reduced the amount of credit that the banks had, so they had to go to the Federal and borrow.

Senator KERR. At the rediscount window?

Mr. BURGESS. Yes. And that ran up the amount of their borrowing terrifically, and that put great pressure on the situation.

The Federal Reserve could not correct that because they could not buy enough Government securities to put money in the market to offset it, because of their position in gold in relation to Federal Reserve notes.

So this was a technical provision to correct that.

Senator KERR. And as a result of it, the situation was that—

Mr. BURGESS. The situation was that the Federal had much greater freedom in buying Government securities, either directly or in the open market.

And then they began that operation which I described the other day, of buying a billion dollars of Government securities in order to ease the money situation in the spring of 1932, when we were in the midst of that dreadful depression, which was a very sound thing to do.

Now, the next change in this situation was in the Banking Act of 1935, where section 14 of the Federal Reserve Act was amended, section 14 being the section which allows them to buy Government securities. They added a phrase "but only in the open market."

So they could not buy Government securities direct from the Treasury.

Senator KERR. Direct from the Treasury?

Mr. BURGESS. But only in the open market.

Senator KERR. Yes.

Mr. BURGESS. That was put in there by—

Senator KERR. Experience did not prove that was very wise?

Mr. BURGESS. Well, it did not cripple their operations.

What we did, I was operating the account at that time, Senator, we beat the devil around the stump.

Senator KERR. Yes.

Mr. BURGESS. This business of the Federal buying Treasury securities directly from the Treasury is necessary at certain times, when the Treasury has huge outpayments before tax receipts come in—we used to have securities maturing and interest due the 15th of March before the taxes came in—and in the meantime we had an overdraft, we were busted, and the Federal Reserve used to lend us money at those times.

Since under this law the Treasury could not borrow directly from the Federal, we would sell to the commercial banks, participation in this overdraft. They would have lots of money, because we just had redeemed some securities and had not collected taxes.

Senator KERR. In that way you got the benefit of the float between the two of you.

Mr. BURGESS. That is exactly it. That is exactly it.

But that was an awkward operation and difficult to make things work out.

Senator KERR. So in 1942—

Mr. BURGESS. In the war, why, that was changed by legislation giving us the power to borrow directly, up to \$2 billion.

Senator KERR. Up to how much?

Mr. BURGESS. \$5 billion, excuse me.

Now, as a matter of fact, I should mention that in between there, there was the Thomas amendment to the Agricultural Adjustment Act in May 1933, which did give an emergency authority by volition of the President, for the Treasury to borrow directly from the Federal Reserve up to, was it two or three million dollars? This was superseded by the Banking Act of 1935.

Senator KERR. But this authority that you now have has been extended 2 years at a time.

Mr. BURGESS. Two years at a time.

Senator KERR. And now expires next year.

Mr. BURGESS. I think I have appeared before this committee advocating—no, Banking and Currency.

Senator KERR. Banking and Currency.

Mr. BURGESS. And I think it is a very sensible authority to have. I am in sympathy with having it limited. I am in sympathy with the Congress having a look at it every couple of years just to have us, have the Federal Reserve and the Treasury report what they have been doing, give an account of their stewardship.

Now, as a matter of fact, we have not used that power very much. We used it quite a little in 1953. We used it in March, 1953. This is the table at the very last part of that document. (See p. 895.)

And we used it in June. June was a period in 1953 when the money market was going through some gyrations, and we have a big attrition in our refunding early in June, so we borrowed there as high as a billion dollars, \$1,172 million at one time.

Senator KERR. Yes. Then, again in 1954.

Mr. BURGESS. In January 1954 we had a close situation. We were operating then under a rather tight debt ceiling, but we have not used it since that time.

Senator KERR. But since that time the increase in the weekly bills outstanding has gone up by an amount of \$4,700 million.

Mr. BURGESS. That makes it a little easier to do this job because with bills, you have got a 90-day turnover.

Senator KERR. And that has of itself reduced the need to borrow directly from the Federal Reserve.

Mr. BURGESS. That is right. And there is one other thing we have done that has helped us in this particular. We worked out an arrangement that applies to the larger banks by which we can call down the balances we have with them on very short notice, on a few hours' notice, or deposit the money back again, so we have greater flexibility.

Senator KERR. I think they have been very considerate to fix it so you can use the money that you have deposited with them; do you not?

Mr. BURGESS. They have been very cooperative. It is not easy. We snatch it out of them pretty fast sometimes.

Senator KERR. Especially in view of the fact that you pay them interest on it while they have got it.

Mr. BURGESS. I did not quite hear that, Senator.

Senator KERR. I say, especially in view of the fact you not only deposit it with them but pay them interest on it.

Mr. BURGESS. I see; but I want to make it clear that we pay interest on securities they own—not on balances.

Senator KERR. I want to tell you, I think we are paying interest on balances when they are used by the banks to acquire interest bearing treasury securities.

Well, now I should like to go on to the next question now. You have answered the third question here I think rather inadequately, if I may say so, Doctor.

Mr. BURGESS. Yes?

Senator KERR. I really do. You started off by saying:

Three instances come to mind of Government programs which have had a change in method of financing since December 31, 1952.

I would have felt a little better about it had you said the following is a complete list of the instances of Government programs which have had a change in the method of financing.

Mr. BURGESS. Yes.

Senator KERR. I thought it was interesting that of the 3 instances that came to your mind either 2 or 3 of them I asked you specifically about.

Mr. BURGESS. Well, I wanted to indicate that there was a mental process involved. Just a general way of suggesting that.

Senator KERR. I see.

(The information referred to is as follows:)

### III

Three instances come to mind of Government programs which have had a change in the method of financing since December 31, 1952: (1) the highway program, (2) the Commodity Credit Corporation, and (3) the Federal National Mortgage Association.

As you know, at the time that the new highway program was set up, it was provided that neither receipts nor expenditures applicable to that program would henceforth be included in the Federal budget. During the fiscal year 1957 the receipts of the highway trust fund amounted to \$1,482 million. Expenditures out of that same fund amounted to \$966 million. If the highway program has been operated, therefore, as part of the Federal budget during the fiscal year 1957, the official budget surplus figure would have been \$2,161 million instead of \$1,645 million. It was the intention, of course, of the Congress, with the approval of the administration, that the new highway program be self-supporting. It makes no difference as far as the public-debt outstanding is concerned, whether the highway program is operated as part of the budget or outside of the budget.

During the fall of 1953, the Commodity Credit Corporation formed a pool of price support loans against which certificates of interest were sold to the commercial banks of the country. The initial issue of \$357 million was followed by a second issue, in December 1953, of \$449 million, and a third issue, in February 1954, of \$351 million. Of these certificates of interest, \$940 million was outstanding at the close of the fiscal year 1954. This meant that the budget deficit for that year, of \$3,117 million, would have been \$4,057 million if the certificates of interest had not been issued. The purpose of the certificates was to encourage greater private participation in Commodity Credit programs, and it was also of assistance to the Treasury in keeping within the debt limit of \$275 billion.

All of these certificates of interest issued during the fiscal year 1954 were redeemed in August 1954, and in November 1954, \$1,169 million of similar certificates were issued to cover the pool of price support loans available at that time. Many of these were redeemed before maturity so that the total amount of Commodity Credit Corporation certificates of interest, on June 30, 1955, was \$538 million. Thus the fiscal 1955 deficit of \$4,180 million would have been \$3,778 million had it not been for the operations in these certificates.

There were no further issues of Commodity Credit certificates of interest after November 1954. The budget surplus of \$1,626 million in the fiscal year 1956 would have been a budget surplus of \$2,164 million, if it were not for the fact that the Treasury had to redeem the remaining outstanding Commodity Credit certificates of interest during that year.

During the fiscal year 1955, the Federal National Mortgage Association issued \$570 million of management and liquidation notes, collateralized by their mortgage portfolios, which at that time amounted to approximately \$2½ billion, to provide for greater private participation in the federally operated secondary mortgage market. This issue of Federal National Mortgage Association notes will mature in January 1958, and is the only issue put out under the management and liquidation program. This financing had the effect of decreasing the budget deficit during the fiscal year 1955 by \$570 million, an amount which very closely offset net redemption of Commodity Credit certificates of interest, as outlined above.

*Issues of securities by Commodity Credit Corporation and Federal National Mortgage Association (management and liquidation functions)*

Date of issue	Date of maturity	Rate of interest	Amount issued	Amount outstanding at close of fiscal year	
				Date	Amount
<b>Commodity Credit Corporation, certificates of interest:</b>					
Fiscal year 1954:		<i>Percent</i>			
Oct. 28, 1953-----	Aug. 2, 1954	2½	\$357, 196, 000	June 30, 1954	\$940, 000, 000
Dec. 17, 1953-----	do-----	2½	449, 127, 000		
Feb. 2, 1954-----	do-----	2½	351, 371, 000		
Fiscal year 1955: Nov. 12, 1954-----	Aug. 1, 1955	1½	1, 169, 426, 000	June 30, 1955	538, 000, 000
				June 30, 1956	
				June 30, 1957	
<b>Federal National Mortgage Association (management and liquidation functions): Fiscal year 1955: Jan. 20, 1955-----</b>					
	Jan. 20, 1958	2½	570, 374, 000	June 30, 1955	570, 374, 000
				June 30, 1956	570, 374, 000
				June 30, 1957	570, 374, 000

Prepared by Office of the Secretary of the Treasury, July, 26, 1957.

**TABLE III.—Sales of Federal National Mortgage Association debentures (secondary market series) during 1956 and 1957**

Date of issue	Amount	Maturity	Coupon	Price to public	Yield
	<i>Millions</i>				<i>Percent</i>
1956—Feb. 20.....	\$100	Nov. 20, 1956	3½	100	3.125
Aug. 20.....	100	May 20, 1957	3.35	99¾	3.44
Nov. 20.....	100	Aug. 20, 1957	3.90	100	3.90
1957—Jan. 21.....	200	Sept. 20, 1957	4½	100	4.125
Mar. 11.....	250	Feb. 11, 1958	4	100	4.00
Apr. 10.....	200	Mar. 10, 1958	4.10	100	4.10
May 20.....	200	Apr. 10, 1958	4.05	100	4.05
June 24.....	100	May 8, 1958	4½	100	4.25

The maturities of these issues have been between 8 and 11 months. The effect of the sale of these debentures on the cost of short-term borrowing by the Treasury cannot be measured but their issuance has probably had more effect on the rates paid by other Federal agencies borrowing in the short-term market. The volume of agency obligations maturing in less than a year has increased the competition for the funds of short-term investors such as banks, charitable foundations, corporations, State and local funds, and similar groups.

The yields at which mortgages sell are the result of relative importance of demand and supply factors in the long-term money market. The demand for mortgages comes principally from insurance companies, savings and loan associations, savings banks, and pension funds. These investors normally put their money to work for a long period of time. The rate on 8 to 11 months' paper would have little influence on the prices at which these mortgages sell or the interest rates on the mortgages.

Senator KERR. Now, then, we have not gone into number IV, have we?

Mr. BURGESS. I had most of that in my original testimony.

Senator KERR. What was the date the Treasury started discussions on the terms of the exchange offer?

Mr. BURGESS. Well, sir, that is pretty difficult to remember, because we usually anticipate the financing that is to come in our earlier financing, and when we were talking about the February financing we had an eye out that we had a big job to do in August. We did not ask any

of our advisory committees for specific recommendation at those times. It was however an item of discussion.

It just happened my associate, Paul Wren, has made several trips to different parts of the country, and he has used that to talk to different people about this problem.

Senator KERR. I see the list here.

I would like, Mr. Chairman, for this response to go into the record in its entirety.

The CHAIRMAN. Without objection, it is ordered.

(The information referred to is as follows:)

#### IV. AUGUST-OCTOBER 1957 REFUNDING PROGRAM

(a) The \$15.8 billion August maturities and the possibility of including the \$8.1 billion October 1 maturities in a refunding program has been the subject of discussion for many months. In raising cash and refunding maturities due earlier in 1957 the magnitude of the August operation was always taken into consideration. During the visits of representatives of the Treasury to different parts of the country the general financial situation, as well as the problem of the August refunding, was reviewed with various groups. After the \$3 billion new cash was raised on July 3, the August refunding problem was discussed very actively.

(b) Representatives of the Treasury have had frequent discussions with members of the Board of Governors of the Federal Reserve System and their staff. Also, we have been in daily contact with the officers of the Federal Reserve Bank of New York. These men are talking continuously with dealers and banks engaged in buying and selling United States Government securities. Information of value is passed on to us.

Frequently bankers and dealers interested in the United States Government market present over the telephone their ideas and recommendations to various ones in the Treasury. In addition, the following were consulted personally during the last 3 months:

April 24, 1957: Directors and officers of the Federal Home Loan Bank of Des Moines and of the member associations.

May 13, 1957: Edward B. Smith, executive vice president, and John H. Wills, vice president and economist, Northern Trust Company of Chicago.

May 14, 1957: Officers of the Savings Banks Association of the State of New York; Russell Kent, vice president, Bank of America.

May 22, 1957: Officers and members of the Illinois Bankers Association, including Government portfolio officers of the Chicago banks; president of the Federal Reserve Bank of St. Louis.

May 24, 1957: Various dealers and bankers in New York City; president and other officers of the Federal Reserve Bank of New York.

May 27, 1957: Presidents and Government portfolio officers of Boston banks; president of the Federal Reserve Bank of Boston.

May 31, 1957: Hull Dolson, vice president, First National Bank of Portland, Oreg.

June 12, 1957: Aubrey Lanston and Richard Youngahl of Aubrey Lanston & Co., New York.

June 17 and 18, 1957: Various officers of the San Francisco banks, and vice president of Federal Reserve Bank of San Francisco.

July 7, 1957: Various dealers and bankers in New York City.

July 15 and 16, 1957: The following members of the governmental securities committee of the Investment Bankers Association: Emil J. Pattberg, Jr., chairman, the First Boston Corporation of New York; Robert B. Blyth, the National City Bank of Cleveland; Wendell T. Burns, Northwestern National Bank of Minneapolis; Dwight W. Chapman, American Trust Company of San Francisco; F. Newell Childs, C. F. Childs & Co., Inc., of Chicago; James A. Cranford, the Atlantic National Bank of Jacksonville, Fla.; Stewart A. Dunn, C. J. Devine & Company of New York; W. Wayne Glover, California Bank of Los Angeles; Sheldon R. Green, the Chase Manhattan Bank of New York; H. Lyman Greer, Fifth Third Union Trust Company of Cincinnati; Alfred H. Hauser, Chemical Corn Exchange Bank of New York; Hardin B. Hawes, Harris Trust & Savings Bank of Chicago; George B. Kneass, the Philadelphia National Bank; Frederick G. Larkin, Jr., Security-First National Bank of Los Angeles; Ralph F. Leach,

Guaranty Trust Company of New York; Pat G. Morris, the Northern Trust Company of Chicago; Robert C. Morris, Bankers Trust Company of New York; John H. Perkins, Continental Illinois National Bank & Trust Company of Chicago; Delmont K. Pfeffer, First National City Bank of New York; Girard L. Spencer, Salomon Bros. & Hutzler of New York.

July 16 and 17, 1957: The following members of the Government borrowing committee of the American Bankers Association: Robert V. Fleming, the Riggs National Bank of Washington; Henry C. Alexander, J. P. Morgan & Co., Inc., of New York; Julian B. Baird, First National Bank of St. Paul; Erle Cocke, the Fulton National Bank of Atlanta; Kenton R. Cravens, Mercantile Trust Company of St. Louis; George S. Eccles, First Security Bank of Utah N. A., Salt Lake; Fred F. Florence, Republic National Bank of Dallas; H. Frederick Hagemann, Jr., Rockland-Atlas National Bank of Boston; David M. Kennedy, Continental Illinois National Bank & Trust Company of Chicago; Wm. Fulton Kurtz, First Pennsylvania Banking & Trust Company of Philadelphia; Homer J. Livingston, the First National Bank of Chicago; John J. McCloy, the Chase Manhattan Bank of New York; F. Raymond Peterson, First National Bank and Trust Company of Paterson, N. J.; Merle E. Selecman, executive manager, American Bankers Association; James E. Shelton, Security-First National Bank of Los Angeles; Tom K. Smith, the Boatmen's National Bank of St. Louis; John K. Thompson, the Union Commerce Bank of Cleveland; Joseph C. Welman, Bank of Kennett, Mo.; A. L. M. Wiggins, the Bank of Hartsville, S. C.; Eugene C. Zorn, Jr., deputy manager, and director of research, American Bankers Association.

(c) Recommendations of the governmental securities committee of the Investment Bankers Association:

3½ percent certificate due December 1, 1957.

4 percent certificate due August 1, 1958.

4 percent note due August 1, 1959, which could be exchanged at the option of the holder at any time prior to May 1, 1959, into a 4 percent note due August 1, 1961.

These issues to be dated August 1, 1957.

Recommendations of the Government borrowing committee of the American Bankers Association:

3½ percent certificate due April 15, 1958.

4 percent note due July 1959, which could be extended at the option of the holder on appropriate notice to the Treasury for 3 additional years, with the final maturity in July 1962.

These issues to be dated July 22, 1957.

Senator KERR. It carries a list of those consulted by representatives of the Treasury, their affiliations and the dates they were consulted.

Now, this offering was made as of what date?

Mr. BURGESS. July 22. The books were opened July 22. We announced it the previous Thursday afternoon.

Senator KERR. What day was the previous Thursday afternoon?

Mr. BURGESS. July 18. Here is the announcement. "Immediate release, Thursday, July 18, 1957."

Would you like that announcement?

Senator KERR. I would like to put that into the record, if I may, Mr. Chairman.

The CHAIRMAN. Without objection.

(The information referred to is as follows:)

[Immediate release, Thursday, July 18, 1957]

#### TREASURY DEPARTMENT

WASHINGTON, D. C.

The Treasury Department announced today that subscription books will be opened on Monday, July 22, for refunding the Treasury notes and certificates of indebtedness maturing August 1, August 15, and October 1. The exchange offering will include a 3½ percent 4-month certificate of indebtedness, a 4 percent one-year certificate of indebtedness, and a 4 percent 4-year Treasury note redeemable at the option of the holder on August 1, 1959, on 3 months' advance notice.

The 2¾ percent Treasury notes maturing August 1 and the 2 percent Treasury notes maturing August 15 will be eligible for exchange for any of the 3 new issues.

The 3¾ percent certificates of indebtedness due October 1 and the 1½ percent Treasury notes due October 1 will be eligible for exchange into either the 4 percent 1-year certificates or the 4 percent 4-year notes.

Exchanges will be made par for par in the case of the 3¾ percent notes maturing August 1; at par with an adjustment of interest as of August 1 in the case of the 2 percent notes maturing August 15, and the 3¾ percent certificates maturing October 1; and at par with an adjustment of interest as of October 1 in the case of the 1½ percent notes maturing October 1.

Interest will be paid on December 1, 1957, in the case of the 4-month certificate. On the other two new issues, interest will be paid semiannually on February 1 and August 1 in each year.

Cash subscriptions will not be received. However, the Secretary of the Treasury reserves the right to allot up to \$100 million of each of the three new issues at par to Government investment accounts.

The subscription books will be open July 22 through July 24 for this exchange offering. Any subscription for any of the three issues addressed to a Federal Reserve bank of branch, or to the Treasurer of the United States, and placed in the mail before midnight Wednesday, July 24, will be considered as timely.

Senator KERR. I see the tabulation of the conferences shows that they started in April with the directors and officers of the Federal home loan bank at Des Moines.

Mr. BURGESS. We put that in as a starter. I suppose there were—it is very hard to recall back there. We have these things in our mind all the time and the visitors that come in, we talk to them.

Senator KERR. I know. I am interested in the identity of your advisers. You never have called on me for any advice, you see.

Mr. BURGESS. That is extraordinary, I do not understand.

Senator BENNETT. Off the record.

(Discussion off the record.)

Senator KERR. I think one of the elements of this sore and vexing problem is that the bankers and they alone are permitted to enter that select sanctuary occupied by those who make these decisions, which, as the Secretary himself has said, involved whether or not this country is busted.

I want to tell you, Senator Bennett, you went just right up the stream like a trout to the focal point of this controversy. And I could not add anything to it that would more emphatically dramatize what we are trying to bring out here. And I want to say to you, you have admitted more in 30 seconds than the Secretary has in 3 days.

Senator FLANDERS. Mr. Chairman, may I interrupt a moment or will you yield for 30 seconds off the record?

Senator KERR. Yes.

(Discussion off the record.)

Senator KERR. May 13 was with Edward B. Smith, executive vice president, and John H. Wills, vice president and economist, Northern Trust Company of Chicago.

May 14, 1957, officers of the Savings Banks Association of the State of New York; Russell Kent, vice president, Bank of America.

May 22, 1957, officers and members of the Illinois Bankers Association, including Government portfolio officers of the Chicago banks; president of the Federal Reserve Bank of St. Louis.

May 24, 1957, various dealers and bankers in New York City; president and other officers of the Federal Reserve Bank of New York.

May 27, 1957, presidents and Government portfolio officers of Boston banks; president of the Federal Reserve Bank of Boston.

May 31, 1957, Hull Dolson, vice president, First National Bank of Portland, Oreg.

June 12, 1957, Aubrey Lanston and Richard Youngdahl of Aubrey Lanston & Co., New York.

Mr. BURGESS. They are dealers in Government securities.

Senator KERR. Dealers in Government securities.

June 17 and 18, 1957, various officers of the San Francisco banks, and vice president of Federal Reserve Bank of San Francisco.

July 7, 1957, various dealers and bankers in New York City.

I take it that means dealers in Government securities?

Mr. BURGESS. That is right.

Senator KERR. July 15 and 16, 1957, the following members of the Governmental Securities Committee of the Investment Bankers Association:

Emil J. Pattberg, Jr., chairman, The First Boston Corporation of New York.

Robert B. Blyth, the National City Bank of Cleveland.

Wendell T. Burns, Northwestern National Bank of Minneapolis.

Dwight W. Chapman, American Trust Company of San Francisco.

F. Newell Childs, C. F. Childs & Co., Inc., of Chicago.

What are they, packers or farmers?

Mr. BURGESS. They deal in Government securities.

Senator KERR. Government securities.

Mr. BURGESS. Some other securities, too.

Senator KERR. James A. Cranford, the Atlantic National Bank of Jacksonville, Fla.

Mr. BURGESS. Municipal securities.

Senator KERR. Stewart A. Dunn, C. J. Devine & Company of New York.

Government securities?

Mr. BURGESS. Government securities.

Senator KERR. W. Wayne Glover, California Bank of Los Angeles.

Sheldon R. Green, the Chase Manhattan Bank of New York.

H. Lyman Greer, Fifth Third Union Trust Company of Cincinnati.

Alfred H. Hauser, Chemical Corn Exchange Bank of New York.

Hardin H. Hawes, Harris Trust & Savings Bank of Chicago.

George B. Kneass, the Philadelphia National Bank.

Frederick G. Larkin, Jr., Security-First National Bank of Los Angeles.

Ralph F. Leach, Guaranty Trust Company of New York.

Pat G. Morris, the Northern Trust Company of Chicago.

Robert C. Morris, Bankers Trust Company of New York.

John H. Perkins, Continental Illinois National Bank & Trust Company of Chicago.

Delmont K. Pfeffer, First National City Bank of New York.

Girard L. Spencer, Salomon Bros. and Hutzler of New York.

Mr. BURGESS. Security dealers.

Senator KERR. Government securities?

Mr. BURGESS. Well, not all Governments, other securities too.

Senator KERR. July 16 and 17, 1957, the following members of the Government borrowing committee of the American Bankers Association:

Robert V. Fleming, the Riggs National Bank of Washington.

- Henry C. Alexander, J. P. Morgan & Co., Inc., of New York.  
Julian B. Baird, First National Bank of Saint Paul.  
Erle Cocke, the Fulton National Bank of Atlanta.  
Kenton R. Cravens, Mercantile Trust Co. of St. Louis.  
George S. Eccles, First Security Bank of Utah, N. A., Salt Lake.  
Fred F. Florence, Republic National Bank of Dallas.  
H. Frederick Hagemann, Jr., Rockland-Atlas National Bank of Boston.  
David M. Kennedy, Continental Illinois National Bank & Trust Co. of Chicago.  
William Fulton Kurtz, First Pennsylvania Banking & Trust Co. of Philadelphia.  
Homer J. Livingston, the First National Bank of Chicago.  
John J. McCloy, the Chase Manhattan Bank of New York.  
F. Raymond Peterson, First National Bank & Trust Co., of Paterson, N. J.  
Merle E. Selecman, executive manager, American Bankers Association.  
James E. Shelton, Security-First National Bank of Los Angeles.  
Tom K. Smith, the Boatmen's National Bank of St. Louis.  
John K. Thompson, the Union Commerce Bank of Cleveland.  
Joseph C. Welman, Bank of Kennett, Mo.  
A. L. M. Wiggins, the Bank of Hartsville, S. C.  
Eugene C. Zorn, Jr., deputy manager and director of research, American Bankers Association.
- And the recommendations of the governmental securities committee of the Investment Bankers' Association was that you issue  $3\frac{5}{8}$  percent certificates due December 1, 1957.
- Did you do that?
- Mr. BURGESS. Yes.
- Senator KERR. Four percent certificate due August 1, 1958?
- Mr. BURGESS. Yes.
- Senator KERR. Four percent note due August 1, 1959, which could be exchanged at the option of the holder at any time prior to May 1, 1959, into a 4 percent note due August 1, 1961.
- Mr. BURGESS. That is right.
- Senator KERR. Is that what you did?
- Mr. BURGESS. We did that.
- Senator KERR. Recommendations of the Government borrowing committee of the American Bankers Association.
- Mr. BURGESS. Wait, excuse me.
- We changed the form of that from the investment bankers' recommendation. We changed it into a 4-year note which was redeemable at the option of the holder.
- Senator KERR. But did the same thing as the recommendation?
- Mr. BURGESS. Well, it was similar, but changed in form.
- Senator KERR. Yes. But under the recommendation you would have issued one which was due in 2 years but which could be exchanged at the end of that period for 2 more years?
- Mr. BURGESS. Yes; that is correct.
- Senator KERR. Recommendations of the Government borrowing committee of the American Bankers Association.
- Three and seven-eighths percent certificate due April 15, 1958.

You took the recommendation of the Investment Bankers' Association?

Mr. BURGESS. That is right.

Senator KERR. On the short issues.

Mr. BURGESS. Yes.

Senator KERR. Four percent note due July 1959, which could be extended at the option of the holder on appropriate notice to the Treasury for 3 additional years, with the final maturity in July 1962.

You took the substance of the recommendation of the Investment Bankers' Association on that?

Mr. BURGESS. Yes.

Senator KERR. You told me that we were wrong about who you consulted with. I have looked that list over and this is the list you provided me.

Mr. BURGESS. I do not call these home loan bank directors and officers—

Senator KERR. Bankers?

Mr. BURGESS. Bankers; no.

Savings banks people are another different group.

Senator KERR. Yes.

Mr. BURGESS. There is one other thing I should add, that these dealers and the banks which deal in these securities have very wide coverage of their customers. We get them to canvass the customers and give us reactions from them, corporations and other holders, as to what kind of securities they want.

For example, the Bankers Trust Co. is trustee for a whole battery of pension funds. So is the City Bank Farmers Trust Co. When we talk to that banker, we are really talking to a whole range of investors.

Senator KERR. You are talking to men who are in touch with purchasers of Government securities.

Mr. BURGESS. That is right, because that is what we have to sell and we are talking to our market.

Senator KERR. But what you sell and the way you sell it and when it is due and the interest rate it bears, affects the entire economy.

Mr. BURGESS. That is right.

Senator KERR. All the way from making it overexpanded or underexpanded.

Mr. BURGESS. I do not go that far. We have an effect, yes, particularly at critical points.

Senator KERR. Well, you reserved the right to make qualifications to the questions I asked you, I understand that.

Mr. BURGESS. That is right. It is a very important influence.

Senator KERR. But generally speaking that is the situation to a very large extent?

Mr. BURGESS. It has a very substantial influence.

Senator KERR. Yes.

Mr. BURGESS. Yes.

Senator KERR. Subject to qualification.

Mr. BURGESS. Yes.

Senator KERR. Now, I asked you for and you have furnished a table showing the total amount of all outstanding treasury indebtedness that will become due on or before October 1, 1958.

(The table referred to follows:)

TABLE V.—Marketable maturities of U. S. Government securities through Oct. 1, 1958<sup>1</sup>

[In billions of dollars]

Maturity date	Security (issue date)	Total amount outstanding	Estimated ownership		
			Federal Reserve and U. S. Government investment accounts	Commercial banks	Other
<b>1957:</b>					
Sept. 23 .....	Tax anticipation bill (May 27, 1957) .....	1.5	-----	(2)	(2)
Dec. 1 .....	3½ percent certificate (Aug. 1, 1957) .....	10.0	8.0	(2)	(2)
<b>1958:</b>					
Feb. 14 .....	3¾ percent certificate (Feb. 15, 1957) .....	10.9	5.7	2.3	2.8
Mar. 15 .....	2½ percent bond (June 2, 1941) .....	1.4	(2)	.6	.8
Mar. 24 .....	Tax anticipation bill (July 3, 1957) .....	3.0	-----	(2)	(2)
Apr. 1 .....	1½ percent exchange note (Apr. 1, 1953) .....	.4	-----	.2	.2
Apr. 15 .....	3½ percent certificate (May 1, 1957) .....	2.4	.1	.9	1.4
June 15 .....	2½ percent note (Dec. 1, 1955) .....	4.4	.4	1.6	2.4
June 15 .....	2½ percent bond (July 1, 1952) .....	4.2	(2)	2.4	1.8
Aug. 1 .....	4 percent certificate (Aug. 1, 1957) .....	10.6	6.9	(2)	(2)
Oct. 1 .....	1½ percent exchange note (Oct. 1, 1953) .....	.1	-----	.1	(2)
	Total, other than callable bonds .....	48.9	21.1	-----	-----
<b>1958:</b>					
	Callable bonds:				
Mar. 15 .....	2¼ percent bond of September 1956-59 .....	3.8	(2)	2.9	.9
Mar. 15 .....	2¾ percent bond of March 1957-59 .....	.9	.3	.5	.1
June 15 .....	2¾ percent bond of June 1958-63 <sup>4</sup> .....	.9	-----	.8	.1
	Total callable bonds .....	5.7	.4	4.1	1.1
	Total marketable securities maturing or callable .....	54.5	21.5	-----	-----

<sup>1</sup> Excludes \$21,900,000,000 of regular weekly bills which are rolled over at the rate of \$1,600,000,000 to \$1,800,000,000 a week; \$2,000,000,000 of maturing series F and G savings bonds; and \$2,600,000,000 of maturing series E savings bonds, two-thirds of which will be extended, based on experience. Also excludes \$23,900,000,000 August and October 1957 maturities already refunded.

<sup>2</sup> Not available.

<sup>3</sup> Less than \$50,000,000.

<sup>4</sup> Partially tax-exempt bonds.

Source: Office of the Secretary of the Treasury, July 30, 1957.

Senator KERR. I believe you have excluded about as much as you have included.

Mr. BURGESS. You mean Treasury bills?

Senator KERR. I mean 21,900 million of weekly bills.

Mr. BURGESS. Well, I thought you asked except for bills.

Senator KERR. No; I said the total amount of all outstanding indebtedness due on or before October 1, 1958.

Mr. BURGESS. Well, I am sorry. Maybe we should have included the rollover of bills. They are listed in the footnote at the bottom of the page. This excludes \$21.9 billion.

Senator KERR. Let us see here, the total you give here is \$54.5 billion.

Mr. BURGESS. That is right. That includes the callable bonds—which are not very many.

Senator KERR. Then, the weekly bills is \$21.9 billion.

Mr. BURGESS. That is right.

Senator KERR. The maturing F and G savings bonds are \$2 billion. The maturing E bonds are \$2.6 billion.

Mr. BURGESS. They, of course, are extended automatically unless the holder turns them in.

Senator KERR. Yes. But then they are outstanding and they are due on or before October 1, 1958.

Mr. BURGESS. That is right.

Senator KERR. And the amount that you sold the other day of \$23.9 billion is due on or before October 1, 1958.

Mr. BURGESS. Well, no, that is already in here, the securities that they were refunded into that are maturing.

Senator KERR. Now, the footnote to the table says—

Also excludes \$23.9 billion August and October maturities already refunded.

Mr. BURGESS. Already refunded.

Senator KERR. Well, but they are due either on or before October 1 next year.

Mr. BURGESS. We did not want to count them twice.

Senator KERR. I do not want to count them twice.

Mr. MAYO. The new issues are in.

Senator KERR. Sir?

Mr. MAYO. The new issues are listed here.

Senator KERR. I do not understand.

Mr. BURGESS. Here, you see, the December 1, \$10 billion.

Senator KERR. Where is that?

Mr. BURGESS. That is in the second line, December 1.

Senator KERR. All right.

Mr. BURGESS. Under August 1, the 4 percent certificates, \$10.6 billion. Those are what these maturing issues are refunded into, you see.

Senator KERR. Now, that is \$20,600 million.

Mr. BURGESS. Well, the other matures after 1958. That is redeemable in 1959, so that is no longer in this list.

Senator KERR. Part of that was for 2 years; was it not?

Mr. BURGESS. That is right.

Senator KERR. Yes.

In other words, then, the pertinent parts of the \$23.9 billion are included here?

Mr. BURGESS. That is right.

Senator KERR. But the 54.5 plus the 21.9, plus the 2, plus the 2.6; what does that amount to?

Mr. BURGESS. My computing machine says about 81.

Senator KERR. I want to tell you right now, I agree with you, \$81 billion.

Mr. BURGESS. Yes.

Senator KERR. Does that include the money—and I think it does—in the Government investment accounts that have to be turned over in that period of time?

Mr. BURGESS. That is right; yes.

Senator KERR. Yes.

Mr. BURGESS. \$21.5 billion of Federal Reserve and Government accounts.

Senator KERR. \$21.5 billion of the Federal Reserve and Government accounts?

Mr. BURGESS. Yes.

Senator KERR. How much is held by the Federal Reserve?

Mr. BURGESS. Well, almost all of it. Within a billion or so is all there is in Government accounts.

Senator KERR. I thought there was about \$6 billion in those Government accounts that you had to turn over every year, something like that.

Mr. BURGESS. Of course, this does not include the special issues that we issued to them.

Now, as you know, to old age and survivors, and so on, we give our notes.

Senator KERR. I want to know how much they are. I understood from the Secretary there was about \$6 billion of them.

Mr. BURGESS. Of those notes, yes, but they do not have a definite maturity date.

Senator KERR. Are you sure about that?

Mr. BURGESS. You are quite right. June 30, 1958, there is a maturing date. It is a nominal date.

Senator KERR. It is the actual date.

Mr. BURGESS. Because it simply rolls over.

Senator KERR. It is the actual date.

Mr. BURGESS. It simply rolls over automatically.

Senator KERR. But it is the actual date of maturity. You have got to roll them over; do you not?

Mr. BURGESS. That is right.

Senator KERR. And how much is that?

Mr. BURGESS. We will have to put that in the record for you. We will work it up and put it in the record.

Senator KERR. Do you have kind of a shotgun opinion there at the moment?

Mr. BURGESS. It looks like at least \$12 billion.

Senator KERR. I believe Mr. Mayo, our electronic brain, here, can tell us.

Mr. BURGESS. He has just given me one item of \$15 billion for the old age and survivors alone, so it is a much larger figure. Let us give you the whole thing.

Senator KERR. All right.

Mr. BURGESS. But that is not a maturity in the same sense, something where the public is involved. It is a note the Government has given to itself.

Senator KERR. I did not know that the Government owned those accounts.

Mr. BURGESS. As trustees.

Senator KERR. I thought they were trust funds.

Mr. BURGESS. As trust funds. They are Government trust funds.

Senator KERR. I thought they were people's trust fund and that the Government was the trustee.

Mr. BURGESS. I thought there was a connection between the Government and the people, too.

Senator KERR. Well, sometimes there is. [Laughter.]

Once in a while there is. But in these funds, the owners are the beneficiaries, are they not?

Mr. BURGESS. I think that is right, yes. We will not argue that.

Senator KERR. Mr. Chairman, I would like to have that inserted into the record at this point, if I may.

The CHAIRMAN. Without objection, it will be inserted.

(The information referred to is as follows:)

*Special issues held for Government accounts*

	June 30, 1957	July 31, 1957
Maturing on or before June 30, 1958.....	\$32,739,976,000	\$32,215,741,000
Maturing July 1, 1958, to June 30, 1962.....	10,624,751,000	10,644,302,000
After June 30, 1962 (bonds).....	3,462,500,000	3,462,500,000
Total .....	46,827,227,000	46,322,543,000

Senator KERR. Now, the next item I requested was the total amount of outstanding indebtedness held by commercial banks reflecting the results of current refinancing.

June 30, 1957, \$56.2 billion preliminary estimate, subject to changes since.

Mr. BURGESS. That is right. We have to get these from reports, weekly and less frequent reports, the Federal Reserve gets.

Senator KERR. May we have that inserted at this point, Mr. Chairman?

The CHAIRMAN. Without objection, it will be inserted.

(The information referred to is as follows:)

VI

Data on the amount of United States Government securities held by commercial banks are available only through June 30, 1957, when their holdings amounted to \$56.2 billion (preliminary estimate).

Commercial bank holdings of governments are probably higher now than in June since they purchased a considerable part of the Treasury's \$3 billion tax bill issued July 3. We have no information yet as to whether commercial bank participation in the current refunding operation resulted in an increase or a decrease in their holdings.

The attached table shows data on ownership of Government securities from 1939 to date, including commercial banks.

## OWNERSHIP OF FEDERAL SECURITIES

TABLE 3.—Estimated ownership of Federal securities

[Par values <sup>1</sup> in billions of dollars]

End of month	Total Federal securities out- stand- ing <sup>1</sup>	Held by banks			U. S. Government invest- ment ac- counts <sup>4</sup>	Held by private nonbank investors								
		Total	Com- mercial banks <sup>2</sup>	Federal Reserve banks		Total	Individuals <sup>3</sup>			Insur- ance com- panies	Mutual savings banks	Corpo- rations <sup>5</sup>	State and local govern- ments <sup>7</sup>	Miscel- laneous invest- ors <sup>4, 8</sup>
							Total	Savings bonds	Other					
1939—December.....	47.6	18.4	15.9	2.5	6.5	22.7	10.1	1.9	8.2	6.3	3.1	2.2	0.4	0.7
1940—June.....	48.5	18.6	16.1	2.5	7.1	22.8	10.1	2.6	7.5	6.5	3.1	2.1	.4	.7
December.....	50.9	19.5	17.3	2.2	7.6	23.9	10.6	2.8	7.8	6.9	3.2	2.0	.5	.7
1941—June.....	55.3	21.8	19.7	2.2	8.5	25.0	11.2	3.6	7.6	7.1	3.4	2.0	.6	.7
December.....	64.3	23.7	21.4	2.3	9.5	31.0	13.6	5.4	8.2	8.2	3.7	4.0	.7	.9
1942—June.....	77.0	28.7	26.0	2.6	10.6	37.7	17.8	9.1	8.7	9.2	3.9	4.9	.9	1.1
December.....	112.5	47.3	41.1	6.2	12.2	53.0	23.7	13.4	10.3	11.3	4.5	10.1	1.0	2.3
1943—June.....	140.8	59.4	52.2	7.2	14.3	67.0	30.9	19.2	11.7	13.1	5.3	12.9	1.5	3.4
December.....	170.1	71.5	59.9	11.5	16.9	81.7	37.6	24.7	12.9	15.1	6.1	16.4	2.1	4.4
1944—June.....	202.6	83.3	68.4	14.9	19.1	100.2	46.1	31.2	14.9	17.3	7.3	20.2	3.2	6.1
December.....	232.1	96.5	77.7	18.8	21.7	114.0	53.3	36.2	17.1	19.6	8.3	21.4	4.3	7.0
1945—June.....	259.1	106.0	84.2	21.8	24.9	128.2	59.1	40.7	18.5	22.7	9.6	23.3	5.3	8.3
December.....	278.7	115.0	90.8	24.3	27.0	136.6	64.1	42.9	21.2	24.0	10.7	22.2	6.5	9.1
1946—February <sup>6</sup> .....	279.8	116.7	93.8	22.9	28.0	135.1	64.1	43.3	20.8	24.4	11.1	19.9	6.7	8.9
June.....	269.9	108.2	84.4	23.8	29.1	132.6	63.3	43.5	19.9	24.9	11.5	17.8	6.5	8.6
December.....	259.5	97.9	74.5	23.3	30.9	130.7	64.2	44.2	20.1	24.9	11.8	15.3	6.3	8.1
1947—June.....	258.4	91.9	70.0	21.9	32.8	133.7	66.6	45.5	21.1	24.6	12.1	13.7	7.1	9.6
December.....	257.0	91.3	68.7	22.6	34.4	131.3	65.7	46.2	19.4	23.9	12.0	14.1	7.3	8.4
1948—June.....	252.4	85.9	64.6	21.4	35.8	130.7	65.8	47.1	18.6	22.8	12.0	13.6	7.8	8.7
December.....	252.9	85.8	62.5	23.3	37.3	129.7	65.5	47.8	17.6	21.2	11.5	14.8	7.9	8.9
1949—June.....	252.8	82.4	63.0	19.3	38.3	132.2	66.6	48.8	17.8	20.5	11.6	15.8	8.0	9.6
December.....	257.2	85.7	66.8	18.9	39.4	132.1	66.3	49.3	17.0	20.1	11.4	16.8	8.1	9.4
1950—June.....	257.4	83.9	65.6	18.3	37.8	135.6	67.4	49.9	17.6	19.8	11.6	18.4	8.7	9.7
December.....	256.7	82.6	61.8	20.8	39.2	134.9	66.3	49.6	16.7	18.7	10.9	19.7	8.8	10.5
1951—June.....	255.3	81.4	58.4	23.0	41.0	132.9	65.4	49.1	16.3	17.1	10.2	20.1	9.4	10.7
December.....	259.5	85.4	61.6	23.8	42.3	131.8	64.6	49.1	15.5	16.5	9.8	20.7	9.6	10.6
1952—June.....	259.2	84.0	61.1	22.9	44.3	130.8	64.8	49.0	15.7	15.7	9.6	18.8	10.4	11.6
December.....	267.4	88.1	63.4	24.7	45.9	133.4	65.1	49.2	16.0	16.1	9.5	19.9	11.1	11.7
1953—June.....	266.1	83.6	58.8	24.7	47.6	135.0	66.0	49.3	16.8	16.0	9.5	18.7	12.0	12.8
December.....	275.2	89.6	63.7	25.9	48.3	137.3	64.8	49.4	15.4	15.8	9.2	21.6	12.7	13.2
1954—June.....	271.3	88.7	63.6	25.0	49.3	133.3	64.5	49.5	15.0	15.3	9.1	16.9	13.9	13.7
December.....	278.8	94.1	69.2	24.9	49.6	135.1	63.0	50.0	13.1	15.0	8.8	19.8	14.4	13.9

See footnotes at end of table.

TABLE 3.—Estimated ownership of Federal securities—Continued

(Par values <sup>1</sup> in billions of dollars)

End of month	Total Federal securities outstanding <sup>2</sup>	Held by banks			U. S. Government investment accounts <sup>4</sup>	Held by private nonbank investors								
		Total	Commercial banks <sup>3</sup>	Federal Reserve banks		Total	Individuals <sup>5</sup>			Insurance companies	Mutual savings banks	Corporations <sup>6</sup>	State and local governments <sup>7</sup>	Miscellaneous investors <sup>8</sup>
							Total	Savings bonds	Other					
1955—March.....	274.1	87.8	64.2	23.6	49.4	136.9	64.8	50.2	14.7	15.0	8.8	19.5	14.6	14.2
June.....	274.4	87.1	63.5	23.6	50.5	136.7	64.8	50.2	14.6	14.8	8.7	19.3	14.7	14.4
September.....	277.5	85.9	62.1	23.8	51.2	140.4	65.5	50.2	15.3	15.0	8.7	21.2	14.9	15.1
December.....	280.8	86.8	62.0	24.8	51.7	142.3	64.9	50.2	14.7	14.3	8.5	24.0	15.1	15.6
1956—January.....	280.1	84.0	60.5	23.5	51.7	144.5	65.9	50.3	15.6	14.2	8.5	24.3	15.4	16.0
February.....	280.2	83.0	59.5	23.5	51.8	145.3	66.5	50.4	16.2	13.9	8.5	24.4	15.6	16.4
March.....	276.4	81.9	58.3	23.6	51.9	142.6	67.2	50.4	16.8	13.6	8.5	21.1	15.7	16.5
April.....	275.8	81.8	58.5	23.3	51.6	142.5	67.1	50.4	16.6	13.6	8.5	21.1	15.7	16.5
May.....	276.8	81.3	57.8	23.5	52.5	143.0	67.1	50.4	16.7	13.5	8.4	21.5	15.8	16.6
June.....	272.8	80.8	57.1	23.8	53.5	138.5	66.9	50.3	16.6	13.3	8.4	18.0	15.7	16.2
July.....	272.7	79.9	56.5	23.4	53.8	139.0	67.0	50.3	16.8	13.3	8.4	18.3	15.8	16.2
August.....	275.6	81.5	57.6	23.9	54.4	139.7	67.2	50.3	16.9	13.1	8.3	19.1	15.8	16.3
September.....	274.3	81.3	57.6	23.7	54.2	138.9	67.4	50.2	17.1	13.1	8.3	18.0	15.8	16.3
October.....	275.4	81.8	58.0	23.8	53.9	139.7	67.2	50.2	17.0	13.2	8.1	19.0	15.8	16.3
November.....	277.1	83.1	58.7	24.4	54.2	139.9	67.0	50.1	16.9	13.1	8.1	19.8	15.8	16.2
December.....	276.7	84.3	59.4	24.9	54.0	138.4	66.6	50.1	16.5	12.8	8.0	19.2	15.7	16.0
1957—January.....	276.3	81.9	58.5	23.4	53.9	140.6	.....	.....	.....	.....	.....	.....	.....	.....
February.....	276.4	80.7	57.8	22.9	54.1	141.6	.....	.....	.....	.....	.....	.....	.....	.....
March.....	275.1	81.3	58.2	23.1	54.2	139.6	.....	.....	.....	.....	.....	.....	.....	.....
April <sup>10</sup> .....	274.1	81.3	58.1	23.2	53.7	139.2	.....	.....	.....	.....	.....	.....	.....	.....
May <sup>10</sup> .....	275.3	80.9	57.8	23.1	54.9	139.6	.....	.....	.....	.....	.....	.....	.....	.....
June <sup>10</sup> .....	270.6	99.2	56.2	23.0	55.6	135.8	67.7	49.1	18.6	12.3	8.0	15.5	16.2	16.1

<sup>1</sup> United States savings bonds, Series A-F and J, are included at current redemption value.<sup>2</sup> Securities issued or guaranteed by the U. S. Government, excluding guaranteed securities held by the Treasury.<sup>3</sup> Consists of commercial banks, trust companies, and stock savings banks in the United States and in Territories and island possessions. Figures exclude securities held in trust departments.<sup>4</sup> Holdings by Federal land banks are included under "Miscellaneous investors" instead of "U. S. Government investment accounts" after June 26, 1947, when the proprietary interest of the United States in these banks ended.<sup>5</sup> Includes partnerships and personal trust accounts. Nonprofit institutions and corporate pension trust funds are included under "Miscellaneous investors."<sup>6</sup> Exclusive of banks and insurance companies.<sup>7</sup> Consists of trust, sinking, and investment funds of State and local governments and their agencies, and Territories and island possessions.<sup>8</sup> Includes savings and loan associations, nonprofit institutions, corporate pension trust funds, dealers and brokers, and investments of foreign balances and international accounts in this country. Beginning December 1946, includes investments by the International Bank for Reconstruction and Development and the International Monetary Fund in special non-interest-bearing notes issued by the U. S. Government.<sup>9</sup> Immediate postwar debt peak.<sup>10</sup> Preliminary.

Senator KERR. I also requested that you furnish the total amount the Treasury will be financing or refinancing during the entire calendar year of 1957, including bills, the rollover in the special accounts, and the entire structure. It amounts to 69.1 on this tabulation, excluding future cash financing during the remainder of this year.

Mr. BURGESS. That is right.

Senator KERR. Plus \$1.1 billion increase in bills.

Mr. BURGESS. We put in that as showing the increase just for your guidance. That is, the total bills is the 1.1 and the 20.8 is the volume. That is what is rolling over now.

Senator KERR. This does not include the part that is rolled over in the trust funds?

Mr. BURGESS. No; that is right.

Senator KERR. And when we get the record on that in answer to the previous question, we will have it on this, too?

Mr. BURGESS. That is right. Under the law, the trust-fund money is under process of change. We are turning some of it into more definite maturities. Instead of having these notes that come due every year in the old-age and survivors trust fund, we have gone through a long negotiation with them, and we are putting them on a basis partly of 5 years and setting it up so that it is staggered a little better.

Senator KERR. But, for the purpose of the record, you give me what the figures are for this year. (See p. 910.)

Mr. BURGESS. That is right.

Senator KERR. Could the table showing the total amount of Treasury financing for 1957 be inserted at this point, Mr. Chairman?

The CHAIRMAN. Without objection, it will be inserted.

(The information referred to is as follows:)

TABLE VII.—*Volume of marketable Treasury financing in 1957*

(In billions of dollars)

Date of issue	Date of maturity	Security	Amount allotted		
			Cash	Exchange	Total
Jan. 31 to Mar. 14: Increase in weekly bills.			1.1		1.1
Jan. 16.....	June 24, 1957	Tax anticipation bill.....		1.6	1.6
Feb. 15.....	do.	do.		1.7	1.7
Do.....	Feb. 14, 1958	3½-percent certificate.....	2.4	8.4	10.9
Do.....	May 15, 1960	3½-percent note.....	.9	1.5	2.4
May 1.....	Apr. 15, 1958	3½-percent certificate.....		2.4	2.4
Do.....	Feb. 15, 1962	3½-percent note.....		.6	.6
May 27.....	Sept. 23, 1957	Tax anticipation bill.....	1.5		1.5
July 3.....	Mar. 24, 1958	do.	3.0		3.0
Aug. 1.....	Dec. 1, 1957	3½-percent certificate <sup>1</sup> .....		10.0	10.0
Do.....	Aug. 1, 1958	4-percent certificate.....		10.6	10.6
Do.....	do.	4-percent note.....		2.6	2.6
Regular weekly bills <sup>2</sup> .....				20.8	20.8
Total, excluding future cash financing.			9.0	60.2	69.1

<sup>1</sup> It is assumed that an exchange offer will be made for this issue in November, but it is excluded from the total since it has already been counted once.

<sup>2</sup> Excluding \$1,100,000,000 increase in bills above.

Senator KERR. The next item I requested was the number of separate issues excluding the regular bill offerings that the Treasury has offered or will offer in the calendar years 1953, 1954, 1955, 1956, and 1957.

Mr. BURGESS. There are two ways of doing that, and I will give them to you both ways.

One, is the number of separate individual issues of securities; and the other is the number of market financings.

Senator KERR. Well, of course, I would assume that if in one market financing you had more than one issue, you would give us the details of it.

Mr. BURGESS. That is right.

Well, these are the two ways of doing it. One is the separate issues and the other is the number of times we went to the market. We will have the cash issue or two in addition to this before the end of the year.

Senator KERR. Could we have that table inserted, Mr. Chairman?

The Chairman. Without objection, it will be inserted.

(The information referred to is as follows:)

TABLE VIII

NUMBER OF SEPARATE ISSUES OF MARKETABLE UNITED STATES GOVERNMENT SECURITIES,<sup>1</sup> JANUARY 1953-AUGUST 1957

Calendar year	Regular Treasury bonds, notes, and certificates	Tax anticipation issues		Total
		Certificates	Bills	
1953.....	10	1	1	12
1954.....	10	1	2	13
1955.....	8	4	1	13
1956.....	4	2	3	9
1957 (through August).....	9	-----	4	13

NUMBER OF SEPARATE TREASURY MARKET FINANCINGS,  
JANUARY 1953-AUGUST 1957

Calendar year	Regular Treasury bonds, notes, and certificates	Separate offerings of tax anticipation issues		Total
		Certificates	Bills	
1953.....	7	1	1	9
1954.....	5	1	2	8
1955.....	5	2	1	8
1956.....	3	1	3	7
1957 (through August).....	4	-----	3	7

<sup>1</sup> Including reopened issues as separate issues.

<sup>2</sup> Including special bill issues in October and November as tax anticipation bills.

<sup>3</sup> Including special bill issues in October and November.

Prepared by Office of the Secretary of the Treasury, July 26, 1957.

Senator KERR. What is your estimate of the number of times or number of separate issues you will have for the remainder of 1957?

Mr. BURGESS. I think about two.

Senator KERR. Two.

Mr. BURGESS. That is—well, if we count the refunding of the December 1, it will be three.

Senator KERR. Three. That will make a total of 16 separate marketable issues you will have issued in 1957 as compared to 12 in 1953.

Mr. BURGESS. We did not put in refunding of December 1.

Senator KERR. Were there any refundings in the 12 you showed for 1953?

Mr. BURGESS. Oh, yes.

Senator KERR. Now the last item I asked for was the sales and redemptions of E and H bonds for the fiscal years 1952 through 1957. I would like the one just now coming up to be made a part of the record, Mr. Chairman, and I will take it up later on.

The CHAIRMAN. Without objection, they will be inserted.

(The information referred to is as follows:)

TABLE IX.—*Growth of E and H savings bonds, 1947-57*

[In billions of dollars]

Fiscal years	Cash sales and redemptions			Interest accruals	Net change in outstanding	Amount outstanding end of period
	Sales	Redemptions	Net			
1947.....	4.3	4.4	-0.1	0.5	+0.4	30.8
1948.....	4.0	3.8	+ .2	.6	+ .8	31.6
1949.....	4.3	3.5	+ .7	.8	+1.5	33.1
1950.....	4.0	3.5	+ .5	.9	+1.4	34.5
1951.....	3.3	4.3	-1.0	1.0	( <sup>1</sup> )	34.5
1952.....	3.3	4.0	- .7	1.1	+ .4	34.9
1953.....	4.1	4.0	( <sup>1</sup> )	1.1	+1.1	36.0
1954.....	4.7	4.3	+ .3	1.1	+1.4	37.5
1955.....	5.2	4.5	+ .7	1.1	+1.8	39.3
1956.....	5.3	4.7	+ .5	1.1	+1.6	40.9
1957.....	4.6	5.2	- .6	1.1	+ .6	41.5

<sup>1</sup> Less than \$50,000,000.

Prepared by Office of the Secretary of the Treasury, July 25, 1957.

Senator KERR. How did the Treasury handle the money it received when you sold the rubber plants?

Mr. BURGESS. Well, that was a cash receipt just as though it was a receipt in taxes or anything else.

The way we keep our books in the Treasury, as you know, is when you make a loan of that sort or make an expenditure, that was a war expenditure, whether there is any asset value or not it is an expense. When it comes back, it is a receipt.

Senator KERR. How much has the Treasury had in receipts each of the last 4 fiscal years from sale of assets?

Mr. BURGESS. Liquidation of RFC would be the biggest item.

We would be glad to work that up.

Senator KERR. Does not Mr. Mayo have that?

Mr. BURGESS. He says there is one already in the record. We can do it perhaps by reference.

Page 307, I am told—and 308 for the more recent years.

It is amazing as you look at it how regular that has run along.

Senator KERR. I was thinking of it in terms of deficits and surpluses.

Mr. BURGESS. Yes.

In 1947 and 1948, when we had a surplus, that was a big item in it. And then in 1950 through 1954, it is amazing how even it was, although it was due to all kinds of different items. But in 1955 and 1956, we had some big recoveries. That included the rubber.

Senator KERR. For instance, for fiscal 1956, you had a surplus of how much?

Mr. BURGESS. We had a billion six.

Senator KERR. Of which \$517 million was from the sale of capital assets.

Mr. BURGESS. That is right.

Senator KERR. Fiscal 1957, your surplus was \$1.6 billion.

Mr. BURGESS. \$1.6 billion, also.

Senator KERR. Of which you estimate \$320 million was from the sale of assets.

Mr. BURGESS. That is right.

Senator KERR. Now, then, the FNMA debenture sales during fiscal 1957 brought a net change in the receipts and disbursements under the budget, as I recall, of about \$1,250 million; was it not?

Mr. MAYO. \$1,150 million.

Senator KERR. \$1,150 million.

Mr. BURGESS. That is the new FNMA, yes.

Senator KERR. The sale of assets was \$320 million. The money you held but did not disburse for the British loan left you with a net advantage of \$500 million; did it not?

Mr. BURGESS. No, we had not allowed for a full use of that, I do not recall just—we had the—

Senator KERR. \$300 or \$400 million.

Mr. BURGESS. We had a catch-all item there for contingencies.

Senator KERR. The sum total of those three items is in excess of the budget surplus for fiscal 1957.

Mr. BURGESS. That is fair to say, yes. They used to have an expression back in the eighties, "God help the surplus."

Senator KERR. I know what you mean. And windfalls. [Laughter.]

Mr. BURGESS. They fall the other way too often.

Senator KERR. Let us go to page 5 of your statement where you show the interest burden of the public debt in terms of its relationship to the public debt and, second, as a percentage of the national income.

Mr. BURGESS. That is right.

Senator KERR. Do you have it in terms of what percentage it is of the budget, for instance in 1953?

Mr. BURGESS. It is very easy to compute.

Senator KERR. I have figured it for 1953, the interest cost was 8.8 percent of the total budget.

Mr. BURGESS. That is about right.

Senator KERR. And in 1957, it was 10.2 percent—

Mr. BURGESS. That sounds about right.

Senator KERR. Of the total budget.

Mr. BURGESS. Yes. That sounds about right.

Senator KERR. Now, Doctor, the table of public and private debt you submitted is as of December 31, 1956.

Mr. BURGESS. Yes.

Senator KERR. I wonder if you could give us at this point in the record your estimate of what those figures are as of July 31, 1957?

Mr. BURGESS. We will be glad to do our best.

(The information referred to is as follows:)

*Estimated gross public and private debt, July 1957<sup>1</sup>*

[Billions of dollars]

<b>Individual:</b>	
Mortgage.....	137½
Consumer.....	42
Other.....	34
Total.....	213½
<b>Corporate.....</b>	
State and local government.....	253
Total (other than Federal).....	53½
Federal Government.....	520
Total.....	272½
	792½

<sup>1</sup> Preliminary estimates by Treasury Department.

Senator KERR. You have said a good deal about your policy of encouraging a reduction of the ownership of Government bonds by commercial banks. That their ownership of it is inflationary, I believe.

Mr. BURGESS. Well, I would not put it quite that strongly, that increases in bank holdings of the debt would tend to be inflationary. I think a continuation of the holdings they have is not particularly inflationary. It is only when it results in an increase in bank credit that it is inflationary.

Senator KERR. Well, a number of times in public utterances you have called attention to the improvement brought about in view of the fact that the holdings as of December 31, 1952, were \$63½ billion, and then December 31, 1956, \$59½ billion.

Mr. BURGESS. That is right.

Senator KERR. What was the figure you gave me awhile ago as to what their holdings were June 30?

Mr. BURGESS. \$56.2 billion.

Senator KERR. \$56.2 billion.

Mr. BURGESS. And we also commented that that may be up a little now.

Senator KERR. In view of their participation in——

Mr. BURGESS. In the \$3 billion tax certificates.

Senator KERR. Looking at that chart, I noticed there was an increase from December 1952 to December 1954 of \$5 billion or \$6 billion.

Mr. BURGESS. That is right.

You may recall there are two considerations there. In 1954 we had a little, mild recession in business activity.

Senator KERR. That was the year that you found a month, yesterday, in which we had as large a number of unemployed as we had in June of 1957.

Mr. BURGESS. That is right.

And the Federal Reserve loosened up its policy. The banks had more reserves, and they used them in buying more Government securities. So that——

Senator KERR. Now, the Secretary told us that there were some advantages in Government securities selling on the market under par because that discouraged the sale of them by commercial banks whereby they increased their lending power.

Mr. BURGESS. Yes. The bank portfolios are to some extent what we call under water, their holdings of securities having a longer period than very short. They would have a loss, if they sold them, so they

are a little reluctant to sell them. So that makes them a little more selective in their lending policies.

Senator KERR. Well, now, the Secretary, as I understood him, indicated that that was not an unhealthy situation.

Mr. BURGESS. Well, if the Federal Reserve is right in the policy of having money a little tight, why that goes along with it.

Senator KERR. That observation then was pertinent and accurate.

Mr. BURGESS. I think so.

Senator KERR. Yet, from December 1954 to December 1956, apparently they reduced their holdings by nearly \$10 billion.

Mr. BURGESS. Yes. Well, they——

Senator KERR. By June of this year, by \$3 billion more.

Mr. BURGESS. Yes; although that is subject to—of course, the commercial banks have been under terrific demands for funds.

Senator KERR. I just wondered if that were a contributing factor to this inflation.

Mr. BURGESS. The fact that they have——

Senator KERR. The fact they have reduced their holdings since December 31 of 1954 by \$11 billion or \$12 billion.

Mr. BURGESS. No; I think quite the reverse; they have increased their loans enormously. The increase in bank loans has been very large, and they have got some of the funds for it by selling Government securities. Even though they had to sell them at a loss, part of them.

Senator KERR. Let us talk about that loss they sustained.

I know some bankers who, in December of 1956, sold substantial quantities of the long-term holdings they had at a loss of about 10 or 11 points. They told me that in so doing they could charge that up against operating income and reduce their tax liability by 52 percent of that loss.

Mr. BURGESS. I would say that is right.

Senator KERR. And that then they immediately went into the market and bought other long-terms of comparable maturity so that in their bookkeeping, as of December 31, their financial statement did not reflect any loss in that operation because they carried——

Mr. BURGESS. No.

Senator KERR. The new long-terms they purchased at par.

Mr. BURGESS. No, no. Senator, I do not know any bank that puts on new securities it has bought at par if they are selling at a discount in the market. The bank examiner would raise hob with them.

Senator KERR. Now, do you mean to tell me that the bank examiner does not permit the bank to carry its Government securities at par?

Mr. BURGESS. That is right; for the newly purchased securities. The formula most commonly used in bookkeeping your Government securities is to take the purchase price less amortization of premium or plu amortization of discount year by year to maturity.

Senator KERR. Then, they do not have to reflect any loss on their books unless they sell it?

Mr. BURGESS. No. They would have to reflect a loss under any bookkeeping that I know, Senator. It would be only 50 percent of the loss.

Senator KERR. No; I am talking about if they had not sold the ones they owned.

Mr. BURGESS. They can make up for part of their loss, only part, by the fact that when they buy these securities at a discount——

Senator KERR. No; I am talking about the ones they paid par for and owned on a date when there was a call made, but on which the market value of that security was under par.

Mr. BURGESS. That is right. That loss has to be reflected in their profit and loss account each year.

Senator KERR. I know, but I am talking about their financial statement of their assets.

Mr. BURGESS. Only when they sell them.

Senator KERR. I say if he had not sold them.

Mr. BURGESS. If he had not sold them, he does not have to take the loss.

Senator KERR. He did not have to show the loss?

Mr. BURGESS. No.

Senator KERR. All right. We will start over.

Mr. BURGESS. All right.

Senator KERR. But having sold it and taken the loss, he reduced his tax liability by 52 percent of the loss if he were in an income bracket.

Mr. BURGESS. That is right.

Senator KERR. Now if he went out and bought another long-term at the same price——

Mr. BURGESS. Yes.

Senator KERR. He could carry it until maturity and only pay a capital gain on the increment.

Mr. BURGESS. That is right.

Senator KERR. I asked the Secretary to give us an account of how much he thought the Treasury had lost in revenue by reason of that kind of an operation, and as I understood it, he would give it to us for the record.

Did he do that, Mr. Mayo?

Mr. MAYO. Sir, here is the reference in the record.

Mr. BURGESS. That is a little difficult computation to make.

Senator KERR. I understand it, and he did not do it.

Mr. BURGESS. We would have to plow through many tax returns.

Senator KERR. Did he make it, Mr. Mayo?

Mr. MAYO. It is not available, to my knowledge.

Mr. BURGESS. We would have to plow through a lot of tax returns.

Senator KERR. He was surprised to learn it was the law, and he said it was quite a bad law and ought to be looked into.

Mr. BURGESS. Yes.

Senator KERR. I understand you do not agree with that.

Mr. BURGESS. I believe that after the Secretary replied to you the way he did, he looked up the reason for that provision, and concluded that it had been adopted as an aid to the market for Government securities and should not be changed hastily. The provision could be reviewed, along with other tax laws affecting banking and other occupations, when there is a general tax revision.

Senator KERR. Did you have anything to do with that legislation when it was enacted?

Mr. BURGESS. Not a thing.

Senator KERR. Not a thing. It was not recommended by any of the committees or boards of which you were a member?

Mr. BURGESS. Not that I can recall. It may have been. It may have been recommended by a committee of the American Bankers Association, but I had nothing to do with it.

Senator KERR. I see.

It was passed in 1942, as I recall, and the American Bankers Association proposed it.

Mr. BURGESS. It was enacted then.

Senator KERR. I think that is right, is it not, Mr. Mayo?

Mr. MAYO. I do not know.

Senator KERR. I think that is right.

Mr. BURGESS. Of course, certainly at that time you were encouraging these purchases of these bonds when they got down below par, and it is a very important sustaining factor in the market that the buyer has that advantage. And if that advantage were removed, it would knock these prices off several points. I am not saying that to say that the law is absolutely right, but it is simply a factor in the market.

Senator KERR. I want to talk with you a little bit about the floating debt.

Mr. BURGESS. I thought you would.

Senator KERR. I want to tell you right now I am in a state of confusion about the definition of the floating debt. You say:

A more accurate measure of changes in the structure of the public debt from the point of view of the job of the debt manager is a comparison between the "floating debt," on the one hand, and intermediate and long-term issues, on the other, basing the figures on publicly held debt. This means excluding securities held by the Federal Reserve banks and Government investment accounts, but including in the floating debt the most volatile part of the non-marketable debt payable on demand.

And I note here that you say that in 1952, floating debt, as you defined it here amounted to \$74.6 billion and you were quite proud of the fact you had reduced that to \$63.9 billion as of December 31, 1956.

Mr. BURGESS. Well, I would not say we take a great pride in it, Senator. We would like to have done more.

Senator KERR. I would say that you referred to it a number of times as one of the accomplishments.

Mr. BURGESS. It is what we have been trying to do.

Senator KERR. Now, you picture the floating debt, showing that in 1952 it was \$74.2 billion that it rose in 1953 to \$89½ billion, and on December 31, 1956, it was \$64 billion.

I have a little book here, Our National Debt, which you may know.

Mr. BURGESS. Yes, I think I have heard of that.

Senator KERR (reading):

Related to debt retirement is the short-term or floating debt and what shall be done with it. This is the public marketable debt, chiefly Treasury bills and certificates of indebtedness, which matures within one year.

At the end of November 1948, it stood at \$42½ billion.

As I look at this chart, there seems to be a different figure indicated.

Mr. BURGESS. Well, the figure in that book would be simply the marketables maturing in that year, which would be very close to the 42. And probably includes Federal Reserve.

Senator KERR. There seems to me to be some difference in your book and in your present statement.

Mr. BURGESS. You can define it a dozen different ways.

Senator KERR. Well, I found that out. I could not have before this series of questions with you and Mr. Humphrey.

Mr. BURGESS. In this one, Senator, I have been sitting here and taking it on the chin in respect to the debt, and these are the figures of the way this debt hits you when you are trying to run it. And these are the securities that are tough for you.

Senator KERR. These are the ones that make your hair gray.

Mr. BURGESS. These are the ones you know you have to take care of.

Senator KERR. I know.

Mr. BURGESS. And I am trying to define it here in the way it hits me in my job.

Senator KERR. Here in the New York Times of July 29, 1957 is a tabulation of 1-year maturities showing \$81,408,455,124, direct obligations of the United States Government in the hands of the public that will mature within 12 months.

I wonder if you would take a look at that, and see how near accurate that is. I would like it to go into the record at this point.

(The information referred to is as follows:)

[From New York Times, July 29, 1957]

**1-YEAR MATURITIES ARE \$81,408,455,124**

Direct obligations of the United States Government in the hands of the public that will mature within 12 months amount to \$81,408,455,124. They consist of Treasury securities as follows:

Date	Obligations	Amount <sup>1</sup>
<b>1957</b>		
Aug. 1	Discount bills.....	\$1,701,993,000
Do.....	Series E savings bonds <sup>1</sup> .....	2,113,604,828
Do.....	Series F savings bonds <sup>1</sup> .....	257,837,954
Do.....	Series G savings bonds <sup>1</sup> .....	898,609,800
Do.....	2½ percent Treasury notes.....	12,056,091,000
Aug. 8	Discount bills.....	1,699,381,000
Aug. 15	do.....	1,700,033,000
Do.....	2 percent Treasury notes.....	3,792,028,000
Aug. 22	Discount bills.....	1,800,033,000
Aug. 29	do.....	1,800,524,000
Sept. 5	do.....	1,799,572,000
Sept. 12	do.....	1,799,907,000
Sept. 19	do.....	1,600,298,000
Sept. 23	Tax anticipation bills.....	1,500,704,000
Sept. 26	Discount bills.....	1,601,648,000
Oct. 1	1½ percent Treasury notes.....	824,196,000
Do.....	3¼ percent certificates of indebtedness.....	7,270,942,000
Oct. 3	Discount bills.....	1,600,197,000
Oct. 10	do.....	1,600,004,000
Oct. 17	do.....	1,601,437,000
Oct. 24	do.....	1,600,387,000
<b>1958</b>		
Jan. 1	Series E savings bonds.....	2,328,460,622
Do.....	Series F savings bonds.....	204,729,820
Do.....	Series G savings bonds.....	1,585,044,600
Feb. 14	3¼ percent certificates of indebtedness.....	10,850,581,000
Mar. 15	2½ percent Treasury bonds.....	1,448,744,800
Mar. 24	Tax anticipation bills.....	3,000,004,000
Apr. 1	1½ percent Treasury notes.....	382,785,000
Apr. 15	3¼ percent certificates of indebtedness.....	2,351,162,000
June 15	2½ percent Treasury notes.....	4,391,791,000
Do.....	2½ percent Treasury bonds.....	4,244,811,000
	<b>Total.....</b>	<b>\$1,408,455,124</b>
	Week ago.....	81,408,480,124
	Year ago.....	66,448,220,271

<sup>1</sup> Maturing monthly within a year from this date forward.

Mr. BURGESS. It includes the Federal Reserve, and they also include the savings bonds of 2 years.

Mr. MAYO. That is right.

Mr. BURGESS. As an index of how things are drifting along, I am glad they published it because it makes people conscious of the fact we have got a big load of debt that matures every year.

Senator KERR. According to the figures you have given me, the approximately 12-month maturity amounts to \$81 billion, plus whatever there is in the special accounts rollover.

Mr. BURGESS. Well, that is, what you include and exclude makes all that difference. You can argue quite at length about that.

Senator KERR. When you came down here, you and Mr. Humphrey said that three things were basically wrong with the way the Government debt had been managed and one of those was that the interest rate was too low.

Mr. BURGESS. Wait. We never said that. We said it was inflexible. We said it was not freedom.

Senator KERR. Well, you said it had been kept at an artificially low level.

Mr. BURGESS. Artificially low.

Senator KERR. Artificially low level.

Mr. BURGESS. All right, yes. All right.

Senator KERR. And it was your own recommendation when they started in to issuing the bonds, you told me the day before yesterday, that they be issued at 3 percent, instead of  $2\frac{1}{2}$ .

Mr. BURGESS. You mean the start of the war?

Senator KERR. Yes.

Mr. BURGESS. Did I say 3? I said a higher rate. I do not think I said 3.

Senator KERR. Well, that is the way I thought you said it.

Mr. BURGESS. We had been issuing bonds at  $2\frac{3}{4}$ , and that would have been a fairer rate. But whether it is  $2\frac{3}{4}$  or 3, I thought they made a mistake in starting their bond issues for the war at  $2\frac{1}{2}$ . I still think so.

The point was that in financing a war, you want to collect just as much as you can in taxes, and then in addition you want to get your people to buy just as many bonds as they will, so you do not have to depend on the banks and run up an inflation.

Senator KERR. In your speech to the bankers early in 1953, you told them you could have borrowed this money cheaper from the banks.

Mr. BURGESS. May I finish about this war thing?

Senator KERR. All right.

Mr. BURGESS. Excuse me, Senator. I do want to get this off my chest, because I think everybody agrees that war spells inflation. The problem is to keep it down, and one way of doing it is to sell your securities to the general public. And we had our organized war drives and so on and so forth.

That is fine. We sold them savings bonds at 2.90. But I think you could have sold more of those long-term marketable bonds if you had paid the fellow who buys it a little bit better wage for his money.

That was all I had in mind, and I never made a big battle about it. I just told them that was my judgment, that is all. They did not do it that way, and we went ahead and did our best as it was.

Senator KERR. Now, are you through there?

Mr. BURGESS. Yes.

Senator KERR. In the speech you made at the Mutual Savings Banks convention, you told them you could have gotten the money cheaper from the banks, and about 19 Democratic Senators and Congressmen were pouring it on your sore back something terrible about the high interest rate, but you had withstood the pressure and were going to withstand the pressure because it was going to be your policy to permit the interest rate to find its own level.

Mr. BURGESS. Well, there were two policies there. One was the question of free markets, whether the Federal Reserve could operate and where natural forces could not reflect themselves. And the other was whether you made any attempt to spread the debt out. We have been through those years.

Senator KERR. Let us talk about the interest rate for just a moment, because I have been under the impression all the time that not only the inevitable result of your policy but that one of the objectives of your policy was to permit the interest rate to find its own level in a free market.

Mr. BURGESS. No; our policy was to have freedom in the market, flexibility. But we did not have any particular theory about where the rate should be or what the level should be.

Senator KERR. But it had to go up.

Mr. BURGESS. No. We did not—I think in our financing operations we have borrowed money just as cheaply as we could do it.

Senator KERR. Now, that is not the point at this moment, Doctor. We have been pretty fair with each other today.

Mr. BURGESS. Let us just define it.

Senator KERR. Let us just go along.

Mr. BURGESS. All right.

Senator KERR. You and Mr. Humphrey made it very clear that you thought the interest rates had been kept at too low a level.

Mr. BURGESS. Well, we thought the interest rates had been pegged and we thought that was bad.

Senator KERR. Well, the words you used were “at an artificially low level.”

Mr. BURGESS. Well, they had been, yes.

Senator KERR. So that if you were going to unpeg them, it would not be so they could go lower.

Mr. BURGESS. No. We felt that if they were unpegged, the chances are that you would have, at times, higher rates and, at times, lower ones.

Senator KERR. So that one of the policies you had in mind was to enable the interest rate to go higher.

Mr. BURGESS. And to go lower, if circumstances moved them in that direction.

Senator KERR. If that came about.

Mr. BURGESS. That they should have greater freedom and flexibility which was followed, I may say, following the famous report of Congress.

Senator KERR. We are going back to the Douglas subcommittee again?

Mr. BURGESS. I want to mention him. I do not want to leave him out of the discussion.

Senator KERR. I want you to mention him every time you can, because every time you do he gets a little further down in his chair.

Mr. BURGESS. That is a good report.

Senator KERR. One of these days when you mention it, you are going to look around for support and he will not be holding you up any. [Laughter.]

Now, the second objective you and the Secretary announced was to make the Federal Reserve entirely independent and free of the Treasury.

Mr. BURGESS. Well, I do not think we put in the word "entirely."

Senator KERR. But generally speaking.

Mr. BURGESS. Yes, give them freedom of action.

Senator KERR. And the third one was to put the debt into longer term issues.

Mr. BURGESS. That is right.

Senator KERR. Now, the Secretary said repeatedly, and so did you, some harsh words about the situation that prevailed wherein two-thirds of the public debt matured or was redeemable at the will of the owner in less than 5 years.

Now, the average maturity at that time of the entire debt was a little more than 49 months, was it not?

Mr. BURGESS. Less than that. It was just under 4 years. It was——

Senator KERR. What was it, Mr. Mayo?

Mr. MAYO. I have it right in the Secretary's statement here.

Mr. BURGESS. Three years and ten months, December 1952. And that had fallen from about 6 years and 3 months in December 1946, so it had been going down very steadily.

Senator KERR. How much? Six years or three years.

Mr. BURGESS. Six years.

Senator KERR. Three years and three months.

Mr. BURGESS. December 1946, the average maturity was 6 years and 3 months.

Senator KERR. You mean 75 months.

Mr. BURGESS. Seventy-five months. And when we came in, in the beginning of 1953——

Senator KERR. When was it 75 months?

Mr. BURGESS. December 1946.

Senator KERR. I beg your pardon, I thought you were talking about December 1956.

Mr. BURGESS. No.

Senator KERR. As I understood it, that is what you were complaining about, the decline in the average maturity of the debt.

Mr. BURGESS. That is right.

Senator KERR. And you were going to fix that.

Mr. BURGESS. Well, we at least have held our own on the average maturity.

Senator KERR. Have you really?

Mr. BURGESS. Just about.

Senator KERR. What is it now?

Mr. BURGESS. It is within a couple of months of what it was when we came in.

Senator KERR. What was it?

Mr. BURGESS. It was 4 years and 1 month in June 1957, that is exclusive of Fed.

Senator KERR. But that figure of December 31, 1952, was not exclusive of Fed.

Mr. BURGESS. Well, suppose we include the Fed.

Senator KERR. I think if it is part of the public debt you would.

Mr. BURGESS. Three years and seven months at the end of June, so we had lost two months.

Senator KERR. Now, the Library of Congress gave me an entirely different report.

Mr. BURGESS. That is one measure.

Now, I called attention to the fact that there are other measures here, that this demand debt is just as important as the marketable debt outstanding, and we have had to pay off a lot of that.

Senator KERR. That is right. But the fact is that there is a larger percentage of the national debt that is now due or callable at the will of the owner in 5 years or less than when you came here.

Mr. BURGESS. No, it is just about the same.

Senator KERR. Now, Doctor, we are going to start this all over.

Mr. BURGESS. The percentage is so close to the same you can hardly put a slip of paper between it. We made a very good start at doing this thing in 1953, 1954, and 1955, and then we ran into a market where you just could not do much at lengthening your debt. And so we have, for the period as a whole, we just about held our own. We wanted to do more than that.

Senator KERR. What?

Mr. BURGESS. We wanted to do more than that. We tried. That is all we could do. That is a better record than was made in the preceding 6 years.

Senator KERR. I thought you said—you mean percentage-wise?

Mr. BURGESS. But—

Senator KERR. You were elected to office on the basis you were going to fix it.

Mr. BURGESS. We said we were going to fix it over a period and as opportunities serve.

Senator KERR. Do you want the American people to keep you in office until you do?

Mr. BURGESS. If they keep us long enough, we will fix it.

Senator KERR. I think if they keep you long enough, you will fix them. That is what I am afraid of, and I think that is what they are afraid of.

We will come back to this when I get this report from the Research Division of the Library of Congress.

Mr. BURGESS. Yes.

Of course, it is not—let us not take a lot of time on it. I think we are mainly agreed. I think we have made a better record than in the preceding years. We at least made a good try at lengthening the debt and we have had some success.

Senator KERR. The report from the Library of Congress shows on September 30, 1952, the average number of months to maturity of the outstanding marketable public debt was 49.31.

Mr. BURGESS. That is September of 1952?

Senator KERR. September 30 of 1952.

Mr. BURGESS. Why not take December?

Senator KERR. Well, I do not know why they did not give me that. It could not have been much different.

Mr. BURGESS. But the months run on.

Senator KERR. They have been running on ever since. On June 30, 1957, it was 43.11. I will put this into the record at this point.

Mr. BURGESS. Let us correct it for December and you have got 3 months shorter.

Senator KERR. And that being the case, the differential was 6.2 months.

Mr. BURGESS. I just want to state that is an inaccurate statement, because it does not carry through to December, and also we have had to deal with a very large accumulation of maturities that were hanging over.

(The information referred to is as follows:)

*Average number of months to maturity or first call outstanding marketable public debt*

<i>Date</i>	<i>Average number of months</i>
June 30, 1957.....	43.11
Mar. 31, 1957.....	45.26
Dec. 31, 1956.....	45.41
Sept. 30, 1956.....	48.33
Mar. 31, 1956.....	51.26
Sept. 30, 1955.....	55.22
Mar. 31, 1955.....	56.36
Sept. 30, 1954.....	49.50
Mar. 31, 1954.....	51.33
Sept. 30, 1953.....	47.42
Mar. 31, 1953.....	49.43
Sept. 30, 1952.....	49.31
Mar. 31, 1952.....	40.09

Senator KERR. Well, actually, Doctor, on March 31, 1953, it was 49.43 months.

Mr. BURGESS. That was because of maturities that were coming along we inherited, and a refunding we did in February 1953.

Yet between September 30, 1952 and March 31, 1953, there was actually a slight increase. However, since March 31, 1953, the average number of months to maturity or first call of outstanding marketable public debt has declined from 49.43 to where on June 30, 1957, it was 43.11.

Mr. BURGESS. Well, I would like to analyze those figures.

Senator KERR. I think you are entitled to do that.

Mr. BURGESS. We will put a table in month by month, which will be more satisfactory.

(The information referred to is as follows:)

*Average length of marketable U. S. Government securities outstanding callable bonds to earliest call date*

[In months]

<i>End of month</i>	<i>1951<sup>1</sup></i>	<i>1952<sup>1</sup></i>	<i>1953</i>	<i>1954</i>	<i>1955</i>	<i>1956</i>	<i>1957</i>
January.....		51.4	45.5	43.7	50.3	50.4	44.0
February.....		50.8	46.3	50.2	56.6	49.6	41.1
March.....	58.7	51.5	46.2	51.0	57.4	50.7	43.9
April.....	57.7	50.7	45.3	49.8	55.4	49.8	43.0
May.....	57.1	49.8	46.9	50.4	54.4	49.2	42.7
June.....	56.9	49.4	46.8	50.5	54.7	49.8	<sup>2</sup> 43.1
July.....	55.9	49.6	44.4	49.6	55.1	49.8	
August.....	55.2	49.6	43.7	49.9	54.8	48.3	
September.....	54.2	48.8	45.0	49.0	53.8	47.8	
October.....	54.0	48.3	44.1	47.7	52.1	46.5	
November.....	53.1	46.8	44.1	46.8	51.3	45.4	
December.....	52.3	<sup>3</sup> 46.1	44.6	51.2	51.3	44.9	

<sup>1</sup> Adjusted to exclude 2½ percent bonds exchanged for nonmarketable 2½ percent Treasury bonds, investment series B-1975-80.

<sup>2</sup> 3 years 7 months.

<sup>3</sup> 3 years 10 months.

Senator KERR. We will come back to the E and H bonds here in a little while.

First, however, I want to ask if in the debate preceding the unpegging of the Government long-term bond market, did not the previous Secretary of the Treasury warn that the Treasury's financing task might be seriously complicated because holders of E and H savings would be induced to redeem their holdings in order to obtain the more attractive yields on other securities, including Government long-terms?

Mr. BURGESS. I do not remember.

Senator KERR. Would you agree or disagree that the following statement has proved accurate, a statement by Marriner S. Eccles, December 8, 1947, Economic Stabilization Aids, hearing before the Committee on Banking and Currency, 80th Congress, 1st session:

The people who are talking about raising interest rates, the discount rates, and not supporting the Government market but letting that go where it will, are assuming that a rise in interest rates might stop inflationary developments. There is no assurance that that would be true, because a rise in rates that was substantial would certainly cause the holders of the E, F, and G bonds to sell those securities, and they would be left then with cash to spend instead of being locked up in savings bonds.

Mr. BURGESS. Well, the F and G bonds have certainly been—they have been cashing in some of their securities and that is one of the problems we have dealt with, I think fairly successfully, without causing inflationary money to be around.

Senator KERR. Would you agree or disagree with the statement?

Mr. BURGESS. Well, not on the E bonds. The E's and H's—we did not have H's then.

Senator KERR. E, F and G is what he was talking about.

Mr. BURGESS. The E's have done very well, extremely well. The bonds distributed widely among the people have done extremely well. The G's, F's on—

Senator KERR. He was addressing himself to people who were talking about interest rates and not supporting the Government market, but letting that go where it would, are assuming a rise of interest rates would stop inflationary development, which is the position you have taken.

Mr. BURGESS. Yes.

Senator KERR. And he indicates that in his judgment there was no assurance that that would be true, because a rise in rates that was substantial would certainly cause the holders of these bonds to sell those securities, and they would be left with the cash to spend instead of being locked up in savings bonds.

Mr. BURGESS. I would say what he feared has not happened to an extent that it became a major influence; let us say it that way.

Senator KERR. Then, basically, you disagree with him?

Mr. BURGESS. He was wrong. I disagree with him.

Senator KERR. In your statement on page 18, you say [reading]:

We do not include series E and H—

Mr. BURGESS. Yes.

Senator KERR (continues reading):

savings bonds—the small saver's bonds—as part of the floating debt since they are not as sensitive to fluctuations in market interest rates.

Mr. BURGESS. That is right.

Senator KERR. Does the statement you have given me of the cash-ins and new sales substantiate that?

(See p. 915.)

Mr. BURGESS. I think so; yes, sir.

You see, if you take the overall outstanding, they are at the highest point of all time.

Senator KERR. That is by adding the interest to them?

Mr. BURGESS. Well, that is what you do. If you were running a savings bank and were reporting your deposits, you would include the accumulated interest as part of your deposits, part of your liability.

Senator KERR. But in cash sales and redemptions for 1957, you have got a net deficit of \$600 million.

Mr. BURGESS. That is right. But the amount of interest accrual more than offsets it.

Senator KERR. But insofar as the sales and redemptions, there have been more of them surrendered for redemption than you have been able to sell.

Mr. BURGESS. That is correct.

Senator KERR. And that was your thesis, when you requested that the interest rate on these bonds be raised.

Mr. BURGESS. That is right.

Senator KERR. Is it not a fact that despite a budget surplus, the Treasury had to raise new cash in the market several times in the first half of 1957?

Mr. BURGESS. Yes. First half of 1957.

Senator KERR. 1957; yes.

Mr. BURGESS. Yes.

Senator KERR. Why?

Mr. BURGESS. Well, there were a number of reasons. One was the redemption of F- and G-bonds. Another was that the Monetary Fund was using a certain amount of money. We had some other drains of cash.

Senator KERR. The thing that amazes me is that in spite of the fact that you had a surplus, so-called——

Mr. BURGESS. Yes.

Senator KERR. You had to keep raising additional amounts of new cash.

Mr. BURGESS. Well, we have got so many demand situations in this Government, that when cash is scarce elsewhere, there are a great many people who come around to the Government. There is the Small Business Administration, making a great many more loans, and we had to put up the money for that.

Also there is a certain amount of attrition, as you know on our securities, and that has called for raising additional cash.

Senator KERR. In fact, despite the so-called balanced budget for 2 years, and although you also say your overall debt-management picture, from the standpoint of lengthening it out is better, you have had to increase the volume of your 90-day bills by nearly \$5 billion.

Mr. BURGESS. That is right. But we have used that, a good deal of it, to redeem other demand obligations, these F and G savings bonds.

Senator KERR. When you came in, you were talking about these current obligations as being inflationary, and I just wondered if that had not made some contribution to it.

Mr. BURGESS. That may be, if they call for bank credit. I think if they have not increased bank credit, we have succeeded in keeping them this side of the inflationary bulge.

Senator KERR. In April, you asked this committee to authorize an increase in the interest rate on E- and H-bonds, to increase it from 3 to  $3\frac{1}{4}$  percent. You said it was merely to give the smaller buyers the benefits the large buyers have received.

Mr. BURGESS. That is right.

Senator KERR. In other words, you proposed eliminating what you said was a one-quarter percent interest rate gap between the E- and H-bonds and other securities.

Mr. BURGESS. That is right—other savings.

Senator KERR. At that time, you said the other securities were drawing  $3\frac{1}{4}$ , and that E- and H-bonds were drawing about 3, and you felt that gap should be closed.

Mr. BURGESS. Well, we had in mind also the competition of savings bank deposits and some other forms of savings.

Senator KERR. That is correct.

Mr. BURGESS. That is right.

Senator KERR. In other words, you were eliminating that one-quarter percent gap.

Mr. BURGESS. That is right.

Senator KERR. But now you are paying 4 percent on one-year certificates, and the E- and H-bond holders are 3 times worse off in the matter of their gap now than they were in April.

Mr. BURGESS. I would not say that, because in the other forms of savings, the rate has not moved up as this open market stuff has; the savings bank deposits, for example.

Senator KERR. Doctor, do you not know the savings banks in some States are now paying more than 5 percent?

Mr. BURGESS. Savings banks?

Senator KERR. I mean building and loan associations.

Mr. BURGESS. Yes, sir.

Senator KERR. I say building and loan associations—

Mr. BURGESS. That is a different kind of loaning. That is in parts of the country where they have got rapid growth and real progress. But in the East, it is not so.

Senator KERR. But it has moved up in California which is not exactly a small part of the economy. Do you know what the building and loan association is paying out there?

Mr. BURGESS. I thought it was 4 and  $4\frac{1}{2}$ .

Senator KERR. I think it is.

Mr. BURGESS. Yes.

Senator KERR. I think in Nevada they are paying 5 or more.

Mr. BURGESS. One of my colleagues thinks that the insured ones are not paying that much, the ones which have Federal insurance.

Senator KERR. You do not have any insured savings and loan associations paying as much as 5 percent?

Mr. BURGESS. Let us check that as to the accuracy.

(The information requested is as follows:)

Information given us by the Federal Home Loan Bank Board is that except for a few isolated institutions in small communities, the maximum rate paid by members of the home loan bank system is 4 percent per annum.

Senator KERR. All right, let us do that.

But actually, on the basis of the sale by you of—how many billions, at 4 percent?

Mr. BURGESS. If you include the Federal Reserve, it is about \$13 billion.

Senator KERR. And the total outstanding E-bonds amount to \$41.5 billion, including accrued interest.

Mr. BURGESS. That is right.

Senator KERR. \$41.5 billion.

So that as between them and the purchasers of this last series of 1- to 2-year Government notes, instead of there being a one-fourth percent gap, there is now a three-fourths percent gap.

Mr. BURGESS. Well, measuring it in that particular way, yes. But we measure that in other ways, as I have said.

Senator KERR. Are you going to make a proposal to equalize that situation?

Mr. BURGESS. Not now.

Senator KERR. The one-fourth percent increase proposed last April was needed to offset the rising trend of E-Bond redemptions?

Mr. BURGESS. You may remember, I asked for one-half percent.

Senator KERR. I know you did.

Mr. BURGESS. And I was only given one-fourth percent.

Senator KERR. If you will recall, I was one of those who helped get it up to the 3.26. You remember that?

Mr. BURGESS. That is right.

Senator KERR. There was no unanimity of thought on that.

Mr. BURGESS. I know.

Senator KERR. Actually, there were some who predicted here that that increase would be a floor rather than a ceiling; do you remember?

It looks to me, Doctor, like you actually have offset the offset that we approved here, by the 4 percent rate that you put on the current refinancing.

Mr. BURGESS. Well, sir, I do not think we have fully. The rates that are competitive with these rates are still in the same area, time-deposit rate of banks and the savings-bank rate.

And, of course, we always remember that this is a method of saving rather than a rate competition in these bonds.

Senator KERR. But you told us in that hearing, and I think you were right—

Mr. BURGESS. That we had to make an adjustment.

Senator KERR. That you had to make an adjustment.

Mr. BURGESS. Yes.

Senator KERR. Using the tables you submitted last April, it appears with the 4-percent alternative investment now available to E-bond holders, that you are just about three additional years behind last April in terms of your shield of defense against redemptions.

Mr. BURGESS. Well, that remains to be seen.

Senator KERR. As I remember, you told us in that hearing that under the E-bonds you had been and were issuing, it took 2 years' ownership to get to where the holder would, from that day to maturity, earn  $3\frac{1}{4}$  percent.

Mr. BURGESS. That is right.

Senator KERR. Now then, as I understand it, under the ones you now offer, it takes 5 years for the owner to be in a position where he will earn 4 percent for the rest of the time to maturity.

Mr. BURGESS. We can verify that.

Senator KERR. Let Mr. Mayo help us out on that.

Mr. BURGESS. It does not get to 4 percent.

Senator KERR. He does not get to 4 percent?

Mr. BURGESS. No. He gets to  $3\frac{3}{8}$  percent.

Senator KERR. How long does it take it to get to  $3\frac{3}{8}$  percent?

Mr. BURGESS. A year.

Senator KERR. Well, how much above that does it get?

Mr. BURGESS. Well, of course, the last few months it goes up to 3.81. It gets up to  $3\frac{1}{2}$  at 8 years.

Senator KERR. Well, now, the old E bond got up to  $3\frac{1}{4}$ , did it not?

Mr. BURGESS. Oh, yes, it got up there in  $2\frac{1}{2}$  years.

Senator KERR. In  $2\frac{1}{2}$  years.

Mr. BURGESS. Yes.

Senator KERR. So that the holder of the old E bond, considering his holding after  $2\frac{1}{2}$  years, was in position to be as well off as he would be to redeem it and put it in a  $3\frac{1}{4}$ , was he not?

Mr. BURGESS. That is right.

Senator KERR. What you are telling me now is that the owner of a new E bond never will get to the point where he will be as well off to keep it as he would be to sell it and put it in a 4 percent.

Mr. BURGESS. That is right. But, of course, he has other advantages, as you remember. He has the right of immediate redemption, and he has all the advantages that go with his E bond. He gets his  $3\frac{1}{4}$  percent guaranteed for almost 9 years.

Senator KERR. He pays his tax on the income, does he not?

Mr. BURGESS. Or when he cashes it. He has the choice.

Senator KERR. If a fellow had one of these 1-year 4 percent certificates today, would he have any trouble selling it at par?

Mr. BURGESS. He could today sell it a little better than par.

Senator KERR. Sell it a little better than par.

Mr. BURGESS. Yes. But he has no assurance for the future. This other chap who buys this E bond knows just what he can sell it for at any time. The 4 percent bond fellow is running a risk.

Senator KERR. But if he bought it today and had to redeem it within a year, he would not get any interest, would he?

Mr. BURGESS. Yes. He does under the new bond.

Senator KERR. How much?

Mr. BURGESS. He gets 1.6 percent.

Senator KERR. Interest?

Mr. BURGESS. That is right.

Senator KERR. And the second half year?

Mr. BURGESS. If he has held it 1 to  $1\frac{1}{2}$  years, he gets 2.28.

Senator KERR. So, while he could get his money back the first year, he would get somewhere between 1.6 and 2.28 on it, is that right?

Mr. BURGESS. That is right. He gets a very small amount of interest. It is an inducement—

Senator KERR. If he had one of these 1-year certificates, he would get 100 cents at the time, would he not?

Mr. BURGESS. He would not get 100 cents—if these depreciate, he will not. If these go down in value, he would not get his 100 cents.

Senator KERR. If they go down in value.

He would get his 100 cents if he held it for a year?

Mr. BURGESS. If he held it for a year, yes.

Senator KERR. It just does not seem to me, Doctor, it is proper to stop an interest rate spiral by continually dragging interest rates upward.

In other words, I just do not think you can stop a spiral by another spiral.

Mr. BURGESS. I do not, either.

Senator KERR. You said last April that an increase in interest rates on Government savings would not be followed by an increase in interest rates offered by savings institutions.

Mr. BURGESS. Did I say would not be followed by? I said I did not think it would cause. I think that was already underway.

Senator KERR. It has occurred, but you think entirely independent of the fact that—

Mr. BURGESS. I do not think we caused it. I would not say entirely independent, but I think we were a very small factor in it.

Senator KERR. You do not think that the rates the Government pays on its securities has much to do with the interest rates that are received on other investments?

Mr. BURGESS. Oh, yes. I was referring just to our action on the savings bonds as a cause.

Senator KERR. It was part of a pattern.

Mr. BURGESS. No. I think our general whole problem of Treasury financing has an important influence on it.

Senator KERR. A very profound effect on the interest rates paid by everybody else.

Mr. BURGESS. Yes, a very substantial effect.

Senator KERR. Did the National City Bank in its December 1952 letter on economic conditions and Government finance state:

An unpegging of the discount rate would be a natural sequence if it is to be restored as a flexible instrument of credit policy?

Mr. BURGESS. An unpegging of the discount rate?

Senator KERR. Yes.

The agreement with the Treasury to keep the 1½ percent rate expired at the end of 1951, and an unpegging of the discount rate would be a natural sequence if it is to be restored as a flexible instrument of credit policy.

Mr. BURGESS. That is right; yes. That is all right. I had forgotten the context of it.

Senator KERR. Well, when, following that, did the Federal Reserve raise the rediscount rate?

Mr. BURGESS. Well, they raised it in January 1953. They raised it from 1¾ to 2.

Senator KERR. Two percent?

Mr. BURGESS. Yes.

Senator KERR. What significance does the raising of the discount rate have, so far as the level of all interest rates is concerned?

Mr. BURGESS. Well, of course, it has two significances: One is that, when the banks borrow from the Federal Reserve, they pay that rate. The other is that it is a recognition by an informed group of

people, the Federal Reserve people, these 127 that you and I have talked about, of a change in money conditions, indication of a change, and a reflection of policy. So, the psychological effect is just as important as the actual.

Senator KERR. In other words, actually, it is a recognition by the 127 men of the effect brought about by action of the 7 men, it is not?

Mr. BURGESS. No; I would not say that. It is a recognition of the change in situation that they think justifies—

Senator KERR. Well, who changes the situation?

Mr. BURGESS. You and the other Senators, and all of the rest of us in the country, change it.

Senator GORE. Don't blame me for it.

Mr. BURGESS. I don't think we have a country where—

Senator KERR. Do you remember what Alf Landon said when they told him he had been nominated?

Mr. BURGESS. No.

Senator KERR. He said, "Who, me?"

Mr. BURGESS. That is all right.

Senator KERR. That is the way the Senator and I feel here when you look at us and say, "You changed it." In December 1952, in the issue of the weekly letter on economic conditions and Government finance—and you know what I am talking about?

Mr. BURGESS. Weekly or monthly letter?

Senator KERR. Weekly letter on economic conditions and Government finance, put out by the National City Bank of New York.

Mr. BURGESS. We did not put out a weekly letter. A monthly letter.

Senator KERR. Is it a monthly letter?

Mr. BURGESS. Yes.

Senator KERR. On economic conditions and finance?

Mr. BURGESS. Yes.

Senator GORE. Did you say "we" do not?

Mr. BURGESS. It was "we" at that time, you see; I was there at that time.

Senator GORE. I understand.

Senator KERR. He is like Sam Jones was about his religion. He said, "I was there when it happened." The bank you headed just prior to coming into Government discussed the background of the task in these words:

A main task is to redevelop a market for genuinely long-term bonds and to combat a tendency among institutional holders to regard United States Government securities simply as a temporary investment. This drift arises, basically, out of the reluctance of savers to accept depression-level rates of interest on their funds. They want a better deal and credit demand from other sources, corporations, States, and municipalities, the mortgage markets, has been large enough to enable savings institutions to give it to them. The Treasury cannot effect debt refunding without recognizing this basic change. The 2, 2½, and 2¾ percent scale used in financing World War II is quite clearly outmoded.

Does that sound like the opinion of those who think that unpegging—that the price, the rate, should be unpegged so they could drift down?

Mr. BURGESS. I would think those ideas might go together.

Senator KERR. I just do not discover them in the language, Doctor. And some of these days, when we have got more time, I want you to point out to me the wording there.

Mr. BURGESS. Perhaps I did not catch your last thought, when you said they could drift down. You mean the prices or the rates?

Senator KERR. The rates.

Mr. BURGESS. The rates. No. That is clearly a statement that they thought the rates would go up.

Senator KERR. Should go up.

Mr. BURGESS. If they were going to sell the securities widely, that they would have to sell them at a higher rate.

Senator KERR. After you came here, when did you make your first effort to lengthen the debt?

Mr. BURGESS. In February 1953.

Senator KERR. Was that a single-choice offering, or—

Mr. BURGESS. No. We gave them a choice between a 1-year and 5½-year, I think it was.

Senator KERR. How many of them took the 1-year?

Mr. BURGESS. Most of them, except about \$600 million.

Senator KERR. How many took the 1-year?

Mr. BURGESS. About— took the 1-year?

Senator KERR. Yes.

Mr. BURGESS. \$8.1 billion.

Senator KERR. \$8.1 billion took the 1-year?

Mr. BURGESS. And \$620 million took the —

Senator KERR. \$620 million took the 5-year-10-month?

Mr. BURGESS. That is right.

Senator KERR. Did that encourage you to think that there was a market for longer term issues?

Mr. BURGESS. Well, it was a little encouragement. The way the market was and the pricing, the curve, we only gave them a quarter of 1 per cent more for reaching out for —

Senator KERR. How much did you offer them on the 5-year-10-month?

Mr. BURGESS. 2½ percent. It was perfectly clear that was not very attractive to them for a bond. Some of them took it. But it was only one-fourth more for lengthening out over 5 years.

Senator KERR. Pardon me, Doctor, what was the rate offered on the 5-year-10?

Mr. BURGESS. It was 2½ percent.

Senator KERR. And of the 1-year?

Mr. BURGESS. That was 2¼.

Senator KERR. And—

Mr. BURGESS. Not a very big differential, you see, for stretching out.

Senator KERR. Yes. What I would like to know is what the compelling reason was for your offering those 3¼'s in April 1953.

Mr. BURGESS. Well, we wanted to make a start on lengthening the debt.

Senator KERR. You had not had evidence of any great demand for long terms, had you?

Mr. BURGESS. No; not very much.

Senator KERR. And you stated in your speech to the mutual savings banks that you could have gotten the money cheaper from the banks.

Mr. BURGESS. That is right.

Senator KERR. And you had access to the overdraft privilege with the Federal Reserve, which you used just a little later that year—

Mr. BURGESS. That is right.

Senator KERR (continuing). For a greater amount than you sold of the 3¼'s.

Mr. BURGESS. Yes, the amount sold for cash.

Senator KERR. You could have increased your weekly offering of bills, which you have done to the extent of \$4.7 billion.

Mr. BURGESS. That is right.

Senator KERR. Doctor, is it not a fact that you decided the time was ripe to break the 3 percent barrier?

Mr. BURGESS. No. No.

Senator KERR. That is what you did.

Mr. BURGESS. Well, we broke it; yes; because we had to break it to sell a long bond. We thought the time had come to——

Senator KERR. I say, did you not decide the time was ripe to break it?

Mr. BURGESS. That was not our motive. Our motive was to get started——

Senator KERR. I did not say it was your motive. I say, did you not feel that the time was ripe to break that 3 percent barrier?

Mr. BURGESS. No. I think your statement conveys the impression that was our objective. It was not. Our objective was to sell long bonds, and that was the cheapest rate we could sell them.

Senator KERR. Well, it was either your objective to break it, Doctor, or else you operated on the basis that it was the right thing to do to break it.

Mr. BURGESS. Well, we would have preferred not to break it.

Senator KERR. But you——

Mr. BURGESS. We would much prefer to sell it at less.

Senator KERR. But you admitted that you had three other alternatives for the money, at least.

Mr. BURGESS. All of them taking it at short-term at a time when there were inflationary pressures.

Senator KERR. Is there inflationary pressure when you use the overdraft privilege with the Federal Reserve?

Mr. BURGESS. It certainly is.

Senator KERR. You can use that for whatever time you want to, can you not?

Mr. BURGESS. But it puts more money in the market. It is just exactly like an open market operation on the part of the Federal.

Senator KERR. You have not hesitated to use it at other times.

Mr. BURGESS. We have hesitated, and used it only when we had to.

Senator KERR. And you moved the short-terms bills up. You moved them up by how much?

Mr. BURGESS. We did that when——

Senator KERR. By twenty-some percent?

Mr. BURGESS. Something like that; yes.

Senator KERR. \$4.7 billion.

Mr. BURGESS. Yes. We moved them up when we could not raise that money with longer issues.

Senator KERR. Then breaking the 3-percent barrier was only 1 of at least 4 alternatives that you had.

Mr. BURGESS. That is right. All the other alternatives would have been inflationary.

Senator KERR. So rather than use them, you choose to break the 3-percent barrier?

Mr. BURGESS. We chose to issue a bond; yes.

Senator GORE. Which was more inflationary than the other three.

Senator KERR. I think it was more inflationary than the other three, but that is a matter of opinion, and I respect your right to have the opinion that you do. But I can arrive at no conclusion other than that you felt that of the available alternatives you had, the desirable thing to do was to break that 3-percent barrier.

Mr. BURGESS. Well, that is putting the cart before the horse. The desirable thing to do was to start issuing long-term bonds after a desert where nobody had tried for 6 years.

Senator KERR. Well, you know, the bankers recommended former Secretary of the Treasury Snyder less than a year before that to issue some 3-percent long-terms, did they not?

Mr. BURGESS. That is right.

Senator KERR. You were one of those who recommended it.

Mr. BURGESS. I did; yes. The money was substantially tighter in the spring of 1953 than it was earlier.

Senator KERR. So that actually, you recommended hitting the 3-percent barrier nearly a year before.

Mr. BURGESS. That is right.

Senator KERR. And the Secretary declined to do it.

Mr. BURGESS. That is right. He made a mistake.

Senator KERR. And so, in April 1953, you broke it.

Mr. BURGESS. That is right.

Senator KERR. Is there a normal or sound or proper maturity organization of the public debt as to certain fixed percentages of the short-terms and the long-terms and the bills, certificates, and bonds?

Mr. BURGESS. I do not think there is any fixed pattern that you can suggest. You do want it spread as well as you can over some period. You do not want too much concentration at a given time.

But I do not think anybody is smart enough to lay out a fixed pattern and say that should be it.

Senator KERR. Which of the following do you regard as more important in debt management: Attempting to obtain a larger ratio of long-term debt to total, or tailoring your issues to satisfy the needs of your customers? In other words, to sell or not sell fur-lined underwear in August.

Mr. BURGESS. I think you have got to do both. I think you have got to try to stretch it out if you do not stretch it too much against what the customer wants. You have got to find somebody to buy it.

It is just that people who buy are going to talk about upgrading their purchases. You want to try to get your people who buy the product to buy the better product as much as you can.

Senator KERR. You know, Doctor, the thing about this that gives me the greatest concern and really grieves me, is the spectacle of the United States Government putting itself in the posture of a department store, or a filling station, or a mail-order merchandising institution saying, "If I can't sell them what I have got at a price they want to pay, I will just reduce the price of it until I can induce them," when, on the one hand, it is the largest borrower in the world and, on the other hand, the sole creator of credit in this Nation.

And yet, it is putting itself in the attitude of a mendicant—that is what the Treasury has been reduced to, a mendicant in the money market. And you will admit, I know, because you have been there all these years, and I have been there and been told often enough so that I know that their formula for doing business is to get what the traffic will bear; is it not?

Mr. BURGESS. Well, there is plenty of competition.

Senator KERR. I have never yet gone to an investment house or a banking group to borrow money for anything I was interested in, and asked them what was their formula for doing business, that they did not look me in the eye and say, "We get what the traffic will bear."

Is that the way the ones you know operate?

Mr. BURGESS. I think that is the formula for people who are in the business.

Senator KERR. In the business of providing credit?

Mr. BURGESS. That is true for most businessmen.

Senator KERR. And here we have the most powerful nation in the world, I hope, and the richest—

Mr. BURGESS. Yes; that is right.

Senator KERR (continuing). With an agency of its own creation set up to provide the credit required for an expanding economy and to finance the Government, immobilized; while its Treasury Department walks the highways of finance, a mendicant, saying, "We have got to refinance 50, 60, 70, 80 billion dollars in the next 12 months. What are you going to charge us for it?"

"And if we cannot get it from you at  $2\frac{3}{4}$ , we will pay you 3; and if we cannot get it from you at 3, we will break that 3-percent barrier and pay you  $3\frac{1}{4}$ ."

Now, in reality, that is the posture we are in, is it not, Doctor?

Mr. BURGESS. No, sir; I do not think so at all.

Senator KERR. I thought you said you paid what the market required, and I thought you introduced here chart after chart showing that you hit that market right on the nose.

Mr. BURGESS. That is not as a mendicant. That is a perfectly self-respecting sale of your product to the people who buy it.

Senator KERR. At the price they will pay you; is that not right?

Mr. BURGESS. At the price that the competitive market will pay—like anything else.

Senator KERR. At the tariff they charge you.

Mr. BURGESS. Yes, but it is not one person bargaining with you. It is a whole competitive market.

Senator KERR. It is the whole group there.

Mr. BURGESS. That you sell it to.

Senator KERR. They are a group, are they not; they are the dealers in securities, they are the providers of capital?

Mr. BURGESS. A great many different individuals, millions of them, who are there competing to buy just as much as you are competing to sell.

Senator KERR. Yes.

In 1953, you stated that you believed there was a substantial market for Treasury bonds at competitive interest rates. You mentioned especially nonbank investors, such as insurance companies and savings banks.

Yet is it not a fact that insurance companies and savings banks had been decreasing their holdings, and have continually since that time decreased their holdings of Treasury bonds?

Mr. BURGESS. That is right. Somewhat less rapidly than in the earlier days. That is in the face of a tremendous demand from the country for mortgages, and credit for other purposes.

Senator KERR. Yet you said in 1953 there was a substantial market there for Treasury bonds, long-term bonds.

Mr. BURGESS. There is, over a period of years. There is not very much right at the moment.

You have got to think of these things in terms of long-term and economic swings of the country, Senator. You cannot narrow it down—

Senator KERR. Why is it since 1953, insurance companies' holdings have gone down from \$16 billion to \$12.5 billion in April of this year? Savings banks have gone down from \$9.5 billion in June to \$8 billion in April of this year?

Is it because they are still getting depression-level rates of interest, as referred to here in the letter I read from?

Mr. BURGESS. No. They are getting good rates of interest on mortgages.

Senator KERR. I mean on the Governments they hold, or that are available to them.

Mr. BURGESS. Well, they still hold a lot of Governments that they bought at very low yields, that they are not very keen about holding.

Senator KERR. Well, then, their reduction in them must be because they feel on them they are getting depression-level interest.

Mr. BURGESS. Well, the reduction is, as I referred to before, the result of a capital boom where the customers of these people have a tremendous demand for money and are buying money from them at very good rates.

Senator GORE. Would you yield for an off-the-record question?

Senator KERR. Yes.

(Discussion off the record.)

Senator KERR. Would you say an important reason for your failure to put out more long-term loans has been the strong preference for liquidity on the part of the investors?

Mr. BURGESS. No.

Senator KERR. I thought that was what you told us in your statement generally.

Mr. BURGESS. No; the liquidity that they have. Two things: They have had, first, the tremendous demand from their customers at very attractive rates so that the balance of the money they have, which they regard as their secondary reserves, they want to keep very liquid so they can use it promptly whenever there is a need.

Senator KERR. That is what I understood you to say.

Mr. BURGESS. Well, it is a question of phrasing, maybe, it is a question of words.

Senator KERR. Yes.

Under what conditions do you find a rising preference for liquidity? Would you say that the desire for liquidity is a reflection of confidence and a reasonable degree of certainty in the future, or is it usually the opposite; namely, an indication that investors are uncertain about the

future and wish to be in a position to profit by sudden, unexpected changes?

Mr. BURGESS. Well, I would say it is an expression of great confidence in the future of business. They think that business is going to be good and going to be calling for money, so they are keeping their money liquid.

Senator KERR. So that if there is an opportunity to get more interest on it, they will have the money to get it on?

Mr. BURGESS. Well, it is not that so much, but this margin of free money has shrunk very substantially as they have been lending it to their customers.

Senator KERR. Doctor, as I see it, there is just one of two reasons why they keep that liquid position——

Mr. BURGESS. Yes.

Senator KERR. Either they are afraid of what is going to happen adversely, or they are anticipating a better opportunity to use it.

Mr. BURGESS. Well, I think there is a little more than that.

Senator KERR. Well, do you think that it might be kept in a position of liquidity because of one or both of those reasons, among others?

Mr. BURGESS. I think they may fear a change in interest rate, so if they buy the security they are afraid it would go down. That is a factor, certainly.

Senator KERR. That is a factor?

Mr. BURGESS. Yes.

Senator KERR. Is it not also a factor they keep themselves in liquid position because they anticipate the possibility of adverse developments when their survival would depend on how liquid they were?

Mr. BURGESS. When you speak of adverse developments, I think there is great confidence in the business future, that business will go on.

Senator KERR. Then as between those two, you think it is because they feel they might be able to get more interest?

Mr. BURGESS. No; it is not just more interest. They want to have the funds to meet the demands of their customers, these people who do business, because they have good customers and they want to serve them. That is good business for them to do so.

Senator KERR. Doctor, are not the banks in the tightest position today that they have been since you can remember?

Mr. BURGESS. That is right going back for some years. Why?

Well, Senator, because they made very heavy loans to their customers. It is not because they did not have money. They have lent more money in the past 2 years than for a long time past.

Senator KERR. Let me ask it of you, then, in this way: Would expectations of rising interest rates and falling bond prices, combined with the rising commodity price level, lead to a greater or lesser preference for long-term bonds?

Mr. BURGESS. Lesser.

Senator KERR. Lesser?

Mr. BURGESS. That is right.

Senator KERR. What do you think you could sell a long-term bond at today, from the standpoint of the interest rate?

Mr. BURGESS. Well, we thought about that. We thought about it on the last financing, whether by any change we would stretch those 2 by 4's out to 10 years. We decided we would have pretty heavy going:

that we would not get very much demand for a 4 percent bond for years.

Senator KERR. What do you think you could sell it at, in view of your long experience in this business from both sides of the desk?

Mr. BURGESS. Well, the fact is, these buyers have got such a terrific demand for money from people who are their regular customers, the mortgage situation insurance companies have, and the savings banks also have this mortgage situation very much in mind, they want to put a certain amount of their money into it.

They have their dealers in mortgages all through the country, their organizations for bringing them in. They have got to put a certain amount into mortgages.

They are getting tremendous demands from business corporations for money.

Under those circumstances, they would rather do those things at  $4\frac{1}{2}$  percent, than they would to buy Government bonds, which they regard as a secondary reserve. Undoubtedly, we could sell some long bonds at  $4\frac{1}{2}$ , perhaps—

Senator KERR. No; you could not.

Mr. BURGESS (continuing). Four and one-fourth.

Senator KERR. You could not. The law will not let you.

Mr. BURGESS. That is right. I was thinking purely of the—

Senator KERR. Of the market?

Mr. BURGESS. Of the market, yes.

Senator KERR. You think at  $4\frac{1}{2}$  percent you could sell them?

Mr. BURGESS. I think so.

Senator KERR. If the law would permit.

Mr. BURGESS. That would be very bad for the other markets. It would put interest rates up and would make—

Senator KERR. It would put the interest rates up as much above the 4 percent as the 4 percent put it up above what it had been, would it not?

Mr. BURGESS. Well, I do not think the 4 percent put the markets up. As a matter of fact, your long market for corporate bonds was hardly influenced by this 4 percent rate. This market was there already, we are simply recognizing a rate that was there.

Senator KERR. What proportion of the national debt has been or will be refinanced this year?

Mr. BURGESS. I think we gave you the figures. It is—

Senator KERR. I have not gotten them yet.

Mr. BURGESS. We did not give you the percentage. It is something like between a quarter and a third.

Senator KERR. You say between a fourth and a third, you think?

Mr. BURGESS. That is right; yes.

Senator KERR. Now, in a speech you made before the American Bankers Association here in Washington, September of 1953, you made this statement:

Thus, a sum equal to one-fourth of the national debt had to be financed in a year.

Mr. BURGESS. That is right.

Well, that is the marketable debt, and we have not made any progress about it. We about held our own on that one.

Senator KERR. Doctor, you have not held your own.

Mr. BURGESS. But we have reduced the amount of the demand non-marketable obligations substantially, which kept hitting us pretty hard.

Senator KERR. According to your definition of the floating debt in your book, we have got a much larger one today than we had when you came in.

Mr. BURGESS. About the same, on that basis.

Senator KERR. This \$81 billion plus the rollover in trust fund obligations due on or before October 1 of 1958, is a good deal more than the same situation was on December 31, 1952, is it not?

Mr. BURGESS. No; I do not think so. It is about the same.

Senator KERR. Doctor, I want to have a detailed statement of the two dates.

Mr. BURGESS. All right. We will do that. And I would like to attach to it the statement of the nonmarketable demand debt, also.

(The information requested is as follows:)

*The floating debt of the U. S. Government*

[In billions of dollars]

	Dec. 31, 1952	Oct. 1, 1957 <sup>1</sup>
<b>Marketable:</b>		
Maturing in under 1 year.....	57.0	70.9
Callable in under 1 year.....	1.7	5.7
<b>Total.....</b>	<b>57.8</b>	<b>76.5</b>
<b>Less: Under 1 year marketables held by Federal Reserve Banks and Government investment accounts.....</b>	<b>14.9</b>	<b>21.9</b>
<b>Held by the public:</b>		
<b>Floating debt:</b>		
Under 1-year marketables.....	42.9	54.6
Savings notes.....	5.8	.....
F, G, J, and K savings bonds.....	22.6	12.7
Miscellaneous demand debt <sup>2</sup> .....	3.4	3.0
<b>Total floating debt.....</b>	<b>74.6</b>	<b>70.3</b>

<sup>1</sup> Partially estimated.

<sup>2</sup> Excluding \$16.5 billion that were callable but were not called in 1953.

<sup>3</sup> Includes investment series A bonds, depository bonds, matured debt on which interest has ceased, and debt bearing no interest.

NOTE.—The \$81 billion mentioned in the testimony is not consistent with the floating debt. The \$81 billion was made up of the total marketables, maturing in 1 year (\$76.5 billion) plus the maturing savings bonds (series E \$2.6 billion and series F and G \$2.0 billion).

Senator KERR. On April 22, 1957, at the annual dinner meeting of the New York Financial Writers Association, you stated:

I hope it won't be long before market conditions will permit us to offer a further long-term issue, perhaps in exchange for maturing F and G savings bonds.

You did not offer anything the other day in exchange for maturing F and G bonds; did you?

Mr. BURGESS. No. We took a long look at that in April and in May, and finally decided that it was not worth the candle; that the amount we would have gotten did not justify the disturbance that it would cause in the market.

Senator KERR. And you think now that you could not offer them, that you could not sell them at or under the present legal limit for the interest they are permitted to pay?

Mr. BURGESS. I do not think any substantial amount, right at the moment right at the moment. That may change a month from now or 2 months from now.

Senator KERR. Was it at the time that you made this decision which you did with reference to this present refinancing, or at some stage since you came in prior to that, that it began to dawn on you that maybe the failure to issue more long-terms by your predecessor might have been caused by reasons other than premeditated design or deliberate choice? [Laughter.]

Mr. BURGESS. Well, Senator, I sat in with my predecessor in a good many discussions on that problem, and he had many of the same problems that we had, I know he did, and he had some additional problems.

Senator KERR. Well, either the rash statements that were made here in late 1952 and early 1953, about their failure to lengthen out the term of the debt and the amount of obligations due within a year, and so forth, were just a little bit overcritical, or else you have not lived up to your promises as well as you hoped you could or thought you could.

Mr. BURGESS. I think they missed a good many good chances to lengthen the debt. I think they missed a good many good chances.

Senator KERR. Had they broken the 3 percent barrier?

Mr. BURGESS. I do not think we have missed very much. I think they could have done it at 3 at that time.

Senator KERR. Well, had they made the 3 percent barrier.

Mr. BURGESS. Yes.

Senator KERR. But that is, first, an expression of opinion; is it not?

Mr. BURGESS. Well—

Senator KERR. You did not come down here with any valid offer from anybody who wanted to buy a few billion of long terms; did you?

Mr. BURGESS. Well, they were not particularly eager.

Senator KERR. I say, you did not come down here with any good offer?

Mr. BURGESS. There was a demand for them in 1955, and we put out some, we put out some 3's in 1955, successfully. We put out over \$2 billion of them. And that operation, I believe, will happen again.

But these—

Senator KERR. Those 3's were 25-year?

Mr. BURGESS. Forty-year.

Senator KERR. Forty.

Mr. BURGESS. The longest bond issue since the Panama Canal issue. And I believe my successor will sometime put out some more 3's.

Senator KERR. Well, the Federal Reserve could fix it so you could put out some before you left here, could they not, if they decided to? Could they not?

Mr. BURGESS. Well, I think they could. But at what cost? That is the problem.

Senator KERR. There are two schools of thought on the methods that should be used by the Treasury in preparing for a financing operation. One school holds that the Treasury should reach its own decision on the terms of its offerings with a minimum of outside consultation, and then make its offerings on that basis.

The other view is to engage in the widest possible consultation in order to determine what the market is prepared to accept.

Which of the two schools do you adhere to, if either?

Mr. BURGESS. I would rephrase it, the last one: I would do the job only after substantial consultation, but I would not put it at what the market is prepared to accept, in those words, because that implies the market is making a trade with you, which it is not.

Senator KERR. Now, you stated yesterday that it was about 3 weeks before an offering that you would have your consultation; and this report you gave me here, which I thank you very much, for, as to the times and the identity of those with whom you had conferences prior to this recent financing, indicates that the conferences began at least 90 days before the financing and, as you say, there had been others even prior to that time.

Mr. BURGESS. Those, of course, were very general in their terms. You did not get down to specific talks.

Senator KERR. Would you say that kind of consultation could lead to rumors which create expectations among investors as to future trends in interest rates?

Mr. BURGESS. Well, you do not have to start those. They are there already.

Senator KERR. I understand.

Mr. BURGESS. These people in the market, their telephone systems all over the country are talking about these things all the time.

Senator KERR. And is that calculated to reduce or augment the number of them?

Mr. BURGESS. Of the rumors?

Senator KERR. Yes.

Mr. BURGESS. You mean the system of consultation?

Senator KERR. Yes.

Mr. BURGESS. I do not think it changes it very much.

Senator KERR. You do not think it does?

Mr. BURGESS. There may be a few more, I do not know.

Senator KERR. Well, if investors in those consultations or in reports of them, or in conversations with those who participate in them, arrive at the opinion that interest rates will rise, what effect will that have on the Government security market?

Mr. BURGESS. Well, I do not think they come out of those consultations with that idea. They know what the price is, what the market is, and what it is likely to be. But if we were ever just deliberately putting the price up, that might be true. But we never have done that.

Senator KERR. I have not said that you did.

Mr. BURGESS. We have written it on the market.

Senator KERR. I have not said that you did.

Mr. BURGESS. There was a little implication.

Senator KERR. You are fleeing where no man is pursuing, yet.

Mr. BURGESS. Yet. [Laughter.]

Senator GORE. He knows where you are going, and you know, too.

Mr. BURGESS. I may say this method of consultation has been going on for a long time.

Senator KERR. I know that.

Mr. BURGESS. I think it wears pretty well.

Senator KERR. And out of the consultation come definite impressions and opinions as to what the procedure is going to be.

Mr. BURGESS. To some extent.

Senator KERR. As to whether or not the Federal Reserve is going to support it or not.

Mr. BURGESS. Well, they know that the Federal Reserve will not.

Senator KERR. But you told me this morning that the Federal Reserve had.

Mr. BURGESS. They did it once, yes.

Senator KERR. Yes.

Mr. BURGESS. They think it will not unless there is a very important reason to do so.

Senator KERR. But they know what the attitude of the Federal Reserve is, do they not?

Mr. BURGESS. That is right.

Senator KERR. As to what they are going—

Mr. BURGESS. They do not depend on these consultations for that. They do not get it from this. They read the annual report.

Senator KERR. But many of the fellows who help advise the Federal Reserve are in these consultations, are they not?

Mr. BURGESS. Well, they get the Federal Reserve opinion right from the annual reports of the Board.

Senator KERR. Yes, but I am not talking about their hindsight. I am talking about their foresight.

Mr. BURGESS. Well—

Senator KERR. I want to tell you, I can become an authority if I had the time to study up on what the Federal Reserve has done.

Mr. BURGESS. You can probably become an authority on what they would do, too.

Senator KERR. I tell you right now, I would like to know how, other than to participate in these various conferences or have a degree of their confidence that I do not have, that you can do that ahead of time.

Mr. BURGESS. I think you could do that.

Senator KERR. I would like for you to give some thought to that, and then tell me one of these days, because I think it is about as important information as a man can have.

Mr. BURGESS. Well, we are very aware—I know what you are talking about—we are very aware of the danger of giving advance information of action. Anybody who holds this job, who has any kind of conscience and sensitiveness, knows that is an enormously important factor and that some people could benefit from it, and you have to handle yourself in such a way that they do not.

Senator KERR. And others will be hurt by it.

Mr. BURGESS. And others will be hurt by it, and you have to handle yourself in such a way that does not happen.

Senator KERR. If the Treasury gets regular monthly reports from the Federal Reserve, including their Board members, from the Federal Reserve banks including their board members, if the Treasury gets regular reports from commercial banks and security dealers and others who handle funds for investment, you have the most complete access of any agency on this earth to information as to what the market on securities is, by the day, the hour, or the minute.

Then why is it necessary to hold your consultations prior to each financing to find out what the market is?

Mr. BURGESS. Well, I think there are two things. There is a tremendous market, and you do not really understand it just from the figures. You really have got to talk to people and find out how they are thinking.

Senator KERR. Do they have to talk to you so they will know how you think, too?

Mr. BURGESS. No.

But you have to——

Senator KERR. You do not think those meetings are one-way meetings, do you, Doctor?

Mr. BURGESS. No. I think we keep them informed of the broad national situation as far as we are concerned.

Senator KERR. Do you think they get as much impression from you as you do from them?

Mr. BURGESS. I think they do on certain broad outlines of governmental policy.

Senator KERR. They have as much a stake in this as you do.

Mr. BURGESS. But these are educational things as well as the other way, and I think they help us in selling our securities.

I think you are partly training your salesmen, because these fellows are the fellows who help sell these securities.

Senator KERR. If the purpose of the consultations is not connected with the setting of interest rates, but just merely to discuss maturities, why are recommendations made with respect to the interest rate on a proposed issue?

Mr. BURGESS. Well, we want their opinion, also. It is very helpful. There is not much variation you could suggest on that, but there is some.

Senator KERR. In meeting with these various advisory committees on debt management, do you give them any instructions as to the things to bear in mind in arriving at their recommendations?

Mr. BURGESS. Yes, in a general way.

Senator KERR. You know Emil J. Pattberg.

Mr. BURGESS. Yes.

Senator KERR. Chairman of the Investment Bankers Association governmental securities committee which participated in, and was one of the groups that submitted a recommendation on this recent issue, I notice.

Mr. BURGESS. That is right.

Senator KERR. He testified before the House Government Operations Committee June 5, 1956, as follows:

Following a brief discussion, the Under Secretary asked us to consider the problem and come back with our advice and recommendations as to the type of issue or issues which, in our opinion, should be offered to achieve a successful refunding operation in view of the existing market conditions, Federal Reserve policy, and the known objectives of the Treasury Department with reference to debt management.

Would you not agree that considerations other than the going market rate have influenced Treasury decisions?

Mr. BURGESS. Certainly. The problem of whether you can or cannot sell a longer maturity; the judgment of these people, for example, on how long a maturity you could sell, whether you could sell a 5-year, a 10-year, an 8-year.

They make a canvass of our customers—they are constantly in telephone conversation with others, a great many buyers of securities, and know their inclinations along that line. It is very helpful.

Senator KERR. He says here that his recommendations are asked for in view (1) of the existing market conditions.

Mr. BURGESS. That is right.

Senator KERR. (2) Federal Reserve policy; (3) the known objectives of the Treasury Department with respect to debt management.

Mr. BURGESS. One of those, for example, is that we want to lengthen the debt, when we can do it.

Senator KERR. Another one is that you want to have flexible interest rates?

Mr. BURGESS. Well, they have known that all along. You do not have to tell them that each time.

Senator KERR. I understad that they knew that about you. But your predecessor wanted inflexible interest rates so far as the ceiling was concerned, did he not?

Mr. BURGESS. My predecessor managed, before he got through, to make them more flexible.

Senator KERR. I want to get the record straight on that right now. He was told by the Federal Reserve Board what their policy was going to be, the result of which would make it more flexible. Now, that is the record.

Mr. BURGESS. Well, he would have to speak for himself on that.

Senator KERR. Well, he is going to, right here in this chair.

Mr. BURGESS. Is he? Fine.

Senator KERR. Yes, sir. And I know what the record is, Doctor.

Mr. BURGESS. You can rely on what he says.

Senator KERR. It was not a thing that he sought or to which he agreed. It was a mandate with which he acquiesced.

Mr. BURGESS. Well, I will let him answer that.

Senator KERR. All right.

Mr. BURGESS. You can rely on what he says. He is a man of integrity and honesty.

Senator KERR. Yes, sir.

You can rely on what I say, too.

Mr. BURGESS. Thank you, sir.

Senator KERR. And that is the record.

The Treasury and the President of the United States were told what the policy would be by the Federal Reserve Board. And, Doctor, you know that is a fact.

Mr. BURGESS. Well, sir, I was not here. Just exactly what happened then, I do not know.

Senator KERR. Mr. Pattberg says that he is customarily asked for his recommendations in view of existing market conditions as one of the considerations.

Mr. BURGESS. Existing market conditions.

Senator KERR. Conditions.

Mr. BURGESS. Yes.

Senator KERR. And you have been telling us here for days, and the Secretary told us for weeks, that these consultations were to find out what the market conditions were.

Mr. BURGESS. That is right. "In view of existing market conditions" means he discusses that with us.

Senator KERR. I understand.

But he is asked to make his recommendation not only in view of the market conditions, he says, but also the Federal Reserve policy, and the known objectives of the Treasury Department with reference to debt management.

Mr. BURGESS. That is right, which I have——

Senator KERR. Now, a combination of the 3 elements is a far different thing than the 1 element, which is to find out what the market is.

Mr. BURGESS. Well, certainly if they came in here and recommended that we do the whole business in 3-month certificates, that would be foolish, because they know that our policy is to lengthen it out where we can.

Senator KERR. And if they come in here and recommend that the Federal Reserve make more credit available so that you could finance it at a lower rate, they would know that was foolish, because the Federal Reserve has publicly declared they are not going to, and you and Secretary Humphrey have publicly declared that that is what you want them to declare.

Mr. BURGESS. That is one of the factors we want them to assume when they are making their recommendations, so it will not be off the beam.

Senator KERR. So that there are other considerations than the going market rate that influence these decisions.

Mr. BURGESS. Well, there is a little matter of what maturities you put in, which is very important.

Senator KERR. Here is something else. I have a clipping from the New York Journal of Commerce of June 6, 1956, and I will read the headline and then the first part.

IBA "USUALLY" HEADED BY UNITED STATES, HEARING TOLD—SUGGESTIONS ON BOND TERMS ARE "GENERALLY TAKEN," OFFICIAL SAYS

WASHINGTON, JUNE 5, 1956.—The advice that a special committee of investment bankers gives to the Treasury about the terms of forthcoming issues of Government bonds is "generally" taken, the committee chairman told Congress today.

Mr. BURGESS. I think he exaggerated a little. I remember at the time——

Senator KERR. Now according to this report——

Mr. BURGESS. That——

Senator KERR. That was Mr. Pattberg, and according to this——

Mr. BURGESS. On this issue he did.

Senator KERR. On this issue, you followed his recommendations on it?

Mr. BURGESS. On this issue, we have. We had not followed them precisely for a long time.

Senator KERR. He said here on June 5, 1956, in testimony to a congressional committee——

Mr. BURGESS. I do not quite agree with him on that.

Senator KERR. That——

The advice that a special committee of investment bankers gives to the Treasury about the terms of forthcoming issues of Government bonds is "generally" taken.

And I think it is quite significant here that in this last offering—

Mr. BURGESS. I think they were very helpful in that one, and I think they have been helpful over the years, extremely helpful.

Senator KERR. —that their recommendations were put into effect.

Mr. BURGESS. At that time. Now, a great many times they are not.

Senator KERR. How many members of the American Bankers Association and the Investment Bankers Association advisory committees, who meet with you on these new issues or refinancing, are actually in the business of buying and selling securities themselves?

Mr. BURGESS. A substantial number.

Senator KERR. Is not every one of them?

Mr. BURGESS. Well, there may be some of them who are officers of a bank that do, but are not directly connected with it.

Senator KERR. I understand. But either the individual or the institution he represents in every single case we have here on this report that you gave me, of the personnel of those two advisory committees, is in the business of buying and selling securities themselves.

Mr. BURGESS. All the members of the association practically are, one way or another.

Senator KERR. How many of the institutions whose officers are members of the debt management advisory committees with whom you consult maintain bond departments?

Mr. BURGESS. Well, I would not know about that. I would think half of them would. Some of the smaller ones do not have separate bond departments.

Senator KERR. How many buy for their own portfolio in addition to those who maintain departments for the purpose of buying and selling Government securities in the market?

Mr. BURGESS. If the first question, "maintain bond departments," means maintaining a trading department, that means relatively few. A bond department may mean a department which buys and sells.

Senator KERR. They all have a bond portfolio.

Mr. BURGESS. That is right.

Senator KERR. Either for their own account or for trading or both.

Mr. BURGESS. That is right.

Senator KERR. Do banks and investment houses that maintain bond departments or that have bond portfolios regard them as an important part of their business and as an important source of income?

Mr. BURGESS. Yes, sir.

Senator KERR. Are the bond transactions for their own account considered an important part of their business, and sometimes important—or sometimes significant in relation to their earnings?

Mr. BURGESS. Yes.

Senator KERR. In June 1953, did you deliver a speech at the Graduate School of Banking of Rutgers University, and suggest, among other things, that banks might find their portfolio operations more profitable now that the flexible interest rate policy had been put into effect?

Mr. BURGESS. I think so.

Senator KERR. I will quote and see if this is it:

Mr. Burgess told a thousand member GSB student body, following supper in the Rutgers University dining room, "We are running into a period of freer markets where portfolio operations could be more profitable."

Does that sound like your quotation?

Mr. BURGESS. That is right. That is all right.

Senator KERR. Would you look at the Federal Reserve Bulletin for May 1957 and tell us just how profitable they were the following year after that speech?

Mr. BURGESS. The following year, 1954.

Senator KERR. Yes, sir.

Mr. BURGESS. I am not sure we have got it.

Senator KERR. I have it here.

Mr. BURGESS. We have got it.

Senator KERR. What page do you find it on?

I am talking about just the portfolio operations of the member commercial banks of the Federal Reserve System.

Mr. BURGESS. Well, this table shows all insured commercial banks.

Senator KERR. All right.

Mr. BURGESS. Which shows profits on securities sold and all recoveries, etc., \$631 million; losses and chargeoffs on assets, \$553 million; a net, nonoperating profit of \$78 million.

Senator KERR. Doctor, I am talking about their profits on their sales and purchases of Government bonds.

Mr. BURGESS. I do not have that segregation.

Senator KERR. I think it is in this bulletin.

Mr. BURGESS. I do not have that with us. Of course, other years they take losses.

Senator KERR. I understand, but I am talking about the year following that suggestion of yours.

Mr. BURGESS. As it happens, that was the only year for a number of years that these insured commercial banks showed profits from the sale of securities in excess of their losses.

Senator KERR. Is there not somewhere in this a table that shows the profits of the commercial banks, Doctor, and the details?

Mr. BURGESS. I thought there was. I am not sure they segregate the profits on Government securities.

This that I read from gives the earnings, expenses, profits of insured commercial banks, which is—

Senator KERR. Have you got the Reserve Bulletin there of May 1957?

Mr. BURGESS. No; I am afraid we have not.

Senator KERR. Here it is, and it shows member bank earnings profits on securities of \$375 million for 1954, as I read this.

Mr. BURGESS. That is profits on securities, of all sorts, yes.

Senator KERR. Yes.

Now, that is principally—

Mr. BURGESS. And they have losses and chargeoffs of 254.

Senator KERR. That is principally Government securities; is it not?

Mr. BURGESS. Well, I suppose it is the largest single item, although they had municipals and some others.

Senator KERR. Yes.

Mr. BURGESS. You will notice that is the biggest year. That over a period of years—

Senator KERR. That was the significant thing about it. It was the year following this suggestion of yours.

Mr. BURGESS. Absolutely no connection, Senator.

Senator KERR (reading) :

We are running into a freer market, a period of freer markets, where portfolio operations could be more profitable.

Mr. BURGESS. Well, we had there a lot of boys who were learning how to operate banks and studying portfolios, and if a market moves up and down, the smart man, who studies his economic conditions, ought to be able to make a little money for his bank in buying them when they are down and selling them when they are up.

Senator KERR. And the bigger the bank, the bigger the portfolio, the bigger the opportunity.

Mr. BURGESS. There is an opportunity for a loss, equally.

Senator KERR. If he does not know how to handle it.

Mr. BURGESS. That is right.

Senator KERR. Which dramatizes the importance of any indication he might get as to what is going to happen.

Mr. BURGESS. Well, he ought to be pretty well informed.

Senator KERR. Yes.

Many people believe that an important responsibility of the Treasury is to manage the debt in a manner that will not unduly increase the interest burden of that debt on the Federal, State, and local budgets and the taxpayers.

Mr. BURGESS. I believe that, too.

Senator KERR. That has not been the determining factor, however, in your principles of debt management, has it?

Mr. BURGESS. No; I think the determining factor is the welfare of the whole people, and managing your debt in such a way that the swings of business may be stabilized, where possible, and you try to avoid booms and busts. That is the big thing.

This debt management is a part of the mechanism that affects whether this country goes through booms and busts, or whether it has a reasonably stable economy for the benefit of all the people.

Senator KERR. Or whether it goes forward, as it could, or whether it is stopped dead in its tracks.

Mr. BURGESS. Exactly.

Senator KERR. If we keep going in the present direction——

Mr. BURGESS. Yes.

Senator KERR. Maintaining the present Federal Reserve policies of holding down the increase in new money supply to less than 1 percent a year, when we need, as you said the other day, normally about 3, and we continue to follow the policy of paying interest on the public debt in accordance with a Treasury policy of paying what the market calls for, how long, in your judgment, will it be before we will be able to put a substantial part of the public debt into long-term issues?

Mr. BURGESS. Well, sir, I think the dominating problem here is the one the chairman suggested in his summary, the question of whether this country is going to go into inflation and repeat the pattern of boom and bust, or whether we are going to be wise enough to keep it from that.

And the whole problem here is a problem of whether you are going to keep it in the interests of the common people from boom and bust.

And the Federal Reserve System and ourselves are all trying to work toward a stable policy. That is so much more important than the number of dollars you pay in interest, that there is no comparison.

Senator KERR. How long do you think it would be before we could put out some more long-term debt?

Mr. BURGESS. That how long you would put it into a long-term debt, all depends on this great economic swing. If you have a continued inflationary swing with people overborrowing, we are going to have a hard time to lengthen the debt.

If, on the other hand, you can get greater stability here, I have no apprehensions that in the long future, we can gradually get this debt in better shape.

Senator KERR. Under the present interest rate policy, is it possible that the entire public debt, aside from what is invested in the trust funds or redeemable at the will of the owner, may be in the form of bills, notes and certificates?

Mr. BURGESS. No, sir. I think that is highly unlikely. I think if we watch our opportunities, we can keep this debt distributed.

Senator KERR. But the net result of it has been that it is tighter today than it has been since you can remember in some decades.

Mr. BURGESS. Well——

Senator KERR. The interest rate paid by the Treasury is higher than it has been in nearly 25 years.

Mr. BURGESS. That is right.

Senator KERR. The increase in the money supply is the lowest it has been in more than 10 years.

Mr. BURGESS. Oh, no. No, no.

Senator KERR. The increase in the——

Mr. BURGESS. No, sir.

Senator KERR. The rate of increase, the percent of increase annually.

Mr. BURGESS. No. In 1948, the money supply decreased \$2 billion.

Senator KERR. All right.

Mr. BURGESS. In 1948.

Senator KERR. Since then.

Mr. BURGESS. 1949, it decreased 0.4.

Senator KERR. 1950.

Mr. BURGESS. 1950, it increased 6.5, a great swing then.

Senator KERR. And from 1951.

Mr. BURGESS. 1951, it was 6.9.

Senator KERR. It has been going down steadily since then.

Mr. BURGESS. No.

Senator KERR. In the long run, Doctor. Maybe 1 year a little more or less.

Mr. BURGESS. These past 4 years, it has been a little under 3 percent on the average. You have got to look at these things over a swing.

Senator KERR. And the last 18 months, it has been under 1 percent.

Mr. BURGESS. Yes. For the first half year, but these first half-year——

Senator KERR. If that has not contributed to this tightness in money, it at least co-exists with it.

Mr. BURGESS. That is right. The money supply is one of the—the relation of money supply to the demand is one of the things that results in money rates, of course.

Senator KERR. Well, Doctor, you have been very kind and you have been very patient.

I want to come back in the morning, and go into some more matters, but I just want to recapitulate briefly: My impression is that within a few weeks after coming to your job in the Treasury Department in 1953, through the medium of the April 1953  $3\frac{1}{4}$  percent offering, you succeeded in breaking the 3 percent interest rate barrier on interest rates on Government bonds.

Then, a few days ago, and I guess in your last official refinancing project, as manager of the public debt, for the first time in nearly a quarter of a century, you pierced the 4 percent interest rate barrier on Government bonds.

I do not think that any living man can foretell what the ultimate cost, both in the increased cost of living, and the increase in interest rates, on State, local, and Federal debt, and individual and corporate borrowers will be.

But in my judgment, Doctor, the heritage that you are leaving and Mr. Humphrey left may cost the taxpayers and interest payers a penalty of \$15 billion a year. And I think that is an awful price to pay for having failed to prevent the inflation of the last 18 months.

The CHAIRMAN. Is there anything further?

The committee will recess until 10 o'clock tomorrow morning.

Mr. BURGESS. Did you say tomorrow, Saturday?

The CHAIRMAN. Yes. We are working people up here on the Hill. [Laughter.]

(Whereupon, at 1:30 p. m., the committee recessed, to reconvene at 10:15 a. m., Saturday, August 3, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

SATURDAY, AUGUST 3, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10:15 a. m., in room 312, Senate Office Building, Senator Robert S. Kerr presiding.

Present: Senators Kerr (presiding), Anderson, Gore, Malone, and Carlson.

Also present: R. Duane Saunders, Assistant Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; W. T. Hefelfinger, Fiscal Assistant Secretary of the Treasury; Paul Wren, assistant to the Secretary of the Treasury; George Willis, Director, Office of International Finance, Treasury; Elting Arnold, Assistant General Counsel, Treasury; Leland Howard, Assistant Director, Bureau of the Mint; Arnold Weiss, Office of the General Counsel, Treasury.

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

Senator KERR. The committee will be in order.

Good morning, Doctor.

Mr. BURGESS. Good morning, Senator.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Senator KERR. There was some discussion yesterday, Doctor, that one of the effects of breaking the 4 percent barrier would be to cause interest rate increases all along the line, which you indicated some doubt about.

I noticed in today's Wall Street Journal column, Business and Finance:

Home-building activities, lagging for the past year, will be given a shot in the arm shortly. The Eisenhower administration is about to issue directives aimed at spurring dwelling construction and safeguarding home buyers. To attract more money to the housing field, it is expected that the maximum interest that can be charged by lenders on FHA-insured mortgages will be raised to 5¼ percent from 5 percent.

To protect home buyers, discounts—or extra costs to obtain mortgage financing—may be limited to 2½ percentage points under the FHA program instead of being allowed to fluctuate freely. Present indications are that down-payment requirements will not be lowered at this time. But reductions almost certainly will come later this year—perhaps by autumn.

This action, which I believe to be the direct result of the 4 percent rate on your last refinancing issue, will exact a further penalty from

borrowers who have only that means of financing the building of a home.

It is tragic that the administration has to recognize one of the results of their own policies, the existing practice of a borrower making a note for \$10,000 and having to discount it anywhere up to 10 percent on top of the high interest rate on the face amount of it. They say they may limit that penalty to  $2\frac{1}{2}$  percent—

Senator ANDERSON. Two and a half?

Senator KERR. The discount penalty.

Senator ANDERSON. The minimum is now 6.

Senator KERR. I understand, but it means that they do recognize that the pound of flesh is now being exacted from the borrower to build a home.

Mr. BURGESS. Senator, may I say that I have been in close touch with that situation, and it is being studied with very great care, this whole mortgage situation. That dispatch is not a fair statement of the position.

But I know the position, and it has not been affected in the slightest degree by our recent action, in my judgment.

Senator KERR. Any similarity or—

Mr. BURGESS. Wholly adventitious.

Senator KERR. Or indication that one resembles the other is purely coincidental?

Mr. BURGESS. Purely coincidental, Senator.

Senator KERR. I must say that would be my position, Doctor, if I were you.

I want to say again and make it abundantly clear, Doctor, my effort to put into this record the story of the policies of the administration has not been calculated to cast the slightest reflection on your official or personal integrity. I respect it completely. It is just that we have such an intense difference of viewpoint and conflict of political philosophy.

I want to say that you have been perfectly frank and aboveboard. You have never for one moment made the slightest effort to hide your views. I know of no man whose views have been more completely publicized.

However, I do not agree with them, and I want you to know that that is a part of my feeling.

You have mentioned a number of times here in these hearings the \$9 billion deficit for the fiscal year ending June 30, 1953.

Mr. BURGESS. Yes, sir.

Senator KERR. You also have indicated that the financing of that deficit created many difficulties and problems for you.

I have a copy of this brief statement, which will be available to the press in a few minutes if they want it.

It is a fact that you knew at the time of taking your office that the Treasury was going to have to finance a very considerable deficit during 1953, with much of it in June, July, and August of 1953; did you not?

Mr. BURGESS. That is right.

Senator KERR. From your experience in the February offering, it was apparent that there was little demand for long-term bonds at the going rate.

Mr. BURGESS. Well, at that rate, yes.

Senator KERR. You also knew that the Federal Reserve had demonstrated by raising the rediscount rate in January to 2 percent, and by raising the buying rates on 90-day bankers' acceptances from  $1\frac{7}{8}$  to  $2\frac{1}{4}$ , that they were making public a restrictive intent with respect to the availability of credit in the money market.

Mr. BURGESS. That is right.

Senator KERR. Your modesty has not permitted you to publicly acknowledge it, but I know and I believe any other well-informed person knows that you are as able an analyst if not the ablest in America, to appraise the certain effects of the issuance of long-term Government bonds at  $3\frac{1}{4}$ -percent interest, a figure which was not only well above the market (which you do not admit but which I think the record establishes), but which was also a definite pronouncement that with reference to the huge financing requirements ahead, the Government was prepared to compete for its financing requirements in an open money market.

I would now like to ask you if it is not a fact that following that action on your part, there developed one of the most intense scrambles for credit the American money market had seen in recent times?

Mr. BURGESS. Well, I think that is a little strong. There was some confusion in the market. There was doubt. There was a break in market prices——

Senator KERR. Of Governments?

Mr. BURGESS (continuing). In May and June. Not Governments, generally, but of the bond market.

Senator KERR. Of the bond market?

Mr. BURGESS. That is right.

Senator KERR. Of the bond market.

Now, was there not——

Mr. BURGESS. It came late in May.

Senator KERR. Was there not bound to be an intense scramble in the market when you were confronted with the problem of financing a \$9 billion deficit?

Mr. BURGESS. No; I do not think so.

Senator KERR. Then we will look at what happened and see if there is any other explanation of it.

Mr. BURGESS. Yes.

Senator KERR. I also ask you if it is not a fact that this action on your part, and the subsequent scramble for credit, forced the rates on VA and FHA mortgages to be increased from 4 to  $4\frac{1}{2}$  percent?

Mr. BURGESS. No; I think that was already in the works.

Senator KERR. But they were shortly thereafter so increased.

Mr. BURGESS. They were increased in that period. I have forgotten the exact date, Senator.

But that was coming. They were not moving freely at the other rates before we acted.

Senator KERR. Well, it was in May of 1953——

Mr. BURGESS. Yes. But there is always a lag on those things.

Senator KERR (continuing). The action of increasing that interest rate was made.

Mr. BURGESS. That is right. But I think that was foreordained, whether we had put out a  $3\frac{1}{4}$  or not.

Senator KERR. Well, that was just a matter of about—it was the next month after the  $3\frac{1}{4}$ 's had been offered.

Mr. BURGESS. That is a lot quicker than those things usually happen. I mean, that was due to causes which ran back a good many months.

Senator KERR. I ask you if it is not a fact that the Federal Reserve recognized what was a near panic in the money market by buying nearly a billion dollars of Government securities in the open market within a matter of a very few weeks?

Mr. BURGESS. Well, that is all right except the "near panic." They did buy a substantial amount of Governments. It was obvious——

Senator KERR. The statement you gave me yesterday showed \$900 million.

Mr. BURGESS. That is right.

It was obvious that a turn had come in the situation.

Senator KERR. And is it not a fact that that is the largest amount they have purchased in the open market in this administration, in any brief period of time?

Mr. BURGESS. Over this 4 years, I think that is right.

Senator KERR. I ask you if it is not also a fact that as another consequence of this situation, the Federal Reserve substantially reduced reserve requirements to enable and permit the banks to help finance the Treasury deficit, which action was taken in July?

Mr. BURGESS. Well, it was not simply to finance the Treasury. It was to handle that and other requirements for credit.

Senator KERR. Of the money market?

Mr. BURGESS. That is right.

Senator KERR. I ask you if it is not a fact that in May, you increased your sale of bills by \$600 million; that in June, you increased the sale of bills by a billion dollars?

Mr. BURGESS. That is right.

Senator KERR. And that in July, you increased the sale of bills by \$300 million?

Mr. BURGESS. Without checking it, that sounds about right, Senator.

Senator KERR. And that in June, you took the action which you yourself have described as the most drastic of all, which was to borrow more than \$1.2 billion directly from the Federal Reserve under the overdraft privilege?

Mr. BURGESS. That was temporary. It was washed out, of course.

Senator KERR. I understand. But that is what did take place?

Mr. BURGESS. Yes.

Senator KERR. And it did take place in June of 1953?

Mr. BURGESS. That is right.

That showed, incidentally, the flexibility of action on the down side as well as the up, Mr. Senator.

Senator KERR. Let me say to you that I have not objected to these actions of the Federal Reserve at any time——

Mr. BURGESS. Yes.

Senator KERR (continuing). In increasing the money supply. I have favored it.

The dramatic thing about it is twofold: No. 1, it was in a matter of time very closely related to the date you issued the 3¼ long-terms, and it was a policy which you and Mr. Humphrey had so severely and repeatedly criticized as having been followed in the days or months or years of your predecessors.

Mr. BURGESS. Well, the question is one of timing, Senator. The question is altogether one of timing.

Senator KERR. I know.

Mr. BURGESS. When prices were rising—

Senator KERR. When you were criticizing the Federal Reserve for supporting the money market under your predecessors, you did not say it was wise if the circumstances—

Mr. BURGESS. Oh, yes. We were criticizing it in view of the inflationary situation at the time they did it.

Senator KERR. I want to submit, Mr. Burgess, that from these facts, and others with which you and I are familiar, I must conclude that the predominant reason for your offering the 3¼ long-terms at the time you did was to break the 3 percent interest rate barrier on Government securities.

Mr. BURGESS. Well, I can simply say that that is not my opinion. I say that is not so.

Senator KERR. I want to place in the record at this point a brief summary of the actions taken by the Treasury and the Federal Reserve in the first 7 months of 1953.

(The information referred to is as follows:)

In the first half of 1953, when the official policy of the Treasury, the administration, and the Federal Reserve, was supposed to be anti-inflationary, the following credit actions were taken:

Date	Interest rates	Credit	Debt management
January 1953.....	Discount rate raised from 1½ to 2 percent.	Federal reduced bill holdings.	
February 1953.....	1½ percent 1-year certificate exchanged for 2¼-percent certificate.	Margin requirements on loans for purchasing stock reduced one-third.	Treasury offered an intermediate bond in exchange for 1-year certificates.
March 1953.....	Opened discussions on long-term bonds, at 3 or 3½ percent.		Borrowed directly from Federal \$339,000,000.
April 1953.....	United States bond rate raised from 2.9 to 3½ percent.		Long-term bond sold to raise \$1,100,000,000 new cash.
May 1953.....	VA mortgage rates raised from 4 to 4½ percent.	Downpayments reduced and amortization extended.	Bills increased by \$600,000,000.
June 1953.....	2-percent bond and 1½-percent certificate exchanged for 2¾-percent certificate.	Federal Reserve bought \$900,000,000 of U. S. Government securities in open market.	Treasury increased bill sales by \$1,000,000,000. Treasury borrowed directly from Federal \$1,200,000,000.
July 1953.....	Sold 8-month tax anticipation certificate at 2½ percent.	Federal reduced reserve requirements to permit banks to finance Treasury deficit.	Treasury increased bill sales by \$300,000,000.

Senator KERR. As I understand your publicly announced position, Doctor, you have insisted that the Federal Reserve must be free from political pressure so that they can have complete freedom to carry out monetary policy in accordance with what they judge to be the public interest.

I believe you can answer "yes" to that without any qualification; but if there are any, I would be happy for you to name them.

Mr. BURGESS. I will say, yes, with a few mental reservations.

Senator KERR. I would like your comment on the following definition of politics:

It seems to me that the administration is charged, when it goes into power, with the economic and social problems of the Nation. Politics are nothing more or less than dealing with economic problems.

Now, that was a statement by Marriner Eccles before the House Banking and Currency Committee hearings on H. R. 5357, 74th Congress, 1935.

If you want to disagree or agree, or withhold comment, I would be glad for you to do whichever one you would like.

Mr. BURGESS. I do not think I have any comment on that.

Senator KERR. Do you think it possible, in this day and age, to deal with social and economic problems apart from the monetary system and monetary policies?

Mr. BURGESS. No.

Senator KERR. On November 9, 1951, when you were the chairman of the executive committee of the National City Bank, you read a paper at a meeting of the American Philosophical Society entitled "Money as an Instrument of Democracy."

In it you discussed monetary policy and the role of the Federal Reserve System, and said, in part, regarding the Federal Reserve plan:

The plan is so devised as to draw on the judgment and cooperation of the business and banking community while placing final decisions in a Government group. That group, however, is insulated in various ways from political government, as are the Supreme Court or the Interstate Commerce Commission.

That is the conclusion of your quotation.

Mr. BURGESS. Right.

Senator KERR. Do you know of any regulatory body where the industry that is being regulated is represented on the board doing the regulating?

Mr. BURGESS. Of course, that was the principle which was discussed by Mr. Wilson with Mr. Glass and Mr. Owens in the establishment of the Reserve System, and that was the reason why the Board of Governors of the Reserve System, then the Federal Reserve Board, was made a Presidential appointment without banking representatives on it, so that the—

Senator KERR. You mean without requiring that they be banking representatives?

Mr. BURGESS. Yes. With the provision for broad discretion, and provision that various groups of the population had to be represented. They said the commercial, agricultural interests had to be represented.

So that, as a matter of practice, there have been very few bankers on the Board. There have been usually 1 or 2, but usually they have been made up of other people from other occupations.

Senator KERR. I tried to get you to admit yesterday that those 7 men were the ones that controlled it, and you told me there were 127 men that did that.

Mr. BURGESS. Exactly. There is a balance there, a balance between the commercial and banking people and the Government body. The Government body has a final veto power.

Senator KERR. You also reminded me yesterday that a combination of five Reserve bank presidents, plus a minority of the public members, can determine Federal Open Market Committee policies in opposition to the majority of the public members of the Board.

Mr. BURGESS. Well, as to the Reserve bank presidents, there you have men in public responsibility. They are picked for a public job. They are selected by joint action of their boards of directors and the Federal Reserve.

But they are public officials just as much as people here in Washington.

Senator KERR. We have covered that 2 or 3 times, but briefly let us see if this is the situation: The presidents of those Reserve banks are elected by the directors of those Reserve banks?

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

Senator KERR. Do you know of any that have been disapproved?

Mr. BURGESS. Yes.

Senator KERR. In the last 10 years?

Mr. BURGESS. Yes; several.

Senator KERR. In the main, they have been approved?

Mr. BURGESS. But there have been a good many cases of disapproval.

Senator KERR. But when the Board here disapproves the selection, the directors of the bank make another selection. The Board here does not make it.

Mr. BURGESS. They make another selection. They come down here to Washington and say, "Will this man be satisfactory to you?"

There recently were discussions on the appointment of the head of the New York Reserve Bank, where they considered a good many people and where there was discussion with the board, and so on, but that is what happens.

Senator KERR. But the directors, as you have so insistently told me during this discussion, the directors elect their presidents.

Mr. BURGESS. Subject to approval by the Federal Reserve Board.

Senator KERR. By the Board.

Mr. BURGESS. Yes.

Senator KERR. And that 6 of the 9 directors of each Federal Reserve bank are elected by the member banks.

Mr. BURGESS. That is right.

Senator KERR. And the other three are appointed by the Board here in Washington.

Mr. BURGESS. That is right.

Senator KERR. And there are 12 of those presidents thus elected, and there are 5 of them always, including the president of the New York Reserve Bank, who constitute 5 of the 12 members of the Federal Open Market Committee.

Mr. BURGESS. That is right.

Senator KERR. And, as you reminded me yesterday, and I will repeat this question: A combination of five Reserve bank presidents, thus elected, plus a minority of the public members, can determine Federal Open Market Committee policies, even though they may be opposed by the majority of the public members of the Board.

Mr. BURGESS. That is right. Of course, I say that the presidents of the Federal Reserve banks are as fine public servants as you have in America today.

Senator KERR. Doctor, I have not said a word here to the contrary.

Mr. BURGESS. And I do not think there is anything in this method of selection which gives them a bias—

Senator KERR. I have not indicated so.

Mr. BURGESS (continuing). Against the public interest.

Senator KERR. I have only tried to delineate, as you have, the method of how they were elected.

Mr. BURGESS. Yes. I just wanted to make clear my judgment about them.

Senator KERR. I am glad for you to do so.

Mr. BURGESS. I think they are as unbiased public servants as we have here in America.

Senator KERR. I think they are honorable public servants, but I do not share your view they are unbiased. I just want clearly to state my view.

And I get back to the proposition—

Mr. BURGESS. Yes.

Senator KERR (continuing). That the Federal Reserve Board controls the money market, and that the Board making its decisions is or can be influenced by men elected by the bankers of America.

Mr. BURGESS. Well, it is pretty indirect.

The question relates to whether you can get objectivity and completely patriotic service by that method of selection. I say you can, just as well as you can when the State Department appoints an ambassador and he is approved by the Senate.

Senator KERR. I am sure that you believe that. I am sure that you believe that. And I want to say that there is exhibit A in the mind of this audience and the American public which would tend to bear out that observation.

Mr. BURGESS. I hope that is not personal, since I have just been confirmed as Ambassador.

Senator KERR. No. We are neither of us referring to you, sir.

Mr. BURGESS. Thank you, sir.

Senator KERR. Would you comment on this statement:

The job of the bank of issue is making money scarcer and costlier when boom psychology appears. This takes courage and judgment. That is the reason why it can't be done safely or well by politicians. The usefulness of the bank of issue is exactly in doing the unpopular things at the right time. The wise government knows this and leaves these unpopular jobs to the bank of issue.

Mr. BURGESS. I probably said that myself.

Senator KERR. That is right. You said that in your paper on "Money as an Instrument of Democracy," in November of 1951, before the annual meeting of the American Philosophical Society.

Mr. BURGESS. It is just as true as gospel.

Senator GORE. It sounds more like Hamilton than Jefferson.

Mr. BURGESS. I do not mind that, Senator.

Senator KERR. The Secretary himself relieved you and me of the necessity for making that observation. [Laughter.]

Would you say this was a Hamiltonian view of the role that a strong central bank should play in this country?

Mr. BURGESS. Well, I cannot recall that Hamilton ever expressed an opinion on precisely that, but he was all in favor of a central bank.

Senator KERR. Of that general principle.

Mr. BURGESS. Of that principle. I think it is fair to say that is nearer to Hamilton's views than most anything you would find.

Senator KERR. Would it be fair to say that it is not consistent with the views of Jefferson, Jackson, even Lincoln or Wilson?

Mr. BURGESS. Well, now, let us see. Jefferson, I do not think opposed the bank of issue. I do not think he opposed that view. I am a little rusty on his views.

Senator KERR. Would you be interested in a little diversion here and recall how the central bank was finally made a reality?

Mr. BURGESS. Back in 1791.

Senator KERR. Yes.

Mr. BURGESS. Well, it was Hamilton, of course, who had a great——  
Senator KERR. Made the fight.

Mr. BURGESS. Yes.

Senator KERR. What were the two great principles of his monetary and fiscal policy?

Mr. BURGESS. Well, of course, one was the assumption of the debts.

Senator KERR. The assumption of the debts, and the other was the strong central bank.

Mr. BURGESS. That is right. I think that is right, and a budget that was in balance.

Senator KERR. Yes.

Now, on those two points, Gallatin of Pennsylvania, and Jefferson of Virginia, and Madison, and their alliance, had him stopped, did they not?

Mr. BURGESS. Well, he won on the assumption——

Senator KERR. I know.

Mr. BURGESS. By compromising the location of the Capital, that is why you and I are here.

Senator KERR. That is right. He finally went to those boys and said——

Mr. BURGESS. He bought it.

Senator KERR (continuing). "If you will let us put the assumption bill over and the central bank bill through, we will move the Capital from here"——

Mr. BURGESS. It was bought and paid for, and you and I are paying for it.

Senator KERR. To where we are, down to the banks of the Potomac River, did he not?

Mr. BURGESS. That is right.

Senator KERR. And that is the way he got the number of additional votes he had to have to pass those two measures, is it not, Doctor?

Mr. BURGESS. That is what the record says.

Senator KERR. Well, there is no doubt in your mind but what Jackson opposed the central banks; is there?

Mr. BURGESS. The central bank? Jackson terminated the second central bank, there is no doubt about that.

Senator KERR. Well, he vetoed the bill for the third extension.

Mr. BURGESS. For the third extension in 1832.

Senator KERR. When they tried to tell Lincoln what to do, he issued the greenbacks, did he not?

Mr. BURGESS. He also established the national banking system.

Senator KERR. I understand, but on a basis that would help him rather than shackle him.

Mr. BURGESS. He had no choice.

Senator KERR. I am not saying he had no choice. I am just saying that is what he did do.

Mr. BURGESS. As I remember, the issue of a central bank, as such, never arose. The National Banking Act was regarded as a step of that sort, so he was for that.

Senator KERR. I would like to ask you now to comment on this remark:

We have worked unceasingly to carry out Hamilton's policies of an effective central banking system as the core of a sound financial mechanism. Our principal objective has been to make sure that the Federal Reserve System is assured independence of action without distortion from political pressures.

Mr. BURGESS. Well, I imagine I said that, too. If I did not, I will stand for it.

Senator KERR. Well, you did. You said that in an address before the annual convention of the American Farm Bureau in Chicago on December 14, 1955.

Mr. BURGESS. I must compliment you, Senator, and express my appreciation that you have been such a thorough student of my writings. [Laughter.]

Senator KERR. Well, I would recommend to you—

Mr. BURGESS. I am greatly complimented.

Senator KERR. I would recommend to you a similar action on your part with reference to mine. [Laughter.]

Mr. BURGESS. Well, sir, I have studied some of them. I did not go back so far, though.

Senator KERR. Then am I justified in assuming and thus proclaiming that there is no doubt that you have been and are devoted to the Hamiltonian view?

Mr. BURGESS. That is right. The phrase "central bank" needs perhaps a definition. I define that in terms that you and I have discussed.

Senator KERR. I understand.

Mr. BURGESS. It is the bank of issue.

Senator KERR. While you maintain that the management of monetary policies and of the central bank should be entirely free and insulated from political pressures, you do have strong political views and deep conviction that the views which you favor should prevail.

Mr. BURGESS. Do not we all, Senator?

Senator KERR. I do, yes. And I am only asking you if you do not also.

Mr. BURGESS. I do; yes. I do my best.

Senator KERR. Now, wholly for the purpose of getting into the record the scope of your views and their application, I read from the American Banker of January 14, 1953, reporting a meeting of the National City Bank's shareholders, which is quite thorough. But I will quote one event thus recorded and ask you to state if it is accurate or inaccurate.

Dr. W. Randolph Burgess, introduced by Mr. Sheperd, remarked that although he was leaving the post of chairman of the executive committee of the bank, to join the Treasury Department, "I will still be working for you people."

"We hope that when we get the job done," he added, "life will be a little better for all of us."

Mr. BURGESS. I think I said something like that, when I said "you people," I meant citizens of America. It was a wide group of citizens there.

Senator KERR. I am sure you did, the statement however was made at the annual stockholders meeting of the National City Bank.

Mr. BURGESS. That is all right. It certainly had no meaning that I was going to be working for the bank. I am working for a monetary and economic atmosphere where private enterprise and citizens of the country will have a better time.

Senator KERR. I recognize that and I publicly acknowledge my conviction you are doing it from the standpoint of a rugged viewpoint and an honorable viewpoint, but I think an erroneous viewpoint, Doctor. That is our difference. You understand that, do you not?

Mr. BURGESS. That is right; yes.

Senator KERR. I have here from The Commercial and Financial Chronicle of New York a statement entitled "Government by Principle," by Hon. W. Randolph Burgess.

Mr. BURGESS. I did a lot of talking, did I not?

Senator KERR. Doctor, you have for a fact.

Again, I am reminded of what old Job said, and using a little poetic license, "Oh, that mine adversary would write a book."

They quote you as saying:

It is always a pleasure to get back here among old friends—

and this, by the way, was in October of 1954—

Mr. BURGESS. Where was this, at what meeting?

Senator KERR (reading):

Former prominent New York banker, now Treasury's monetary expert, describes administration's financial policy with respect to the budget, tax program, monetary policy, and debt management. Explains the principles underlying administration's economic policies and emphasizes the reversal of the trend toward more centralized Federal Government. Stresses the aim to reestablish worldwide sound and honest money, and see gradual trend toward currency convertibility. Indicates conversion of short-term to long-term Government bonds will be gradual.

Now, it does not tell where you made it, but after I have read it I will give it to you and ask you if it is correct.

Mr. BURGESS. Excuse me.

Senator KERR. Do you know where it was?

Mr. BURGESS. No; I do not. Somebody said there was a footnote at the bottom.

Senator KERR. It has a picture there of you, which shows a very strong vigorous face, and I would deduce indicates similarity of those who are friends of yours bearing the same policy toward you as that of mine toward me, and that is to publish a picture that was not concurrent with the speech.

Mr. BURGESS. But it was not on graduation from college, anyhow.

Senator KERR. No.

Mr. BURGESS. I think this was before the New York State Chamber of Commerce.

Senator KERR. Fine (reading):

It is always a pleasure to get back here—

You follow this and see if it is correct.

Mr. BURGESS. Yes.

Senator KERR (reading):

among old friends and report to you, as I see it, what is going on in Washington. After all, every politician must have a constituency, and I think you come as near to being mine as any group. The first thing I want to say to you is that I am having a very interesting and valuable experience in Washington. It is a great pleasure to play on the Eisenhower team. I don't believe there has been a finer team of men assembled in the Cabinet and sub-Cabinet in the history of our country.

That group includes a great many from downtown New York, and it includes some of your members who, I can report, are doing a fine job. Percy Brundage I see very frequently—he was very prominent in the affairs of this Chamber,

and he is doing an invaluable piece of work, and there are others; I did not attempt to get up a list.

As a matter of fact, we are always a little embarrassed about downtown New York because every time there is a vacancy and you need somebody of great competence, you can think of 3 or 4 fellows here who will do the job. You go around to the authorities and they say, "For Lord's sake give us somebody outside New York."

So we have to go digging around elsewhere in the country, and very often finally we come back and say, "The only good man to do this job is from downtown New York, so I'm sorry, you will have to take him."

Mr. BURGESS. Sounds like a speech to a constituency, does it not? [Laughter.]

Senator KERR. I want to say, Doctor, that I have gone to some lengths to extoll an audience, but I cannot recall when I went quite that far.

Mr. BURGESS. Well, I think I went pretty far. I was thinking of the kind of people we have on technical money jobs, you see; where New York is the money market, and people just kind of gyrate there who are interested in that kind of thing.

Senator KERR. Well, then, our difference is not on the basis that you should not be a politician and that you should not represent your constituency, our difference is in our brand of politics and in the viewpoints of our constituency.

Mr. BURGESS. Yes, in part—all right. [Laughter.]

Senator GORE. And the identity.

Senator KERR. Now, then, I want to quote from what I have chosen to regard as your farewell address, and in doing so I am reminded of the farewell statement of Andrew Jackson when he left the Government at the end of his second term. I had intended to get that in its exact words. But endeavoring to quote from memory and trying to do so with reasonable accuracy as to content if not as to language, it went something like this:

I have rewarded my friends. I have punished my enemies. I have paid the public debt and distributed the surplus to the States. I have named my successor, and I am now going home to Tennessee.

[Laughter.]

Something along that order were the farewell words of the great "Old Hickory."

About a month and a half ago you reported on 4½ years as the manager of the public debt, putting into effect the recommendations of the Committee on Public Debt Policy, which you had headed. As you and I have set forth in this record, two of the main recommendations of that committee were to free the Federal Reserve from domination, control, or influence from the Treasury or the Executive, and to restore, in your words, "flexible interest rates," with the result, in my judgment, that you finally succeeded in cracking the 4-percent barrier of interest rates on your last issue of public securities. You gave your report in an address to the Graduate School of Banking, American Bankers Association at Rutgers University, New Brunswick, N. J., Friday, June 14, 1957, and I quote part of it as follows:

Nine years ago in June 1948, I spoke to the Graduate School of Banking on the subject of the management of our huge national debt. At that time, I was able to report the conclusions of a 2-year study made by the Committee on Public Debt Policy, of which I was chairman. You may recall that this committee published a series of pamphlets and a summary volume, entitled "Our National Debt."

Tonight after spending 4½ years in the Treasury Department, with some responsibility for the management of the public debt, I want to tell you what we have accomplished in putting into effect the principles on which our committee agreed 9 years ago.

I want to say, Doctor, that in my judgment you put more of your policies into effect than any other man that I know of in public office in a comparable period of time, with the exception of the Secretary of Agriculture. And while his policies have resulted in practically liquidating the institution of the family-sized farm, honored and revered in this country for three and one-half centuries, and while the effect on the small farmer was far more acute, I repeat what I said yesterday, by reason of the successful effort that you and Mr. Humphrey have made in raising interest rates, you are leaving a legacy to the taxpayers and interest payers that in my judgment will reach the amount of \$15 billion a year in addition interest paid over and above what it would have been, unless your policies are changed.

I thank you for your frankness and your patience and your candor. And that concludes my examination.

Mr. BURGESS. Could I say just 2 or 3 sentences, Mr. Senator?

Senator KERR. Yes, sir.

Mr. BURGESS. Well, I just want to say that you give me too much credit. These policies that we have been—Secretary Humphrey and I—are not unique with the Committee on Public Debt Policy or with any single group.

As you said before, they come pretty close to being policies of Hamilton, and have been the policies of sound men down through the ages, like Carter Glass and many other great statesmen. They were the policies advocated by Senator Douglas' subcommittee, to which we referred frequently; there were no differences, the same policies.

Wilbur Mills recently had a very thorough inquiry on this subject and has come out with a report which is very similar in its statement of policies.

All I say is if this country does not follow policies of this sort, I do not say these precise ones, that the cost of inflation will cost it infinitely more than any figure you can name on the increase of interest rates. And that is a lesson that has been learned all over this world over many decades of history.

Senator KERR. I think we have established by this record, that after comparative price stability in 1952, 1953, 1954, and 1955, we find ourselves here in August 1957 simultaneously in the throes of tight money, the highest interest rates in 25 years, abundant evidence that those rates are still spiraling upward, and in the midst of acute inflationary price conditions which first manifested themselves in these past 18 months. The cost of living is at a peak at the very moment that the implementation of the policies you refer to as having the objective of stabilizing the cost of living are also at their peak.

Mr. BURGESS. In other words, the medicine that the doctor prescribed is not working as quickly as we think it ought to, so we will stop taking medicine.

Senator KERR. No, not at all.

We ought to reexamine the situation to see if it is not a fact that the doctor, thinking his patient was threatened with high blood pressure,

intended to give him a sedative which turned out instead to be a stimulant and if not stopped and counteracted, could prove fatal.

Mr. BURGESS. Well, that is if you have a poor doctor. If you are taking the medicine that has worked in many countries of the world over a long period of time, and in this country, I do not think that is a fair simile.

Senator KERR. Well, the record will speak for itself.

Senator GORE. I would like to observe that one other remedy is to change doctors.

Senator KERR. Well, I must say that I would look with great favor upon that at the appropriate time. In the meantime, however, I would still urge the present doctor to reevaluate both the condition of the patient and in my judgment, the erroneous diagnosis and the erroneous medication that he is administering.

I yield to Senator Carlson.

Senator CARLSON. As one who has sat through 3 days of interrogation, your interrogation of the Secretary, I am reminded of the words of St. Paul, who said, "I have finished the course. I have kept the faith." And I think that might well be said of the Secretary.

Senator KERR. Now, Senator Carlson, when your remarks started, I built myself up to a high moment, and then when you applied the Gospel that you quoted to the Secretary instead of me, I had a great letdown. [Laughter.]

Mr. BURGESS. You remember the rest of the quotation, too; do you not?

Senator KERR. Yes, I do.

Mr. BURGESS. "Henceforth, there was laid up for me a crown of glory."

Senator KERR. All right, Senator Malone.

Senator MALONE. Thank you, Mr. Chairman.

Mr. Secretary, what is your title, Under Secretary of the Treasury?

Mr. BURGESS. Under Secretary of the Treasury for Monetary Affairs.

Senator MALONE. Well, now, I want to say to you to start with, as I did to Secretary Humphrey—I am very fond of the Secretary. I have really known him only since he entered the Cabinet, however, I think he is one of the finest individuals and probably one of the most capable businessmen in the United States of America.

Mr. BURGESS. I agree with you.

Senator MALONE. I think his leaving the Cabinet is a definite loss. However, I also have admired his successor in different jobs, and I only hope he can continue the work and hold this thing together as well as his predecessor. And I am sure he will also come up with some new ideas that will get our feet back toward the ground.

Mr. Secretary, I only intend to review some of the testimony that Mr. Humphrey gave in my cross-examination, since he deferred to you as his standby on certain phases of the Treasury work.

I believe this to be a very important investigation that the Senate Finance Committee has embarked upon, and can make very valuable recommendations to Congress next year. But I also believe it to be only one phase of the whole plan to distribute the wealth of this Nation with the nations of the world.

You probably noticed the ground covered in my cross-examination of the Secretary, and also my summation of the matter.

In 1933, we abandoned the gold standard; did we not?

Mr. BURGESS. I think so.

Senator MALONE. That was after England and several other foreign nations had abandoned the standard that had been the criterion for many generations.

Do you know how long the principal nations of the world had maintained the gold standard as a basis of exchange of currency and of trade?

Mr. BURGESS. Well, really it is pretty hard to date it. It was a gradual matter. I think the date of the establishment of the Bank of England, which I think was 1694, is a pretty good date to start with. They did not, of course—it was the sterling standard then, gradually worked over to gold. They had what they called the Banking Act of 1844, as I remember it, which fixed the gold standard rather definitely to them. I think we were on a gold standard from the establishment of the Republic until we went off.

Senator MALONE. In 1933?

Mr. BURGESS. Yes, in 1933.

Senator MALONE. What was the reason for establishing first the sterling, which is the silver——

Mr. BURGESS. Yes.

Senator MALONE. And second, the gold standard? Was it because the nations of the world, in their relations, had used for many hundreds of years certain metals, gold and silver for money?

Mr. BURGESS. Yes, and I think of it as due to two considerations: One is the establishment of the assurance of confidence in the value of money; and the second was that it enabled nations to trade between each other with greater freedom and confidence.

Senator MALONE. And they could exchange their money, that is, a pound for dollars, or pesos for dollars, or vice versa. And if they exchanged their money, either an individual or a government, the paper money or credit represented a certain number of ounces of silver or grains of gold, and in the long run in the exchange or trade nothing was lost or gained through the money.

Mr. BURGESS. That is right. You could then do business, as you say, through credit and by exchange of the paper money if you knew that it was exchangeable into a given weight of gold.

Senator MALONE. And if you knew when you went to a bank either in England, if they were on a silver standard, or gold standard or a combination, the money could be turned in at any time in any of the countries on such a standard and get the same number of grains of gold or ounces of silver that your money represented?

Mr. BURGESS. That is right.

Senator MALONE. Then, that established a method of trade on an honest basis, throughout the world or wherever they honored such a standard.

Mr. BURGESS. That is correct.

Senator MALONE. But we abandoned it, followed the other nations in 1933.

What happened then? What happened in regard to the money exchange? Was there a trend towards manipulation of the foreign nations' currency in terms of the dollar or other nations' currency that did not coincide with either the market value or grains of gold or ounces of silver?

Mr. BURGESS. It was on a much more artificial basis. Every nation had its exchange system, where they managed the movement of money and fluctuated their values as they found they had to, to meet the pressures on them.

Senator MALONE. In order to survive or for trade advantage.

Mr. BURGESS. That is right.

Senator MALONE. And sometimes it was a matter of the survival of a certain type of government; was it not?

Mr. BURGESS. Yes.

Senator MALONE. Not so much the survival of the nation but if they could cheapen the currency in terms of other money and gain a trade advantage, it would help the current dictator or king, whatever it was, to stay in power.

Mr. BURGESS. He was also divided between two problems; one was his external relationship with his money, and the other was what would happen at home. If he cheapened his money too much, it improved his situation abroad; but, on the other hand, it might give him inflation at home.

Senator MALONE. Has that not actually happened in almost every nation?

Mr. BURGESS. Practically, sooner or later.

Senator MALONE. Are there any exceptions?

Mr. BURGESS. Switzerland has had less difficulty than most, because it has been closer to the gold standard.

Senator MALONE. Yes. I had intended to get into the matter of Switzerland; they have been about the most sensible nation in the world. They have been the depository of money for other nations and for dictators and kings that might lose their job at any time, have they not?

Mr. BURGESS. Yes.

Senator MALONE. And it has been very safe there, has it not?

Mr. BURGESS. Very.

Senator MALONE. Probably the cause, and I would like to have your reasons. They are neutral in every war, and so many nations and dictators and rulers of nations have money deposited there that they have been and will be assured of being left alone when there is a world war, because that was and is a refuge for foreign money and men. Is that about right?

Mr. BURGESS. I think that is a primary cause. The secondary cause is they have followed, I think, very sound and conservative policies with respect to their money.

For example, Sweden has been equally neutral.

Senator MALONE. Well, have they been equally neutral? They stay out of war.

Mr. BURGESS. You are quite right.

Senator MALONE. Sweden has not only been neutral but sells goods to both sides, do they not?

Mr. BURGESS. Well, not quite as neutral. You are quite right.

Senator MALONE. Just a matter of degree, and they favor whoever happens to be top man at that time; is that about right?

Mr. BURGESS. To a degree, yes.

Senator MALONE. But Switzerland has been absolutely neutral so far as anyone could see, and a depository for the money of the dictators, kings, and deposed officials and leading individuals of the world,

and therefore protected, so that there was an escape area; is not that about right?

Mr. BURGESS. I think that is a good statement.

Senator MALONE. Now, is there—I did not quite follow this this far, but I think you probably know as much about it as any human being because you have been right in the middle of this financial thing for a considerable time—when did you first take the oath here?

Mr. BURGESS. With Mr. Eisenhower, January 20, 1953.

Senator MALONE. What was your work before that time?

Mr. BURGESS. More than half my working life has been in public service. I was here in World War I.

Senator MALONE. What were you doing then?

Mr. BURGESS. For 2 years. I had bad eyesight so I could not qualify for active service, so I was working here with the General Staff of the Army in the Statistical Office with Leonard Ayres.

Senator MALONE. World War II?

Mr. BURGESS. World War I.

Senator MALONE. Yes. We were in the same war then.

Mr. BURGESS. Yes, that is our war.

Then I went back to New York and finished by doctor's degree, and after that took a job with the Federal Reserve Bank in New York, where I stayed for 18 years.

Senator MALONE. You have had a lot of experience in the Federal Reserve bank. And as Under Secretary of the Treasury. And you have just grown up with this business.

Mr. BURGESS. That is right.

Senator MALONE. I was consultant to the Secretary of War and the Military Affairs Committee of the United States Senate during World War II, on Strategic and Critical Minerals and Materials and investigation of Military Establishments throughout the United States, Alaska, Hawaii, and the South Seas.

Mr. BURGESS. Then we must have seen each other, because I used to give a talk to that committee once a week. Senator Chamberlain—

Senator MALONE. Senator Reynolds of North Carolina was chairman.

Mr. BURGESS. That is right.

Senator MALONE. Now, it is the Armed Services Committee. It has been named the Armed Services Committee under the reorganization. I am the one they sent in to Dutch Harbor behind the Japs—then to the South Seas in 1943.

I will ask you this question—the Secretary did not seem to know too much about it, and referred it left-handedly to you anyhow. Do you know whether money is being invested in the United States, handled through Switzerland through blind method of numbers without identifying individuals, funds being invested in corporations and American business?

Mr. BURGESS. There is a certain amount of that, yes, Senator.

Senator MALONE. And you are unable to identify it?

Mr. BURGESS. You cannot identify it except by number.

Senator MALONE. That, would of course, depend entirely on the bankers in Switzerland, and you say they just cannot be forced to divulge the names.

Mr. BURGESS. That is under their Swiss law.

Senator MALONE. The money might belong to an American; it might belong to Peron or Khrushchev; it might belong to anybody; is that correct?

Mr. BURGESS. That is right.

Senator MALONE. Is there enough of that kind of money being moved into American business, is the rate of flow important enough to control certain corporations and businesses in this country?

Mr. BURGESS. We have tried to make an estimate of that, and it is very baffling. We do not think the amount is large enough to control any company, unless possibly it were concentrated on some relatively small company. The amounts involved are not big enough.

Senator MALONE. What would be the estimate of the amount involved now, just a liberal estimate?

Mr. BURGESS. I have got Mr. Willis here; he has been working on that.

Did we come to any figure that we can use, George?

Mr. WILLIS. No, sir. We have only statistics on the total inflow from Switzerland.

Senator MALONE. You do know the total?

Mr. WILLIS. Yes, sir; we publish the total.

Senator MALONE. What is it?

Mr. WILLIS. I have them here, sir.

Mr. BURGESS. That would include both the numbered accounts and the named accounts. We have a great many accounts here where we do know who it is, and of course the Swiss banks have the account.

Senator MALONE. And divided, if you know, between the accounts as individuals and the ones numbered.

Mr. BURGESS. We cannot break it down between the numbered accounts and the named accounts. But we do know what the total from Switzerland is.

Senator MALONE. I would like to know that.

Mr. BURGESS. That, of course, is an estimate. It is based on reports we receive currently from the banks.

Senator MALONE. I understand.

You think the banks are—you can trust the banks to give you the total amount?

Mr. BURGESS. There is no question about that, Senator. We get reports from all the banks that we think would be likely to have any substantial accounts.

Senator MALONE. But they do not need to do that, do they?

Mr. BURGESS. No; under the Trading With the Enemy Act, in an emergency we have the right to require them to report.

Senator MALONE. How could you punish them if they did not give you the right amount? I mean there would be no recourse?

Mr. BURGESS. It would be a criminal offense; yes.

Senator MALONE. By whom?

Mr. BURGESS. If a bank, let us say my old bank, the National City Bank of New York, intentionally turned in to us a figure that we found to be inaccurate, they could be prosecuted under the law.

Senator MALONE. Do they have to work though a bank in the United States?

Mr. BURGESS. Oh, no; not necessarily. It could be a corporation, a private banker, or a stock exchange house.

Senator MALONE. So you would not necessarily have those figures?

Mr. BURGESS. We would not necessarily have the complete figure. Of course, we have some figures on the customers' balances of stock exchange houses, and we are pretty well convinced there is not much money there.

Senator MALONE. For the purposes of the record, will you give us the total amount that you know of?

Mr. BURGESS. Yes.

Mr. WILLIS. Senator, our published figures for the calendar year 1956 of net transactions in long-term domestic securities or Swiss account, show a net purchase of \$234 million.

Senator MALONE. Do you have it for the years past?

Why do you not supply it for the record then, for the last 10 years?

Mr. BURGESS. We will be very glad to do so.

Senator MALONE. That will be all right.

Just make it a part of the record at this point.

(The information referred to is as follows:)

*Net transactions in long-term United States securities on Swiss account,  
1947 to May 1957*

[In millions of dollars; negative figures indicate net sales by foreigners]

Period	All long-term United States securities <sup>1</sup>	United States corporate stocks	Period	All long-term United States securities <sup>1</sup>	United States Corporate stocks
1947 <sup>2</sup> .....	13	8	1953.....	57	37
1948 <sup>2</sup> .....	-40	-42	1954.....	73	55
1949 <sup>2</sup> .....	44	21	1955.....	147	112
1950.....	19	10	1956.....	234	118
1951.....	46	59	January-May 1957.....	81	67
1952.....	51	41			

<sup>1</sup> Includes U. S. Government bonds and notes, corporate bonds, and corporate stocks.

<sup>2</sup> 1947-49 data includes transactions for account of the Bank for International Settlements.

Senator MALONE. I know, of course, there has been much in the newspapers over the last few years that there are certain individuals show up apparently with unlimited money to gain control of certain corporations, or try to gain control. And we are not sure all those transactions reach the newspapers.

So, if it is possible to bring money into this country without reporting it, the chances are that you would not be assured that the amount furnished is even close.

Mr. BURGESS. You could not be absolutely sure. We do have enough figures, enough feeling of the quantities, so that we feel reasonably sure that we are getting the bulk of the transactions.

Senator MALONE. What happens in the income tax when this money is invested through Switzerland banks, through maybe foreign corporations, or in other ways to handle money? Is there any way to handle it so it is not now subject to our income tax?

Mr. BURGESS. I am afraid there are some who escape tax that way.

I think Secretary Humphrey put a little report in the record. I do not think I am able to go much beyond that. We are studying it. We are doing the best we can to follow through, but I would not say we had everybody.

Senator MALONE. Is there a way legally to escape the income tax through foreign corporations, or is there not?

Mr. BURGESS. I would like to turn to Elting Arnold on that.

**Mr. ARNOLD.** I have no knowledge on those tax matters.

**Mr. BURGESS.** I do not have a tax man here.

**Senator MALONE.** If you have any knowledge, if there is any way to escape from taxation, if there could be a way to escape it through investing it through a corporation in this country, could you verify this for the record?

**Mr. BURGESS.** I would be glad to.

**Senator MALONE.** Other methods that I think helped to form the economic policy of this country, then, we come to the next year, to 1934, the Trade Agreements Act, and to transferring the regulation of our foreign trade, article I, section 8, from the Congress to the Executive. You are familiar with the act?

**Mr. BURGESS.** Yes.

**Senator MALONE.** It is the so-called Reciprocal Trade Act.

**Mr. BURGESS.** Reciprocal trade.

**Senator MALONE.** Named reciprocal trade by the London bankers to make it palatable to American workmen and investors.

That act also contained the full authority, so testified by Secretary of State Dulles, sitting where you are now, in 1955, full authority for the President to transfer that congressional responsibility to Geneva, under the General Agreement on Tariffs and Trade (GATT), and now 34 foreign competitive nations are regulating our foreign trade in Geneva, Switzerland, under the 1934 Trade Agreements Act as extended to June 1958. Also under the liberalization of the Foreign Trade Act, they can lower the tariff an additional 15 percent, at 5 percent a year.

You are familiar with that act?

**Mr. BURGESS.** In a general way. It is not my particular field. I am not familiar with it in detail but I have followed it in a broad way.

**Senator MALONE.** It is only a suggestion but I think I would, if I were going to be an expert in the economic structure of this Nation, I would include the foreign trade policy in my study.

**Mr. BURGESS.** It is a good suggestion, Senator. I do try to follow it, but it is pretty complicated.

**Senator MALONE.** Because right now, you will find we have the \$44 billion of American capital invested abroad, and the several billion dollars going to the sweatshop labor nations in cash each year to build plants to compete with American labor. And the 34 foreign competitive nations do have control of most of the markets in this country now—while we are living on a war economy, spending \$40 billion a year to hold it up, about four to six billion to foreign countries to buy our goods, \$37 billion in national defense annually to buy our materials in the country.

Many people believe if we stopped spending the national defense money for about 60 days, the ensuing depression would start them jumping out of windows again in New York. And the windows they are making lately, would be a little harder to jump out of, but I think they would make it all right. They seemed right active in 1929 to 1933.

Now, you are familiar then with the 1947 situation that the President did transfer the full responsibility of Congress to regulate our foreign trade to Geneva, Switzerland under the authority given him by Congress in the 1934 Trade Agreements Act. The president caused

the general agreement on tariff and trade (GATT) to be organized on a vehicle. Do you know that?

Mr. BURGESS. Well, I know it was done within certain limits.

Senator MALONE. What limits are they?

Mr. BURGESS. That, I would not be able to state.

Senator MALONE. There, again, I think you ought to study it, because they have the full authority that the Constitution placed in Congress within the limits set by Congress. And now it is 5 percent reduction duties of tariff per year that they accomplish through multilateral trade agreements. A total of 15 percent lower in the 3 years.

Mr. BURGESS. That is right.

Senator MALONE. A spider web is really a very simple structure compared to these multilateral trade agreements, and they are signed before any businessman in America is allowed to know what they are, or even the Members of Congress.

Mr. BURGESS. I thought that there were hearings on those.

Senator MALONE. No hearings. No public hearings. Nothing. As a matter of fact, Americans are precluded from knowing anything about them until they are signed and published.

In 1948, the Marshall plan broke the dam and started paying the taxpayers' money to foreign nations, did we not, \$17 billion was authorized under the plan?

Mr. BURGESS. That is approximately correct for nonmilitary aid through fiscal year 1953.

Senator MALONE. Over my violent objection, in 1948 on the Senate floor.

Senator ANDERSON. 1947.

Senator MALONE. In 1946 the Congress gave England \$33¼ billion, under recommendation by the President; did we not?

Mr. BURGESS. That is right.

Senator MALONE. We called it a loan.

Mr. BURGESS. Actually signed in 1945. The bill was before Congress in 1946.

Senator MALONE. That is true.

That money paid to England, widely advertised in this country, as the end of all contributions to foreign nations, and everybody would be on their feet.

Mr. BURGESS. The two things together.

Senator MALONE. Then, the Marshall plan came along, then ECA, then Mutual Security. Even I cannot remember how many times they have changed the name of this taxpayers' money funnel to foreign nations. They keep changing it to confuse the taxpayers. But it is now called Mutual Security; is it not?

Mr. BURGESS. ICA, now, International Cooperation Administration, Senator.

Senator MALONE. And that is costing us \$3 billion this year; is it not?

Mr. BURGESS. It is a little over three. Of course, that includes—

Senator MALONE. Four billion.

Mr. BURGESS. The present bill includes—well, we do not know yet, until—it is in conference, I believe. That includes, of course, military aid as well as economic aid.

Senator MALONE. Outdated military materiel that we buy in this or foreign nations?

Mr. BURGESS. That we will largely—the military aid consists of materiel that we send abroad. We buy some over there, and put it in the hands of our allies, mostly sending it from here.

Senator MALONE. Mostly obsolete when we deliver it to the allies.

Mr. BURGESS. Well, it is not our very latest in all cases, shall we say.

Senator MALONE. Of course, everybody knows that all this foot-soldier business such as you and I went through in 1917 and 1918 is about as obsolete as a Civil War musket, but it does help to hold up the economy of foreign nations where the soldiers are stationed?

Mr. BURGESS. Well, I think I indicated earlier, Senator, that I think the size of the military budget is one of the causes of our inflationary problem.

Senator MALONE. It is one of the causes of our great prosperity; is it not?

Mr. BURGESS. Yes, it is, both.

Senator MALONE. Have we ever let the water settle since 1934, since WPA and PWA and World War II and the Korean war, and preparation for war? Has the water ever settled since then?

Mr. BURGESS. Well, it is pretty hard to pick out a period and say "This, now, is a normal period."

Senator MALONE. Well, there has not been any, has there?

Mr. BURGESS. I do not think so.

Senator MALONE. I think that is right.

You know that you and I are just trying to establish a record that will be studied later we hope. It is not a question of me trying to put you in the hole. I would not do it purposely, or Mr. Humphrey either. But I do feel now as I felt with the Secretary that he was the only one that could answer questions of what had happened, and what he inherited, and how he had carried it on, and I feel the same way about you.

Mr. BURGESS. I will try, Senator.

Senator MALONE. We are trying to establish the condition of the economic structure of this country is so much more important than Secretary Humphrey or you or any official, that the important thing is the record.

What we contribute while we are here, while passing in review, is the only important thing to the country.

Individuals are not important, except to the immediate family, as you can readily realize when you quote such men as Hamilton and Jefferson, when they are gone. What they leave in a record of accomplishment is the important thing.

Mr. BURGESS. Not really.

Senator MALONE. Or what motivated them at the time. We think it was patriotism. I hope it was. Probably a lot of individual things, just like nowadays, came along to influence their thinking.

In 1945-46, when we gave \$3¾ billion to England—it really started before that during lend-lease, when we supported everybody in World War II, and then wrote it off when the war was over. The English loans was not a loan at all, and everybody knew it at the time who was familiar with the record.

Mr. BURGESS. Well, they have been paying on it, Senator.

Senator MALONE. We gave them more money since the loan, than they have ever paid on it, have we not?

Mr. BURGESS. Well—

Senator MALONE. Quite considerably more.

Mr. BURGESS. I would have to check that.

Senator MALONE. What was that?

Mr. BURGESS. I would want to check the exact figures.

Senator MALONE. You go ahead and check it and put it in the record, because if you have any doubts, I want you to put it in the record.

(The following was later received for the record :)

*Postwar assistance to the United Kingdom through Dec. 31, 1956<sup>1</sup>*

	Amount	Repayments		Principal outstanding
		Principal	Interest	
<b>I. Loans (millions of dollars):</b>				
British loan.....	3,750	280	\$ 366	3,470
Lend-lease settlement and surplus property.....	622	69	59	553
Lend-lease silver.....	19	\$ 15		4
Mutual security.....	391	1	39	390
Total.....	4,782	\$ 365	\$ 464	4,417
<b>II. Grants (billions of dollars):</b>				
Mutual security aid <sup>1</sup> .....				3.4
Lend-lease and other (postwar).....				.4
Gross grants during postwar period.....				3.8
Less:				
Sterling counterpart funds assigned to U. S. Government use.....				.2
Reverse lend-lease (postwar).....				.1
Returns of mainly wartime lend-lease goods.....				.2
Credits established in postwar period in settlement of both wartime and postwar lend-lease. <sup>2</sup> These credits are included under "Loans" in section I of this table.				.6
Net grants (adjusted).....				2.7
<b>III. Offshore procurement receipts (millions of dollars).....</b>				393

NOTE.—On December 21, 1956, the Export-Import Bank authorized a line of credit of \$500 million for the United Kingdom which is unutilized to date.

<sup>1</sup> Excluding military and item deliveries.

<sup>2</sup> An additional \$81.6 million of interest was deferred until the end of the payments schedule.

<sup>3</sup> Based on United Kingdom shipments data. After Dec. 31, 1956, the balance of \$4 million was repaid.

<sup>4</sup> Excludes repayments of principal on loans extended during the war period. Such repayments during the postwar period through Dec. 31, 1956, amounted to slightly over \$300 million.

<sup>5</sup> Excludes payments of interest on loans extended during the war period. Such payments during the postwar period through Dec. 31, 1956, amounted to approximately \$30 million.

<sup>6</sup> The portion of these credits representing settlement of postwar as distinct from wartime lend lease cannot be determined.

Source: Commerce Department, Foreign Aid by the United States Government, 1940-51 and Foreign Grants and Credits by the United States Government. Offshore procurement figure from United Kingdom Government White Paper, United Kingdom Balance of Payments, 1946 to 1956 (No. 2), dated Apr. 4, 1957.

Mr. BURGESS. Yes; we have, in one way or another, such as through offshore procurement.

Senator MALONE. And in direct cash.

Mr. BURGESS. And in terms of money spent over there.

Senator MALONE. We have given every nation in the world more money than they ever paid on any loan.

Mr. BURGESS. In supporting our troops. I think that is true; yes.

Senator MALONE. And we continue to give them money and assistance now. So all this is coming from the taxpayers of the United States of America. Then we keep the foot soldiers in 73 foreign nations to help their economy. There is not any question about it; is there?

Mr. BURGESS. There is no other source.

Senator MALONE. Well, I will disagree with you. There is another source. They can support themselves. We are simply buying treaties

which will be ignored when the time comes to deliver. No nation ever keeps a treaty when it becomes obnoxious to it. That is the several hundred year record.

These nations lived a long time before we started picking up the bills, did they not?

Mr. BURGESS. They managed somehow.

Senator MALONE. They would manage it now, too, if we would just let them alone. If there were a natural economic situation in the world, the water would settle and we might be able to judge the situation.

Mr. BURGESS. That gets us into a big question. I happen to believe that some of our aid has been very effective and helpful.

Senator MALONE. I think it has been very effective in holding the type of government in power in each case. Not all of them desirable.

Mr. BURGESS. We might have more of those governments Communist now if we had not done the job.

Senator MALONE. What do you think we have in Europe now? Almost every European nation has recognized Communist China and trading with them. They are all trading directly or indirectly with Russia—England leads the pack.

Mr. BURGESS. I think some of them have.

Senator MALONE. Of course they have.

Japan is going to trade with China. She has to trade with China. If you want to refer to it, I made about a 20-minute speech on the Senate floor after many of our leading Senators had had their picture taken in San Francisco with Mr. Dulles signing the treaty with Japan; and everything I said that day, after they returned, has happened. They are going to trade with Manchuria and China; they are going to buy goods there, and they are going to recognize them and sell goods there.

They cannot help it.

What the State Department needs is an experienced industrial engineer; if they would just show him a map of the area with present production and consumption, he will tell them who they are going to trade with, because they have to.

Even the State Department has been unable to move these countries

Of course, you can delay the natural business for a while as long as the American taxpayers pick up the check. But that must cease soon—you know that yourself—and the country knows it because the taxpayers are getting very tired of it.

Don't you think they are?

Mr. BURGESS. I think there are a good many signs that they are restive, and they are reexamining the whole program very carefully.

Senator MALONE. That is a masterpiece of understatement. And the taxpayers are convinced of what Congress has done to them for the last 24 years; it will not take them long to take care of it. And I am sorry to say, our administration is carrying on the same thing that went on for 20 years here, in effect, distributing the taxpayer's money.

We may have done it a little more businesslike, as you say; we have sold the bonds over a longer term, maybe with a little ointment on the sore spot, but we are still paying the bill.

There were four organizations organized, one of them only recently set up, and in our administration, to encourage investments of Amer-

ican capital abroad. If you do not agree with any of this, I want you to say so.

The first one was the Export-Import Bank. When was that organized?

Mr. BURGESS. That was organized back in the thirties. It was George Peak, from Illinois, who originally organized that, with very small capital. I cannot give you the exact date, but it was back in the middle thirties.

Senator MALONE. Will you put that date in the record, together with the amount for which the taxpayer is responsible?

Mr. BURGESS. We will put that in the record.

(The information referred to is as follows:)

#### EXPORT-IMPORT BANK, CAPITALIZATION AND LENDING AUTHORITY

The Export-Import Bank was established on February 12, 1934, with an initial capitalization of \$11 million. The present capitalization of the bank, \$1 billion, was authorized by the Export-Import Bank Act of 1945. The Export-Import Bank Act, as amended, authorizes the bank to borrow from the United States Treasury up to \$4 billion outstanding at any one time, and imposes a limitation of \$5 billion on the amount of loans, guaranties, and insurance which the bank can have outstanding at any one time.

Senator MALONE. We built it up a little bit since Mr. Peak's days. The Secretary testified we are responsible for \$5 billion of the Export-Import Bank; is that about right?

Mr. BURGESS. Yes, I think that is their total lending authority. Their outstanding credits are considerably smaller than that. I think it is \$2.6 billion.

Senator MALONE. We are responsible up to \$5 billion, and our taxpayers alone are responsible—is that so?

Mr. BURGESS. That is right.

Senator MALONE. All right.

And its sole business is to encourage American investments abroad; is it not?

Mr. BURGESS. And trade. Not necessarily investments. But if somebody wants to sell a plow, why, you give them credit so they can facilitate it.

Senator MALONE. Yes, so they can facilitate imports of the cheap-labor goods into the United States.

Mr. BURGESS. That is the other way, largely.

Senator MALONE. That is what they say. But the effect of it is, we get the cheap goods back here after we finance the plants.

Mr. BURGESS. I think most of their loans have facilitated exports from the United States.

Senator MALONE. I beg to differ.

Mr. BURGESS. I admit some of it goes into plants in some of these countries, and the goods can come back.

Senator MALONE. And the plants they build then take the market there that was promised to the United States taxpayer, and they import goods from those same plants; do they not?

Mr. BURGESS. That has happened in some cases.

Senator MALONE. I think that has happened in almost every case, if you look it up, and it happens in every case after they are in full operation.

I have visited all these countries. I thought I had to see all our star boarders. I started in 1947 to do that religiously. And after I

finished that job, I went behind what they call the Iron Curtain—that term was invented by Churchill in a Missouri speech—and stayed 2½ months. And I traveled 14,000 miles in Russia. I will not bore you with details, but I have seen most of their raw materials areas and industries.

Also, I saw a lot of nice Cincinnati machinery in Moscow.

The only trouble with Khrushchev and Bulganin is, they are for Russia, like Churchill is for England. We are the only Nation in the world that breed people who are not for it. Some of our very honest one-worlder people want to divide the taxpayers' money and markets with foreign nations—they say to keep the peace. Some of them really believe that by breaking our own taxpayers that we will have world peace.

If you will complete the record of when the Export-Import Bank was organized, and how much money was authorized and appropriated at first, then we will assume the \$5 billion is what we are responsible for now.

The International Monetary Fund? When was that organized and where?

Mr. BURGESS. That was the result of the Bretton Woods Act in 1945.

Senator MALONE. Bretton Woods. Was that where our distinguished American citizen, Harry Dexter White, was in charge?

Mr. BURGESS. That is right; he and Maynard Keynes.

Senator MALONE. Yes; that is right. What was the last name?

Mr. BURGESS. Keynes, Maynard Keynes, a British economist.

Senator MALONE. He was the one who said, "The more money you owe, the richer you are"?

Mr. BURGESS. Something like that.

Senator MALONE. I tried that theory on a banker, myself, when I was in the contract business early in my engineering and contracting career, and he cured me permanently. He may have been wrong, but it is too late to help me. [Laughter.]

Of course, I do not believe it, and I do not think anybody believes it, but he influenced our Government to do it and it is our policy.

So it resulted in a national debt now of how much?

Mr. BURGESS. \$272 billion today, or very close to it.

Senator MALONE. Added to the private debt, I expect it would be three times that; would it not?

Mr. BURGESS. We had the figures here.

Senator MALONE. About \$750 billion.

Mr. BURGESS. About \$800 billion.

Senator MALONE. After convincing our people that the further in debt, the wealthier they were, our debt now is up to nearly a trillion dollars; is that it?

Mr. BURGESS. Pretty close to it.

Senator MALONE. And a dollar now is worth, according to your records, 47 to 48 cents, I think.

Mr. BURGESS. About half what it was before World War II.

Senator MALONE. And some of us believe that, everything considered, it is nearer one-third, or about 35 cents. So that all pensions and insurance and everything is reduced by the amount of the inflation, whatever it is.

Mr. BURGESS. That is right.

Senator MALONE. And that is the reason we have to continue to raise wages and pensions, and other emoluments for our ex-soldiers and working people to keep pace with the rapidly diminishing purchasing power of the dollar. And then we object to a larger budget.

Congress, of course, is responsible for inflation, because they acted to destroy the foundation of the dollar in 1933. Then they continued to appropriate more than they collected and have to print it to pick up the check; is that not about right?

Mr. BURGESS. Well, there is a lot in that. If we could cut back the appropriations and expenditures, it would be the best thing you could do to check inflation.

Senator MALONE. Many talk of reducing the appropriation for expenditures in the United States of America. I am talking about what you distribute throughout the world. If you just cut the foreign aid off and get our feet on the ground in our national defense, and instead of 5 air corps have 1, maybe that would help, too, would it not?

Mr. BURGESS. Well, it certainly would reduce the budget.

Senator MALONE. It would reduce it by about \$15 billion, if we just cut off the foreign subsidy money and have one air corps, and started producing the material we would use in the next world war, we could cut it about \$15 to \$20 billion.

But, of course, you did not start that fiasco. You simply carried it on. I think it is worse for Republicans to do it than it is for Democrats, because we ought to know better.

Mr. BURGESS. We cut it down some, Senator.

Senator MALONE. Not much. You have not cut it any really. You are spending more now for national defense than you did when we took over.

Mr. BURGESS. No, I do not think that is quite right.

Senator MALONE. If I am wrong it is unintentional.

Mr. BURGESS. It is a little less. We cut it back \$10 billion, but it has grown back a little, but not all the way.

Senator MALONE. Yes. But this is peacetime.

Mr. BURGESS. Well, of a sort.

Senator MALONE. Maybe you had better determine the nations that are really dangerous to you. We can whip Russia, they know it and we know it. But it is pretty hard to whip a nation that has a member of our Cabinet. I do not believe that Mr. Dulles moves without consulting London which keeps us pouring out money to foreign nations, practicing free trade and inflation—unsound money.

Now the International Monetary Fund. Will you supply the date it was organized, and who organized it—

Mr. BURGESS. That was organized—

Senator MALONE (continuing). And who is representing us?

Mr. BURGESS. Well, that was—Harry White was still representing the Treasury.

Senator MALONE. And he ran that part of it, under Morgenthau, did he not and had complete charge?

Mr. BURGESS. I would not say in complete charge, but he was Assistant to the Secretary at that time. I would like to submit for the record a fuller statement on the organization of the International Monetary Fund.

(The information referred to follows:)

#### ORGANIZATION OF THE INTERNATIONAL MONETARY FUND

The Articles of Agreement of the International Monetary Fund were agreed to by the authorized representatives of 44 countries, including the United States, at the United Nations Monetary and Financial Conference held at Bretton Wood, N. H., in July 1944. They were based on proposals for international monetary cooperation developed during World War II by technical experts in a number of Allied countries, including Canada, China, France, Great Britain, and the United States. Pursuant to the authority granted by the Congress in the Bretton Woods Agreements Act of July 31, 1945, the United States accepted membership in the fund on December 20, 1945. The inaugural meeting of the Board of Governors of the fund was held in Savannah, Ga., in March 1946, and the executive directors of the fund held their first meeting on May 6, 1946.

The United States delegation to the Bretton Woods Conference was as follows:

Henry Morgenthau, Jr., Secretary of the Treasury; chairman of delegation  
 Fred M. Vinson, director, Office of Economic Stabilization; vice chairman of the delegation

Dean Acheson, Assistant Secretary of State

Edward E. Brown, president, First National Bank of Chicago

Leo T. Crowley, Administrator, Foreign Economic Administration

Marriner S. Eccles, chairman, Board of Governors of the Federal Reserve System

Mabel Newcomer, professor of economics, Vassar College

Brent Spence, House of Representatives; chairman, Committee on Banking and Currency

Charles W. Tobey, United States Senate; member, Committee on Banking and Currency

Robert F. Wagner, United States Senate; chairman, Committee on Banking and Currency

Harry D. White, Assistant to the Secretary of the Treasury

Jesse P. Wolcott, House of Representatives; member, Committee on Banking and Currency

Since the beginning of its operations in May 1946 the membership of the fund has grown to 60 countries. By appointment of the President, confirmed by the Senate, pursuant to the Bretton Woods Agreements Act, the Secretary of the Treasury has served as United States Governor on the Board of Governors, which meets annually. The United States is represented on the executive board by an executive director, also appointed by the President and confirmed by the Senate, in accordance with the Bretton Woods Agreements Act. Also as provided by that act, the governor and executive director receive instructions from the National Advisory Council on International Monetary and Financial Problems.

Senator MALONE. Are you familiar with the recommendation he made, in about 1945, to the Secretary of the Treasury which, the Secretary then made to the President?

Mr. BURGESS. About Germany?

Senator MALONE. No. The recommendation that we give Russia \$5 to \$10 billion to—

Mr. BURGESS. Yes.

Senator MALONE (continuing). To ship goods here, and make us entirely dependent upon them for strategic and critical materials. You are familiar with that recommendation?

Mr. BURGESS. Well, I do not—I could not document it.

Senator MALONE. I documented it. If you want it, it is available to you in Senate Report No. 1627, I think on page 370 of this report you will find the entire affair.

I sent, or our committee sent, investigators to Princeton University and dug out the record. It is documented.

I think the record already shows the testimony as to how much money we are responsible for, a third of the money or 35 percent, I think, of the International Bank.

Mr. BURGESS. That is right.

Senator MALONE. And then the board of directors is made up of each nation, each one having a representative on the board of directors. They vote according to the money they put in, so the foreign directors dominate the fund.

Mr. BURGESS. We have a 27 percent—

Senator MALONE. Thirty-five.

Mr. BURGESS (continuing). Vote in the fund, and it has usually been possible that the American director has found enough other votes so that they could not get lost.

Senator MALONE. I am familiar with that end of it. You loan the money wherever the directors say, and you do not control it. They control it.

Mr. BURGESS. Well, I would not quite agree with that.

Senator MALONE. You are familiar with corporations, your experience has been with corporations, and any time the directors outnumber you, you are lost, are you not?

Mr. BURGESS. Yes. But I have been following this monetary fund very carefully.

Senator MALONE. You may have followed it, but any time they want to control it they have the votes to do it. Probably as long as we furnish these nations markets and money they will vote with us; but when they start voting with you, you are up the creek without a paddle.

Mr. BURGESS. I would not be quite as cynical as that, myself.

Senator MALONE. If you will.

I suppose you visited all these nations.

Mr. BURGESS. A number of them.

Senator MALONE. I have visited all of them and I do not go for social purposes. I go to look at the industries and to note the success they are having—what the people eat and wear and how they approach their work.

The International Bank for Construction and Development—when was that organized?

Mr. BURGESS. At the same time.

Senator MALONE. The same time; and financed in the same manner?

Mr. BURGESS. That is right.

Senator MALONE. And the Board of Directors set up about the same time?

Mr. BURGESS. Except this difference, that we put in less cash, but they raised the money that they need, to lend, largely by selling their own obligations.

Senator MALONE. They are independent corporations, are they not?

Mr. BURGESS. That is right.

Senator MALONE. Then we set up corporations and allow them to sell bonds on their own responsibility. Who is responsible for those bonds if they finally default on them?

Mr. BURGESS. Well, up to \$2.5 billion, we are responsible, jointly and severally.

Senator MALONE. It is very interesting. What latitude do they have—they can sell bonds to any extent they may decide?

Mr. BURGESS. That is right, subject to certain limitations. They sold some in Germany and Switzerland and Belgium.

Senator MALONE. Sure.

Do you remember what happened to the German bonds that were sold in this country at one time?

Mr. BURGESS. I have a very vivid recollection.

Senator MALONE. I thought you must have.

And that is about what would happen to all of these bonds when the house falls on you sometime.

Mr. BURGESS. If it does.

Senator MALONE. But we are the ones who have to pick up the check if it does; is that right?

Mr. BURGESS. Up to \$2.5 billion.

Senator MALONE. Of course, \$2.5 billion does not sound like very much money now, with all of the billions we are sending abroad, but it is still, in my league, quite a lot of money.

Mr. BURGESS. They have not loaned that much yet.

Senator MALONE. Not yet, but they can.

Mr. BURGESS. They can.

Senator MALONE. Now, the International Finance Corporation; what is that?

Mr. BURGESS. It is a smaller proposal to help out on private enterprise. That is a new one.

Senator MALONE. They do—

Mr. BURGESS. They do not have to have the guarantee of the Government where they go, and they can lend directly to private enterprise.

Senator MALONE. In any country?

Mr. BURGESS. In any country that is a member of the Corporation, to the extent that they subscribe to the new corporation, they are the same members as in the International Bank.

Senator MALONE. Do they loan it in the kind of money they use in that particular country, or loan it in American dollars?

Mr. BURGESS. Well, they may do either.

Senator MALONE. And the Board of Directors controls it?

Mr. BURGESS. That is right.

Senator MALONE. Are they set up in the same manner?

Mr. BURGESS. Yes.

Senator MALONE. So that the foreigners can, if they wish, control the organization.

What is the amount of money that we are responsible for in that Corporation?

Mr. BURGESS. The total was \$100 million, our share, \$35 million.

Senator MALONE. Up to now.

Mr. BURGESS. Up to now.

Senator MALONE. What is the provision for increasing that amount?

Mr. BURGESS. Well, it would have to be by mutual agreement among the countries again.

Senator MALONE. But they could do that without coming to Congress?

Mr. BURGESS. No; they would have to come to Congress for any additional money.

Senator MALONE. You mean for any additional authorization, to go above the \$100 million.

Mr. BURGESS. That is right.

Senator MALONE. I am glad we have some control over one of them. That is the only one, I guess.

Were not all of these organizations—we have already discussed the Export-Import Bank—the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, were organized solely to increase American investments abroad, were they not?

Mr. BURGESS. Well, and the American exports abroad.

Senator MALONE. The principle is to encourage American investments abroad?

Mr. BURGESS. Excuse me.

Of course, the International Bank is not confined to financing American investments. It is not tied to a particular country. But that, in effect, is the principle.

Senator MALONE. But the facts are, what they are doing is encouraging American investments abroad, they are lending money to American investors or guaranteeing to help in the investment there; and if they default, what happens?

If that nation should confiscate the industry there, or, in some way, make it unfeasible, what happens?

Mr. BURGESS. Well, if that happens, there could be a loss. I think it is fair to say that these countries have shown a very great respect for their obligations to these organizations.

Senator MALONE. Just as long as they are on our payroll, as they are, most of them.

Mr. BURGESS. Well, their gratitude may be in lively anticipation of favor yet to come, but they have shown respect for it.

Senator MALONE. That is right to a degree. As long as you are on the way up, everybody is your friend. When you start down, you look around and everybody is gone. Is that about right?

Mr. BURGESS. Yes. But I would say these organizations are doing a good job, and I would say it is very much better to do all we can through a well-established banking setup, with good engineers and critical examination of all these things, than it is to do the job just by gifts or just by——

Senator MALONE. You remember me. I met these engineers when I was abroad, and I am in the business myself, so I do not want to make any comment on their ability as engineers. I will reserve that for some future time.

Most of them could not hold a position in private engineering firms; I will go that far with you now.

But they are doing a good job in what they were organized for, and that is to spend American taxpayers' money and to further American investments abroad.

Mr. BURGESS. Well, it is not exclusively that. That is a major part.

Senator MALONE. That is a major operation.

Mr. BURGESS. That is right.

Senator MALONE. When they establish those plants abroad with American investment, through the continual lowering of our protective duties or tariffs, which run way below any difference in the effective wages and the cost of doing business here and abroad, then they can ship the stuff in here under the existing duty or tariff and make a good profit, can they not?

Mr. BURGESS. Well, that can happen. I do not think——

Senator MALONE. It is happening; is it not?

Mr. BURGESS. I do not think very largely, Senator.

Senator MALONE. You do not?

Mr. BURGESS. I do not think very largely.

Senator MALONE. Do you know what has happened to some of the businesses in this country? I hope you do.

Mr. BURGESS. Well, I know of certain cases, yes.

Senator MALONE. Well, it is happening to almost every business in the United States of America. Machine tools are starting to suffer. The textiles are going out. The mining industry is gone. About 5,000 product affected by slave-labor imports.

We are holding our economy by purchases by the armed services and in financing goods sent abroad. And that is the reason I would advise you to give it a little more attention if you are going to understand the economic structure of the country, as well as your part of it in financing the public debt. We are living in a war economy.

The Department of Commerce puts out a bulletin showing their great success in encouraging American investments to go abroad, do they not?

Mr. BURGESS. Yes.

Senator MALONE. Do you know how many billion dollars Americans have invested abroad now?

Mr. BURGESS. Well, I think you said something about \$40 billion. Does that check with your figures?

Senator MALONE. I think it is about \$44 billion, but I would like for you, if you will, or if you know now, to give it to us for the record; and if you do not, I would like for you to get it for us.

Mr. BURGESS. We have it. We have made some studies.

Senator MALONE. That is one thing the Secretary referred to you or some other department.

Mr. WILLIS. Senator, the Department of Commerce estimate for the end of 1955 gives a total of private investments of \$29.0 billion, and United States Government credits and claims of \$15.9 billion—\$44.9 billion.

Senator MALONE. A total of about \$44 billion. Well, I was not very far off.

Mr. BURGESS. Wht's a few billion between friends? [Laughter.]

Senator MALONE. That is right, as long as they are friends.

Did the Treasury borrow some gold from the Federal Reserve Board recently? This year?

Mr. BURGESS. No; not to my knowledge.

Senator MALONE. There is a report, and, of course, I do not know of my knowledge—it is Mr. Baxter of the International Economic Research Bureau, who says in his June 14 release:

Very few Americans know this, but for the first time in American financial history the American Federal Reserve Board borrowed in the last 2 weeks a substantial amount of gold, estimated to be \$300 million, from the International Bank.

I was mistaken in my question. The Federal Reserve Board borrowed it from the International Bank, and they borrowed this gold at even higher rates than were seen in the money market. It gave the International Bank an I O U for it. That was in late June.

Mr. BURGESS. Well, that is only partly true.

Senator MALONE. I do not vouch for Mr. Baxter, but I did want you to know that he is a very well known commentator.

Mr. BURGESS. Yes.

This is the Monetary Fund, and they have been making, as you know, a loan, a credit, to England, which was drawn down in December for \$561 million, and a credit to France, and a few others.

And instead of drawing that altogether in dollars, they sold the gold to us, and we deposited in place of the gold our I O U's, which are noninterest bearing, and which they could draw against to meet a demand for dollars.

Senator MALONE. I O U's; noninterest bearing?

Mr. BURGESS. That is right. We have got the gold, and they have got the I O U's.

Senator MALONE. If you give a man an I O U, and you do not pay it, it does not bear interest.

Mr. BURGESS. We have got the gold.

Senator MALONE. If there is such a lack of emphasis and interest in gold, why do you emphasize this transaction in gold? Why did you not just give them paper money, or just an exchange of paper money?

Mr. BURGESS. Well, we would have had to go out and raise that money in the market or print it.

Senator MALONE. So you gave them gold.

Mr. BURGESS. We got gold.

Senator MALONE. From the International Fund.

Mr. BURGESS. The International Monetary Fund.

Senator MALONE. Where did they get it?

Mr. BURGESS. They had it in the terms of the setup of the fund.

Senator MALONE. Did we pay our 35 percent in gold?

Mr. BURGESS. We paid 25 percent of our subscription in gold.

Senator MALONE. Why are these transactions carried on in gold when there is such a lack of emphasis on the gold standard or the need of gold?

Mr. BURGESS. Well, in my mind, Senator, it shows that back of all this talk about no more gold, and so forth, there is a real desire on the part of most people to get back to gold as the eventual value. It is a very interesting thing that this Monetary Fund, which was set up after the war, with a lot of very theoretical economists and so on, Maynard Keynes and Harry White, what they finally came down with after all their discussions was that they had to make it in gold; they had to base it on gold.

Senator MALONE. That is very interesting. Has Germany gone back to the gold standard to a certain extent?

Mr. BURGESS. To a certain extent. They tied their mark to gold value.

Senator MALONE. Didn't Germany just lend the International Bank, or one of these institutions, \$100 million in gold?

Mr. BURGESS. That is right.

Senator MALONE. And they get interest on that, of course.

Mr. BURGESS. That is right.

Senator MALONE. How much?

Mr. BURGESS. It is rather low for them; 4½ percent, I think.

Senator MALONE. Four and a half percent. And we gave them the money to start with, Germany; did we not? We have given them more than \$100 million.

Mr. BURGESS. We have not given them much money. We are collecting from them. Where they get the dollars, one way, is the pay of American troops who spend it in Germany, and then the dollars go to the German Government.

Senator MALONE. Yes. I am aware of that. They require it to be turned into the Central Bank. I visited all these nations, as I told you before, and we have troops in 73 nations to spend money and bolster their economies.

Certainly they could not fight in the event of a war. They would be dead or on the way to the salt mines when world war III started, because you could not get them home or feed them, so we keep them there to spend money. They are sacrificial troops. Just what you are referring to now. I am glad you mentioned it.

Mr. BURGESS. That is not the objective of keeping them there.

Senator MALONE. Well, that is what you think. It is the practical reason—they cannot fight.

Mr. BURGESS. Excuse me; that rate was  $4\frac{1}{4}$  percent that they are getting.

Senator MALONE. Yes; they are getting the interest on the money we gave them.

Do we get interest on the money we give the International Bank?

Mr. BURGESS. No; they have not paid any dividends yet.

Senator MALONE. I would not think so. And they are not likely to.

Mr. BURGESS. Most of their money, though, is borrowed in our market at interest.

Senator MALONE. Now we come to gold in our monetary picture. I covered this pretty thoroughly with the Secretary, but as long as it has come up—and I believe you are a backer of a metal standard, a gold standard?

Mr. BURGESS. I certainly am, Senator.

Senator MALONE. I am glad to hear you say that. As a matter of fact, we had a considerable portion of the gold in the world, did we not, about 20 or 25 years ago?

Mr. BURGESS. Well, we have now a considerable portion.

Senator MALONE. I will get into that.

Mr. BURGESS. We have more than half.

Senator MALONE. I am getting into that in a minute.

Mr. BURGESS. Yes.

Senator MALONE. We had at Fort Knox \$22.6 billion.

Mr. BURGESS. Well, it was not all—about half of it was in Fort Knox, and half at other places.

Senator MALONE. In our storage institutions.

Mr. BURGESS. That is right.

Senator MALONE. I think we went into that with the Secretary.

Mr. BURGESS. Yes.

Senator MALONE. Now you sent me, after my second letter, a very interesting table. There is no use going into the table because it is a matter of record in the Secretary's testimony, that about \$9.5 billion of dollar credits were in the hands of foreign nations, and that each nation had credit up to its dollar balance. It added up to about \$9.5 billion as I remember.

That is right; is it not?

Mr. BURGESS. That is right.

Senator MALONE. And there was about \$7.5 billion in the hands of foreign nationals.

Mr. BURGESS. Five and a half billion dollars.

Senator MALONE. That is a different amount; that is different from the Secretary's testimony. If you will check, you will find the Secretary is right. As a matter of fact, it is in your table furnished by you.

Mr. BURGESS. It depends on whether you include in that——

Senator MALONE. You include all of it in it.

Mr. BURGESS (continuing). Whether it includes holdings of United States Government bonds and notes, amounting to \$1.6 billion.

Senator MALONE. We went through it with the Secretary, and there was some unwise publicity that went out that there was a smaller amount. But this is right, if you will refer to the Secretary's testimony.

We will go through it all again, if you want to, but this is Saturday, and I do not want to keep the committee.

Mr. BURGESS. It is not too important.

Senator MALONE. It is important.

Mr. BURGESS. Well, included in the record——

Senator MALONE. I do not want to put it in the record if it is not true.

Mr. BURGESS. The Secretary put it in the record on page 71, Senator.

Senator MALONE. Put your table in the record. I put it in, as a matter of fact.

Mr. BURGESS. Yes.

Senator MALONE. Your table.

Mr. BURGESS. Yes; that is right.

Senator MALONE. And your table showed that there were \$16,246 billion total foreign dollar credit holdings, and that \$9,108 billion of those credits were nations and subject to withdrawal in gold under the customary method.

We went all through that, too, that you could refuse to pay gold, however it would depress our currency value if you did.

If you disagree with that, you can make a statement on it.

That would leave about \$7,140 billion in the hands of nationals, and I would rather not confuse it now by having one of your hired hands here say that it was 5, because here is the table on page 482, first volume of the hearings.

Mr. BURGESS. That is right.

Senator MALONE. It took me a considerable time to get it from the Secretary, so I would not want to spend that much time with you confusing it unless you insist.

Mr. BURGESS. We will——

Senator MALONE. Do not put in a new table unless you disagree with this one that you sent me in answer to my second letter. The first letter I received from you meant very little to me, so I called the Secretary and asked for a clearer table and then came the new one, and this is it.

Mr. BURGESS. That is right.

Senator MALONE. Even I could understand this one. You did a pretty good job on that second one, and it is in the record, and I

want it to stay there unless you, right now, say it is wrong. I have the letter from which I extracted it.

Mr. BURGESS. No; I think it is all right.

Senator MALONE. All right. Then let's get away from this \$51½ billion diversion.

What is your name?

Mr. BURGESS. This is George Willis, who heads our Office of International Finance.

Senator MALONE. I have a little advice for you, George. If I were you, I would erase that \$5 billion remark because it proved entirely unsound impression until the Secretary sent the table.

On page 482 we have the table, and it adds up to \$16¼ billion, \$16,246 million. So if that is satisfactory now, and I want it to be, with you—it is, Mr. Secretary?

Mr. BURGESS. Yes. The difference here was the inclusion of Government bonds and notes which is in here.

Senator MALONE. Well, when a foreign nation has the dollar credits, in this country it is customary for us to pay them gold. You could do it, the Secretary testified, but if you did, it would depress the currency on the foreign market.

We have also established—and if you have any ideas on this I would be glad to have them—that the \$7,138 billion owned by foreign nationals could be transferred, under certain methods, to their governments.

Mr. BURGESS. Well, the countries have various, quite different laws.

Senator MALONE. Yes. The Secretary was going to put all that in the record. I do not know whether he did or not.

But whatever the law is, it can be done; is that true?

Mr. BURGESS. Well, it can be done in some cases; I do not think it can in all.

Senator MALONE. Well, I am under the impression it can be done in all, simply because the nationals and the foreign governments that have enough money to have dollar credits to that extent, have ways and means of transferring it.

Mr. BURGESS. Of course, the holder, the individual holding dollar balances in this country would resist that, because he does not want to take local currency instead of dollars.

Senator MALONE. Suppose he wants the gold and the government agreed to give him the gold if they received it?

Mr. BURGESS. He has got to make a deal with his government, because they would be reluctant, too.

Senator MALONE. That is right. But they would do it, anyway, in most of these foreign governments.

Mr. BURGESS. Well, there are a good many cases where they are not able to do that because the citizens have blocked it off.

Senator MALONE. You are just knocking my time schedule out—

Mr. BURGESS. I am sorry.

Senator MALONE (continuing). But I will go through with this and debate it if you want to.

Mr. BURGESS. I am sorry.

Senator MALONE. What you are trying to say is, there is some hocus-pocus by which this can never be transferred in gold, that under a customary method would be paid; is that what you are trying to do?

Mr. BURGESS. I think that is a fair statement.

Senator MALONE. You think you have that established?

Mr. BURGESS. Yes, reasonably. I do not think—no, I think in this field you would have to take each country and work out exactly what its laws are.

Senator MALONE. They will work that out. You do not have to work it out. It will end up, if they want the gold over there, in the possession of foreign governments; and if it does, it is dollar credit and it is customary that you pay it in gold on demand.

Mr. BURGESS. That is right, Senator.

Senator MALONE. All right. I think that will bridge the gap.

Mr. BURGESS. All right.

Senator MALONE. Now the next question: If that were done with this \$161¼ billion, and you had \$22,406 billion to start with, that leaves the difference which the United States of America owns, regardless of any obligation, does it not?

Mr. BURGESS. That is right.

Senator MALONE. That would be about \$6.5 billion, would it not?

Mr. BURGESS. Yes; that is about right.

Senator MALONE. And that is not quite enough to meet the 25 percent reserve requirement that the law requires behind the \$27 billion or \$28 billion in currency in circulation today, is it?

Mr. BURGESS. That is right.

Senator MALONE. That is the point I made after 2 days with the Secretary, and I did not want to have to go 2 days with you.

Mr. BURGESS. Thank you, sir.

Senator MALONE. I do not think you have the endurance he has, however, I have it.

Mr. BURGESS. I am not sure I have.

Senator MALONE. I am glad we cleared that up.

Inasmuch as we owned a majority of all the gold in 1933 don't you think it was the intention of these foreign nations, right from the beginning, to get it away from us by making us feel that gold was unimportant?

Then when we went off the gold standard in 1933 and priced ourselves out of the world market through inflation—and gave them the money to buy most of our gold—then they may start emphasizing the importance of gold again?

Mr. BURGESS. Yes, in 1933.

Senator MALONE (continuing). Did that not start the real inflation so we could print the money under the Federal Reserve Board, and then by necessity reduce to 25 percent the backing of gold?

Mr. BURGESS. Yes. Of course, the Federal Reserve Board had, as a semi-independent agency, some control over that.

Senator MALONE. But the Federal Reserve can, then, within the limits established by Congress, which is practically without limit, as I understand it, they can determine the amount of money in circulation, can they not?

Mr. BURGESS. Well, to a degree.

Senator MALONE. What degree?

Mr. BURGESS. There has to be the demand for it, the actual money in circulation.

Senator MALONE. I am talking about the board's authority. They have practically unlimited authority.

Mr. BURGESS. The authority, yes.

Senator MALONE. That is all I wanted you to say.

Mr. BURGESS. Yes.

Senator MALONE. When you modify these things, it just requires more time, and I want to ride that horse of mine this evening, to say nothing of not holding this committee beyond dinner time.

Mr. BURGESS. You remember my problem with the Senator, we always have to give a little leeway for qualification on some of these economic problems.

Senator MALONE. It just takes a little more time to establish it.

Mr. BURGESS. If we work under the leeway I had with him, that I have some qualifications when I make these broad—

Senator MALONE. There is no qualification in this thing, and I cannot take it. You have now said—

Mr. BURGESS. Within the legal authority, yes, sir.

Senator MALONE. Within their legal authority, it has been established, or will be when Martin comes before this committee, they can determine the amount of money in circulation.

Mr. BURGESS. Well, I would not go that far.

Senator MALONE. The Secretary said they could. I do not know.

Mr. BURGESS. They have the legal authority to print up that much money.

Senator MALONE. That is right. They can decide the amount of money in circulation. That is all I want you to say.

Mr. BURGESS. Yes.

Senator MALONE. If you have anything back of your qualification, I would like to have it in the record. Otherwise, I would just like you to say "Yes."

Mr. BURGESS. Yes; they do.

Senator MALONE. All right. That is enough.

Now, what is the reason for having money in circulation, and what is the fundamental place for money in our economic structure?

Mr. BURGESS. So one man can do business with another.

Senator MALONE. Without carrying everything around with him.

Mr. BURGESS. Without carrying a sack of wheat or a bag of zinc, or what have you.

Senator MALONE. When we went off the gold standard, then, following England and other countries, and we had most of the gold, what we did was to start the inflation ruinous to anyone who had money in the bank or savings account or insurance, pensions, and the like to the degree that the purchasing power of the money was decreased, was it not?

Mr. BURGESS. To the extent you had the inflation.

Senator MALONE. And you had it, according to your own admission, down to less than half the purchasing power of the dollar of 1947.

Mr. BURGESS. That is right.

Senator MALONE. So men who had any money or a pension or some kind of retirement fund, as many people had, they were just that much less well off in purchasing power.

Mr. BURGESS. That is right.

Senator MALONE. So what it meant, it lowered the wages, did it not?

Mr. BURGESS. Unless the wages kept pace.

Senator MALONE. Wait a minute. The next question is coming.

If you were getting \$10 a day—

Mr. BURGESS. Yes.

Senator MALONE. And you lowered the purchasing power of the dollar to less than half, you had about \$4 a day in purchasing power.

Mr. BURGESS. That is right.

Senator MALONE. And that is the reason for increase in wages continually, that is the major reason and the real necessity for increasing wages, pensions, and annuities of various kinds that the Government pays and that the individual is living on, is it not?

Mr. BURGESS. Well, it has been a major cause. Of course, wages actually have increased faster than the inflation.

Senator MALONE. You think they have? Of course, that is the argument—

Mr. BURGESS. Some of them.

Senator MALONE. It is a pretty broad statement you have just made. However, according to your testimony, if wages did not keep pace with inflation then their standard of living was lowered.

Mr. BURGESS. Not schoolteachers and Government workers, not people with fixed income.

Senator MALONE. Probably not over half of them.

Mr. BURGESS. Something like that. That is a pretty good guess.

Senator MALONE. Now, the postmasters, there is a bill coming to the Senate, maybe it is over here now, to increase the salaries of postmasters, and I just wrote a letter this morning about it. I am in favor of increasing the salaries of postmasters to keep pace with the inflation.

You would be in favor of that, would you not?

Mr. BURGESS. I would want to know whether the increase proposed is more than the increase in the cost of living.

Senator MALONE. That was not my question. You do favor increasing it to make up the difference in inflation; the amount that the inflation reduced the wages?

Mr. BURGESS. At this time, no, because I would feel that the pressure of our budget on the inflation might be a more important factor than that particular situation.

Senator MALONE. We just disagree on a fundamental issue. Your method would load the decreased purchasing power on one class of people.

What they have been trying to do is to find somewhere to unload the discrepancy. And if you can do it on a wage earner, why, then you can say, "Look, we have stopped it."

But you are not going to do that with my help. As long as I am here, I am going to vote for increasing salaries and pensions commensurate with the decreased purchasing power of the dollar. And if you want to make it worth 2 cents, I will vote to increase wages that amount.

If you want to unload it on the working men and women of this country, that is your problem. I cannot help you.

Mr. BURGESS. But we would all rather stop the inflation, would we not?

Senator MALONE. You can stop it by stopping the flow of money abroad and continue to support every nation in the world. You can help stop it by ceasing to support five air corps and all the surface

ships and the individual foot armies in 73 foreign nations, you can reduce costs by making some sense in the Pentagon.

So you come back and want to unload it on the working men and women of America through continuing inflation and freezing wages; by stopping building anything in America and do it abroad.

I can discuss this with you for several days if you want to go into it, because that is one of my pet peeves. Engineering was my business before I came here, and the reckless inflation and free trade were two of the reasons why I came here. I got so mad when the other administration was doing it, and I am madder now because we are doing it. As I said before, we ought to know better.

Anyway, if a workman makes \$2 and puts it in the bank today, and you have a dollar worth 10 cents less to him at the end of a year, you have taken that much away from him, have you not?

Mr. BURGESS. That is exactly right.

Senator MALONE. All right.

Now, will you explain to me how Government bonds and the bonds that the banks buy and issue money against, are handled? That is something I wanted to find out from you. I am not familiar with it. I am naive in this field.

Mr. BURGESS. Yes.

Under the Federal Reserve arrangement, a bank wraps up a bundle of bonds, takes it over to the Federal Reserve System with its note, "I promise to pay after 2 days, after 15 days," whatever it is, and borrows money from the Federal Reserve System.

The Federal Reserve does not—

Senator MALONE. Against the bonds?

Mr. BURGESS. Against the bonds.

The note is collateralized by the bonds, just as though you borrowed from your bank with bonds as collateral.

And then they can get currency or they can simply take a credit on the books of the Federal Reserve.

Senator MALONE. Do they pay interest on that borrowing?

Mr. BURGESS. Yes; they pay interest at what is called the discount rate, which is 3 percent today.

Senator MALONE. Three percent today.

The discount rate, tell me right at that point, what is it and how does it operate?

Mr. BURGESS. That is simply the rate the Federal Reserve charges on loans of the sort I described, just as simple as that.

Senator MALONE. I am glad that it is, and I hope many people who do not know too much about it will read it. That answer is very interesting.

Now, what interest do they get on the money they loan?

Mr. BURGESS. Banks?

Senator MALONE. Yes. Generally speaking.

Mr. BURGESS. The prime rate is 4 percent; the very best borrower gets 4 percent.

Senator MALONE. What does the least prime borrower get?

Mr. BURGESS. All through the country, going into country banks?

Senator MALONE. Yes.

Mr. BURGESS. Well, I do not know. It may be 8, it may be 10 percent, somewhere in there.

Senator MALONE. Then the difference between whatever they pay the Federal Reserve, the discount rate, and what they loan the money for, that is the cost of doing business and whatever profit there is in it?

Mr. BURGESS. That is correct.

Senator MALONE. There are many people, since the Constitution says that Congress shall—the language is——

Mr. BURGESS. "Coin money and regulate the value thereof."

Senator MALONE. And of foreign currency.

Mr. BURGESS. Yes.

Senator MALONE. Who determines that now?

Mr. BURGESS. Well, I think the Congress has.

Senator MALONE. But tell me who does it actually.

Mr. BURGESS. I think the Congress does. In the Gold Reserve Act of 1934, followed by the expiring of the President's power under the Agricultural Adjustment Act of 1933, and the Bretton Woods Act, the value of the dollar was fixed.

Senator MALONE. All this was accomplished by Harry Dexter White. If you have any different idea, you can tell me who was running that.

Mr. BURGESS. Well, I would just say that the Monetary Fund turned out a lot better than you would expect, from its paternity.

Senator MALONE. I know how it has turned out.

Mr. BURGESS. Yes.

Senator MALONE. It has encouraged American investments to go abroad and build plants to produce the products with cheap labor to be sold in American markets. You may not object to that procedure, but I do, except under certain conditions of equaling the American wages rates and the cost of doing business here and in the chief competing nation on each product. The Tariff Commission, an agent of Congress is charged with that responsibility in the 1930 Tariff Act—but was nullified in the 1934 Trade Agreements Act.

But that is another subject that I did not intend to go into at this time, but I can if you desire.

Mr. BURGESS. No. I am perfectly satisfied.

Senator MALONE. I have another man in mind to go into that with, but if you assume you know something about it, I would be glad to discuss that with you. The Secretary was smart enough to say he did not.

Mr. BURGESS. I do not know too much about it, either.

Senator MALONE. All right.

Tell me more about how the Congress controls money under the Federal Reserve Banks as now set up?

Mr. BURGESS. Well, when you passed the Bretton Woods Act, under Congress' action——

Senator MALONE. Congress approved that.

Mr. BURGESS (continuing). You nailed down the value of the dollar, \$35 to an ounce of gold, and that is the value of the dollar today in this country, so to that extent we have come back to the gold standard; we have nailed our dollars to gold.

Senator MALONE. But there is not anyone in the United States that can keep a gold dollar; is there?

Mr. BURGESS. Well, unless it was minted prior to 1933, in which case he could keep it.

Senator MALONE. My good friend, I wish you would explain that to me. They started putting them in jail for keeping any gold. Tell us, for the record, can any individual keep gold in the United States now?

Mr. BURGESS. No; not in circulation.

Senator MALONE. He is not allowed to have possession; is he?

Mr. BURGESS. No; not in effect.

Senator MALONE. Only foreigners can do that.

Mr. BURGESS. Well, foreigners do not do it, either, for circulation, except in a very few corners of the world.

Senator MALONE. I thought we covered that a while ago, this \$16½ billion or \$16¼ billion in credits over here, that it was customary, if a nation requested it to pay them gold.

Now, they can get gold from the United States Treasury by a dollar balance, can they not?

Mr. BURGESS. Yes.

Senator MALONE. That is enough.

Mr. BURGESS. Foreign central banks and treasuries can come and get gold. They can leave it under earmark for export.

Senator MALONE. Central banks of nations can do that?

Mr. BURGESS. Yes.

Senator MALONE. No matter how they acquired the dollar balance, but when they acquire it, they can get gold for it, can they not?

Mr. BURGESS. That is right.

Senator MALONE. We covered that. Let's not go back to that.

Mr. BURGESS. All right.

Senator MALONE. But we cannot get it.

Mr. BURGESS. That is right.

Senator MALONE. Now, that is better. We saved the record, and it is less expensive, too.

I do not think you have quite cleared up the other subject. The Federal Reserve bank, then, does determine how much money is in circulation, they determine what the discount rate is going to be, and they determine what they are going to loan to the banks, do they not?

Mr. BURGESS. The loan to the banks—

Senator MALONE. On bonds, and so forth.

Mr. BURGESS (continuing). Is the right of the bank to borrow.

Senator MALONE. I mean, they would not have to loan it to them, would they? Or do they have to when it is presented?

Mr. BURGESS. Practically, yes. If the bank is borrowing excessively, and they think it is getting out of line—

Senator MALONE. And that is all included in the 1933 act, is it?

Mr. BURGESS. Well, that goes way back to the beginning.

Senator MALONE. 1913?

Mr. BURGESS. As amended in the Banking Act of—

Senator MALONE. Would you, then, put into the record an explanation of just what congressional act made it mandatory for the Federal Reserve Bank to loan money, at whatever discount rate they may fix, to a bank when they present Government bonds?

Mr. BURGESS. Well—

Senator MALONE. Will you put that in the record?

Mr. BURGESS. I will. We will have to qualify the word "mandatory." It is not quite so strong.

Senator MALONE. Well, you were the one who said it was practically mandatory. I thought they had some discretion.

Mr. BURGESS. When you say "practically," all right.

Senator MALONE. You put it in the record.

Mr. BURGESS. Yes.

(The information referred to is as follows:)

Advances on Government obligations by the Federal Reserve banks to member banks are made under section 13 of the Federal Reserve Act. Regulation A details the method by which the requirements of that section are to be accomplished. In the foreword to regulation A the following is stated: "A principle function of the Federal Reserve banks under the law is to provide credit assistance to member banks, through advances and discounts, in order to accommodate commerce, industry, and agriculture. This function is administered in the light of the basic objective which underlies all Federal Reserve credit policy, i. e., the advancement of the public interest by contributing to the greatest extent possible to economic stability and growth." The general principles as outlined in the foreword to regulation A further state that access to the Federal Reserve discount facilities is a privilege of membership in the Federal Reserve System in the light of the general guiding principles of the System as enunciated in the statutory and regulatory requirements. As a matter of practice, advances are curtailed only for special reasons.

Senator MALONE. Now, suppose Congress did, in fact, exercised the issuing of currency and fixing the value thereof, and they issued money in lieu of bonds; what would happen?

Mr. BURGESS. Then you would have the most glorious inflation we have had in a long time.

Senator MALONE. Explain it to me. Why?

Mr. BURGESS. Simply because the banks and other lenders would find the flow of this money coming into their hands, we would be printing more money and pouring it out, and money rates would go down, everybody could borrow all the money he wanted to.

Senator MALONE. What I am trying to do is build the record. Some people believe that ought to be done.

Mr. BURGESS. I know.

Senator MALONE. Suppose you printed this money in lieu of bonds, and loaned it to the banks and charged 4 percent interest, and let them loan it wherever they wanted to.

Mr. BURGESS. Well, it is almost the equivalent of a bond, is it not? If it is money at 4 percent, it is just a different form of paper.

Senator MALONE. There is just one less transaction and the Government would be collecting interest instead of paying it.

Mr. BURGESS. Well, I do not know as it is. You can print both pieces of paper; that, you do in both cases.

Senator MALONE. You would not need the Federal Reserve so badly there, would you?

Mr. BURGESS. I think you would. You would still have to have somebody to put the money out and bring it back again.

Senator MALONE. What would be their job? We have the United States Treasurer.

Mr. BURGESS. Well, the Treasurer would be taking over the Federal Reserve function.

Senator MALONE. Well, there would not be any function over there that you don't have now, that is, you would be taking care of all business when you issued money; the Treasury now issues the bonds, which are purchased by individuals and the Government pays interest, and then you go to the Federal Reserve and get money for them?

Mr. BURGESS. Well, Senator——

Senator MALONE. You would do away with one transaction.

Mr. BURGESS. Well, ordinarily when we sell bonds, they do not come around to the Federal Reserve. Only when banks want to borrow.

Senator MALONE. If the Treasury issued the money, they could do that.

Mr. BURGESS. Ordinarily, if they want to borrow more money than they have.

Senator MALONE. Now, this \$27 billion—or you might put into the record exactly, if you know, how much money is in circulation now.

Mr. BURGESS. \$28 billion.

Senator MALONE. Will you do that?

Mr. BURGESS. Yes.

As of May 1957 currency outside banks was \$27.9 billion.

Senator MALONE. That includes all of the bank money that the bank loans——

Mr. BURGESS. That includes the actual cash on hand——

Senator MALONE (continuing). As a result of borrowing on the bonds?

Mr. BURGESS. That includes the actual cash on hand, that is all, and the cash that is in circulation, in your and my pockets.

Senator MALONE. Yes. Mine is always a little short.

Mr. BURGESS. Mine usually is, too.

Senator MALONE. I have in my hand here a silver certificate, "The United States of America will pay to the bearer on demand 20 dollars." What kind of money would I get if I took the \$20 bill to you?

Mr. BURGESS. You would get the same kind of money back, or you could get silver certificates, or you could get silver coin if you wanted to.

Senator MALONE. For this?

Mr. BURGESS. You could get any kind of money except gold.

Senator MALONE. Well, can you demand silver for all this money in circulation?

Mr. BURGESS. Yes, if you want to.

Senator MALONE. It is not a silver certificate.

Mr. BURGESS. You could ask for silver, yes.

Senator MALONE. If you did not want to pay it, you would not have to pay it on anything except a silver certificate, would you?

Mr. BURGESS. I think that is right, yes.

Senator MALONE. I am sure you are right this time.

Mr. BURGESS. Yes.

Senator MALONE. And we have already in the record current statistics on silver in circulation from Mr. Humphrey. There is no use going into that.

Mr. BURGESS. Yes.

Senator MALONE. But I thought I had one here where you have to pay silver.

Mr. BURGESS. Well, the \$1 bill you have there, we have to pay silver. That is a silver certificate, and indicates there is a dollar of silver in the Treasury.

Senator MALONE. It says:

The United States of America will pay \$1 in silver, payable to the bearer on demand.

Mr. BURGESS. That is right.

Senator MALONE. That is the only kind of a certificate you can demand silver for?

Mr. BURGESS. Well, there are some \$5 ones.

Senator MALONE. No. I mean it has to have this designation on the face of it, is that not right?

Mr. BURGESS. It has to be a silver certificate, yes.

Senator MALONE. Mr. Humphrey and I went into how you buy silver and how you issue it, so I do not think there is any use going into that any further.

Have you told me all there is involved in the Federal Reserve action, between the Federal Reserve banks and the banks issuing money against a bond that they hold? Have you given me that entire story?

Mr. BURGESS. I am afraid not, Senator. It would take a long time to do the whole story.

Senator MALONE. Give it to me for the record.

Mr. BURGESS. There are two general ways that a bank gets money from the Federal Reserve. One is by borrowing, as I have indicated, taking its note over.

Senator MALONE. And paying whatever the discount rate is. Is it called a rediscount or discount?

Mr. BURGESS. You can call it either one.

Senator MALONE. They are interchangeable terms?

Mr. BURGESS. Now, typically a rediscount, in the original sense, would be when, instead of taking Government bonds over to the Federal Reserve bank, you took a bundle of your customers' loans, loans of John Smith for \$1,000 and somebody else for \$100,000, and you put a bundle of those in, and you took those over to the Federal Reserve with your note, and used those for collateral.

That, you see, would be a rediscount, because your loan to your customer was originally a discount.

But normally, the banks use their Government securities. It is simpler.

Senator MALONE. Can they borrow the full face value of those notes?

Mr. BURGESS. Yes. That is correct.

Senator MALONE. Who is responsible for them if they do not pay?

Mr. BURGESS. Well, of course, it is an obligation of the bank.

Senator MALONE. And if any of them are defaulted, why, then the bank makes it good?

Mr. BURGESS. That is right.

Senator MALONE. To the Federal Reserve.

Mr. BURGESS. That is right.

Senator MALONE. But as long as the borrower makes good to the bank or makes good to whoever holds the note, then the bank is no longer bothered by that detail, and it has additional money to loan.

Mr. BURGESS. That is right.

Senator MALONE. How many times can you do that? That goes on and on? You could loan the money 4 or 5 different times and still turn in the notes and get more money; could you?

Mr. BURGESS. Yes, you could. Now, a bank—the limitations on that are, first, you have to pay for it at a discount rate.

Senator MALONE. At 3 or 3½ percent today, would it be?

Mr. BURGESS. Three.

Senator MALONE. Three.

Mr. BURGESS. And the other is that there is—there are two other things. One is that banks do not like to borrow money. They would like to lend it, but they do not like to borrow it.

Senator MALONE. They have to get it to lend.

Mr. BURGESS. Yes. They have, of course, the regular turnover of deposits to lend.

Senator MALONE. Yes.

Mr. BURGESS. But when they get an additional amount, they get it somewhere, but they do not like to borrow. And that is, for various reasons, not regarded as good banking practice.

Senator MALONE. So, as long as they can borrow enough on bonds to get enough money to lend, they want it?

Mr. BURGESS. They do not want to borrow more than a few days at a time, because their directors would criticize them. The Comptroller of the Currency makes regular examinations. If they were borrowing continuously, the examiner would be critical.

Senator MALONE. One more thing. I do not want to spend too much time on it.

Suppose a bank in Salt Lake City has \$50,000 of notes, and they do not have any more Government bonds they want to turn in, so they turn in the notes and get more money. They can loan them again and get more money?

Mr. BURGESS. Yes.

Senator MALONE. How many times can they do that?

Mr. BURGESS. The Federal Reserve would stop them if they borrow too much, or too long, or are out of line with the banks generally.

Senator MALONE. Will you clear that for the record?

Mr. BURGESS. I will put that in. I have not checked it for some time.

(The information referred to is as follows:)

Under section 4 of the Federal Reserve Act, as amended, title 12, United States Code, section 301, each Federal Reserve bank is required to keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for any purpose inconsistent with the maintenance of sound credit conditions. The chairman of the Federal Reserve bank must report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank and the Board of Governors may in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System.

Senator KERR. Will the Senator yield at that point for a question?

Senator MALONE. Yes.

Senator KERR. Off the record.

(Discussion off the record.)

Senator KERR. We will recess now, and return at 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m., of the same day.)

#### AFTERNOON SESSION

Senator KERR. We will come to order.

Senator MALONE. Mr. Secretary, we were talking about the situation in Germany since they have a tendency to go back to the gold standard

as they acquire gold. However, we went off the gold standard when we had most of the gold, and we have been busily engaged, apparently, in giving it away since that time.

We were taught that gold was not the thing to use to back your currency, that it was no more valuable than copper or any other commodity. You remember in the thirties when inflation started—a dollar is a dollar and all that old hokum——

Mr. BURGESS. Yes.

Senator MALONE (continuing). We were busily engaged in making our paper money worthless by the simple process of printing more of it—and inflation of course feels so good while you are doing it, it is like the first 2 or 3 drinks of that "vulcanizer special" you used to drink. You feel so good, you say "How long has this been going on?" But after someone has been on it 5 or 6 years, they are afraid to sober up because they know they are going to the hospital. It could be that is about where we are now in our financing—we have gone so far you are afraid to stop it.

So, when they taught us from old Europe—England that is—that gold has no value in a monetary system it was because they had no gold. It could have been on the principle of the fox. The fable said the fox stayed out a little bit too late one night and a mowing machine cut his tail off, and he got home before the rest, and they found him backed up to a tree. He made a motion to the tribe they all cut their tails off; it was in the way, he said, and gathering a lot of dirt. I do not know whether they got any believers or not but as long as the European nations had no gold—and they could make us believe that it had no value until we divided it with them—they were doing all right. Do you have any idea that after we do not own any gold, or enough to back up our monetary system that these nations owning our gold will not go back on gold? After we are clean as a hound's tooth—of gold anyway—and Germany and other nations have the gold, do you think they will go back on the gold standard and let us buy back what we need?

Mr. BURGESS. Well, Senator, I have a feeling that this desire for gold runs very deep in human nature, and I think that there would be a very strong tendency all over the world to want to get their hands on the hard metal once more. I think our people will, too.

Senator MALONE. We are pretty well cleaned out now, so do you think there will be a great tendency of these foreign nations to go back on the standard?

Mr. BURGESS. Well, I do not know as it will be tied up with that. But I just think human beings want to have assurance about things.

Senator MALONE. What they want is gold and silver, something that you can buy a plate of ham and eggs or some clothes or trade it for something whether or not it has any country's stamp on it—is that right?

Mr. BURGESS. That is right, yes.

Senator MALONE. And it is not true that for a couple of thousand years, about half the world has used silver and the other half gold, and they just knew that it was scarce enough to have real value?

Mr. BURGESS. Yes. And unfortunately we shoved off of silver some of the fellows who had used it.

Senator MALONE. That is China and India and other nations?

Mr. BURGESS. Yes. So that they rather abandoned their silver and are looking for gold, too.

Senator MALONE. Yes.

I made this remark, I think, when I came back from China and India, that one of the reasons we ought to have a metal standard, if for no other reason; of course, there are plenty of reasons you have outlined here already; that when you are all on a gold standard or gold and silver—when you trade money, you trade the same number of ounces of silver or grains of gold. So you do not end up on the short end of it.

Mr. BURGESS. That is right.

Senator MALONE. But there was another reason, because they used this silver so long in the Orient, you could take a hatful of silver and just walk out to where the water was over their heads and drown any of them. The same is true of gold in Africa and Europe, where they used gold for 2,000 years—they know what it is.

Mr. BURGESS. Yes.

Senator MALONE. There is a great psychological situation involved, is there not?

Mr. BURGESS. There is.

Senator MALONE. In addition to the fact you do not get cheated out of your eyeteeth if they are all on the gold standard and exchange money; is that right?

Mr. BURGESS. That is right.

Senator MALONE. The United States is getting cheated out of it now. If you are interested in knowing just how the foreign nations do it, and I know you are, you have plenty of experts down there in the Treasury, there is a Senate Document 83 that covers each one of the 42 entities and nations, Factors Affecting Self-Sufficiency Within Nations of the Western Hemisphere, of the 84th Congress. That explains exactly how they do it, and I have been on the ground in each nation and have seen them do it.

Like, for example, one of the outstanding examples was Bolivia. It is a poor little country. But they suddenly found a way to trade and get an advantage, so they use bolivianos, as you probably know, for money. And when I was there, the legal rate fixed by the central bank was 500 bolivianos to the dollar. And they have a law or a ruling there, as they do in practically all other countries, that within 30 or 60 days or a very reasonable time after you get your hand on a dollar or some foreign currency, you have to trade it into the central bank and take their money at their own valuation.

Mr. BURGESS. Yes.

Senator MALONE. So, in 1948—no, 1954, I visited all the countries in South America. I visited some of them before that time too. But I visited all of them that one year, and at that time, 500 bolivianos to a dollar was the official rate. On the street, it was 1,700, so they stole the first two-thirds of it on the first go-round. When you traded in a dollar you got less than one-third value.

All other nations, including England, practice it. It is only a matter of degree.

When England had \$4.03 value of a pound, you could buy it for \$2.60 in any free market, like Hong Kong. And spend it any place in the world. I actually did it, actually and physically, in 1948, just to see how it worked. I was in Hong Kong.

Now, there is a tendency in Germany to go back on a sound money, on the gold standard, is there not?

Mr. BURGESS. There certainly is, yes.

Senator MALONE. And that tendency is showing up, wherever they are able to get gold, is it not? That is, in the standard countries.

Mr. BURGESS. I think so. Germany has reserves now of over \$41½ billion, gold, and other foreign exchange, so that she is in a position to go quite a long way.

Senator MALONE. I was going to read the record; that checks pretty close, this Baxter International Economic Research Bureau, for which I do not vouch, but it is a very well-known service, and generally pretty accurate.

It says on page 2 of the June 14, 1957, release:

Now, while practically every major country in the world, including Switzerland was complaining of a shortage of money or gold, Central Bank in West Germany announced this week that West Germany's gold and foreign silver reserves were now about \$4,800 million.

You agree with that approximate amount?

Mr. BURGESS. In general, yes.

Senator MALONE. Well, how did they get it?

Mr. BURGESS. Well——

Senator MALONE. They get it in gifts from us. They get it in this business of trade where we cannot win. We do not win ever in those transactions because of the manipulation of their currency in terms of the dollar. I guess you know that.

I showed here when we had the hearing on sugar, the State Department insisted that Cuba have the same amount of the sugar quota that is furnished us the same percentage of that amount we import. I would have liked to have seen some of it divided even in South America, just a small percentage, because it meant a lot to them, like Peru. But I did not prevail, so I asked one of the State Department men why they were so insistent upon the Cuba percentage remaining as they were, the same percentage, which is a large percentage of our surplus sugar, surplus in the sense that we do not produce it—we import it.

Mr. BURGESS. Yes.

Senator MALONE (continuing). And they said because they buy our grain.

I said, that is very interesting. What do they pay for the grain when they buy it? Do they pay our support price or the world price? And there was a little hesitation.

He said, they pay the world price.

I said, when we buy their sugar, what do we pay, the world price or our support price?

Considerable hesitation. We pay the support price for the sugar from Cuba.

Mr. BURGESS. That is right. Which may sometimes be less than the world price.

Senator MALONE. But has not been since the war and cannot be less except in a real emergency.

Mr. BURGESS. Several years.

Senator MALONE. We never win. If the world price is higher, we would pay it. So we pay the highest price whatever it is. Anyway he said we pay the support price which was of course higher.

Mr. BURGESS. Not always, Senator, not absolutely always.

Senator MALONE. Will you cite me one time we did not?

Mr. BURGESS. Well, we were buying sugar from Cuba at a lower price than they were selling it abroad a few years ago.

Senator MALONE. When, during the war?

Mr. BURGESS. No, just after the war.

Senator MALONE. It was a war situation.

Mr. BURGESS. Yes. It was still a hangover of war.

Senator MALONE. The aftermath.

I will tell you what we did, and you can look up the record. I figured it out right then, and there, that for every hundred pounds of wheat sold Cuba, it cost the taxpayers \$1.35 over and above what Cuba paid for it. That is the foreign trade that the State Department boasts about. That is not an isolated case.

Mr. BURGESS. Yes.

Senator MALONE. You may draw the conclusion that I do not care much about it. And you will be perfectly justified.

I have noticed in your statement that you made, and I will ask these questions for clarification, you referred there to what you call a significant decline in the purchasing power of the dollar.

Then, you say, in spite of inflation, however, and go on. Well, now, if by inflation you mean a rise in the index price, why is the word "inflation" needed, and particularly since the word is given a variety of meanings and obviously is not defined clearly? What did you mean by that?

Mr. BURGESS. That is right.

Well, the word is used two ways: One is an increase in commodity prices, and the other is going back of that, the economic things that cause it, and particularly an increase of bank credit in excess of the requirements. We say that is inflationary because ordinarily it results in an increase in prices.

Senator MALONE. Well, now, as a matter of fact, perhaps one of the reasons that you justify the Federal Reserve is that they can regulate inflation to a certain amount by drawing in the amount of money in circulation or putting out more money in circulation; is that it?

Mr. BURGESS. They have an influence. Our colloquy indicates that that is not complete.

Senator MALONE. Well, the Treasury and the Federal Reserve together have the influence, do they not?

Mr. BURGESS. Yes, particularly if you include under Treasury the question of the whole fiscal policy of expenditures and receipts, taxation and so forth.

Senator MALONE. You have. I have asked this of the Secretary and settled it to my satisfaction. You control or determine what the interest ought to be to make your bonds sell, and you fix the interest on an issue you are about to get out, do you not?

Mr. BURGESS. Yes, which we always fix at the lowest price, the lowest yield, lowest interest rate that we think they will sell at.

Senator MALONE. It revolves around the judgment of the Secretary of the Treasury?

Mr. BURGESS. Based on the selling price of bonds. We have every morning the quotation sheet.

Senator MALONE. You just answer this, it will save you time and me. I know you want to get away and so do I, and so does the Senator from Oklahoma.

So, after you consider all these factors, you alone set the interest?

Mr. BURGESS. That is right.

Senator MALONE. All right. That will save time.

Now, the Federal Reserve then determines within certain limits, and I would like for you to define what those limits are—I never got it very clearly—the amount of money in circulation, do they not?

Mr. BURGESS. Yes. They do not do that directly by shoving the money out.

Senator MALONE. How do they do it?

Mr. BURGESS. They do it by influencing the total volume of credit, bank credit in use. And they do that in two ways: by making loans to member banks, or by buying securities in the market, which puts some more dollars out there, which banks and others have available——

Senator MALONE. What securities?

Mr. BURGESS (continuing). To use.

Government securities.

Senator MALONE. They buy their own Government bonds?

Mr. BURGESS. That is right.

Senator MALONE. And therefore there is less Government bonds in circulation? Is that it?

Mr. BURGESS. That is right. But they have more of the bonds.

Senator MALONE. The less bonds the banks can borrow money on?

Mr. BURGESS. Well, they always have plenty of bonds to borrow money on.

This, when the Federal Reserve buys Government securities, it puts money directly into the reserves of the banks, so they have money instead of bonds.

Senator MALONE. Yes. Let me ask a question that is going to save time for both of us.

Mr. BURGESS. Yes.

Senator MALONE. Then, they do determine——

Mr. BURGESS. Through an indirect process.

Senator MALONE (continuing). Through a series of manipulations they are allowed to make under the Federal Reserve Act, how much money is in circulation?

Mr. BURGESS. Well, they are a major factor in it, let us say that.

Senator MALONE. Well, who else has something to do with it?

Mr. BURGESS. You and I.

Senator MALONE. How?

Mr. BURGESS. In our—the amount we go to our banks to get money. We have projects that require more money. We go in there and borrow some more money. That in itself tends to increase the amount of money in circulation.

Senator MALONE. But in the last analysis, the Federal Reserve controls that setup by the reason of the fact that they can refuse to lend money to the banks, or they can buy securities or sell securities; is that not true?

Mr. BURGESS. They have their hand on the lever.

Senator MALONE. Well, then, are they not in fact the controlling factor in the amount of money in circulation?

Mr. BURGESS. No; I am sorry, I have to qualify that. It is the demand for money, and they have the marginal supply.

Senator MALONE. They can issue it if they want to and not issue it if they do not want to?

Mr. BURGESS. That is right.

Senator MALONE. Well, I should say that they have—they are the major factor in determining the amount of money in circulation which determines inflation, largely.

Mr. BURGESS. Largely.

Senator MALONE. Is that not right?

Mr. BURGESS. Largely; yes.

Senator MALONE. I qualified it. There are other factors but the Federal Reserve have the finger on the sore spot.

Mr. BURGESS. I think some of our discussion before indicates that the psychology of the people as to whether they want to push ahead, and borrow money and increase the volume of credit is a very important factor.

Senator MALONE. If they go to the bank and cannot borrow money suddenly. If they go far enough, they would find the Federal Reserve had their hand in the pot.

Mr. BURGESS. If they go far enough.

Senator MALONE. So, then, they are the controlling factor.

Mr. BURGESS. Well, they are a major factor.

Senator MALONE. All right. Now, they do control then, too, the stock market margins.

Mr. BURGESS. That is right.

Senator MALONE. Purchasing on the stock market. What is the latitude?

Mr. BURGESS. There is no legal limitation. It can be anywhere from 10 percent to 90.

Senator MALONE. Could it be 100?

Mr. BURGESS. Yes; it could be a hundred. It has been a hundred percent.

Senator MALONE. One percent?

Mr. BURGESS. It could be 1 percent.

Senator MALONE. Then, they control largely the flow of money in the stock market; do they not?

Mr. BURGESS. The flow of borrowed money; yes.

Senator MALONE. I did not understand.

Mr. BURGESS. The flow of borrowed money. People who buy stocks with their own money, they do not control that.

Senator MALONE. Yes. But they do control it if a man has the cash because if he could only put up 10 percent and get away with it, he can buy 10 times the amount of stock with the cash he has as he could if it was a hundred percent; could he not?

Mr. BURGESS. That is right. There is no limitation on borrowing.

Senator MALONE. Do they not control it?

Mr. BURGESS. No.

Senator MALONE. Unless it was someone who just wanted \$10 worth of stock and put it away and forgot it.

Mr. BURGESS. That is right.

Senator MALONE. But the men gambling in the stock market if they have to put up 90 percent or 100 percent—

Mr. BURGESS. Yes.

Senator MALONE (continuing). They have to have the cash in hand, or borrow it?

Mr. BURGESS. That is right.

Senator MALONE. But if they only have to put up 10 percent and have \$100, they can buy \$1,000 worth of stock.

Mr. BURGESS. That is right.

Senator MALONE. Would you not say they largely control the flow of money in the stock market?

Mr. BURGESS. As a matter of theory, they do. In practice, it is a different story.

Senator MALONE. Now, if that is the case, you fix the interest—the Treasury—the Federal Reserve fixes the amount of money in circulation, and they regulate the flow into the stock market, then do they not regulate the money market in the United States of America, putting the picture together? Can they not make it tighter or looser or whatever they want to?

Mr. BURGESS. They can have a very great influence on it.

Senator MALONE. Now, then, we come down as to just how it ought to be done. I am not an expert. I am trying to build a record here so that people can judge for themselves.

Mr. BURGESS. Yes.

Senator MALONE. Should then the Congress directly control this thing, or should the Federal Reserve do it? Should they keep that power in the judgment of one man, really, in the final showdown, or at least it is the 7-man board, the Federal Reserve Board.

Mr. BURGESS. Of course; we debated that at long length, maybe some days you were out. I was insisting—

Senator MALONE. We are about to debate it again, unless you give me an answer.

Mr. BURGESS. I think the directors of the individual Federal Reserve banks have a very important influence on that.

Senator MALONE. No question about it.

Mr. BURGESS. But the Senator and I agreed on 127 men.

Senator MALONE. Well, I have watched this thing for a long time, and if you have a strong chairman, I would not give the other 126 the full power that he has, would you?

Mr. BURGESS. He has the most.

Senator MALONE. What?

Mr. BURGESS. He has the most power.

Senator MALONE. Well, does he not have the balance of power generally? He being in Washington and the rest of them, most of them, being away, after all the evidence is in, do they not generally take his judgment?

Mr. BURGESS. No, they do not, I am sorry.

Senator MALONE. Then you have 127 men who may be consulted?

Mr. BURGESS. Yes.

Senator MALONE. Congress is not doing it, are they?

Mr. BURGESS. No.

Senator MALONE. All right, and the Constitution says they must, so that is the only point I wanted to make.

Mr. BURGESS. Yes.

Senator MALONE. That is all right.

If you qualify that one, we will continue on it, and I do not know whether you want to or not.

Mr. BURGESS. That is all right.

Senator MALONE. Would we not be more accurate in our pursuit of the facts if we described in precise and simple terms what it is with which we think we are dealing and if we avoided the word "inflation"?

Inflation covers a multitude of sins, but we have gotten into it pretty deeply today.

How would you describe it if you just left out the word "inflation," what we are doing?

Mr. BURGESS. Well, we are shoving prices up.

Senator MALONE. What we are doing is just picking up the check with inflated currency for everything Congress appropriates. If it takes more money, we print it, and it is just like that first cocktail. It felt pretty good when you started, but after 6 years they are afraid. Now we have had 24 years of it.

Mr. BURGESS. That is right.

Senator MALONE. Not feeling quite so good, are they?

Mr. BURGESS. No.

Senator MALONE. A little afraid to sober up, are they not?

Mr. BURGESS. I think so.

Senator MALONE. Well, are you not pretty sure of it, being in there where the fire started?

Mr. BURGESS. Yes; I think there is an inflationary atmosphere and that people may be getting some second thoughts gradually.

Senator MALONE. Well, now, let me ask you another question, which is purely a personal one as far as you are concerned. What do you think a person ought to do if he is a United States Senator or United States Secretary of the Treasury? Should he get that wet finger up and currently feel what they think of him, or, if they give him that responsibility, should he tell them the truth of the consequences of what they are doing to themselves and let the chips fall?

Mr. BURGESS. Well, I always like to see people tell the truth.

Senator MALONE. There is another advantage to that; you do not have to remember what you said. [Laughter.]

Now, you referred to the reduced ratio of the Federal debt to national income. You show it to be 79 percent in 1956 as against 136 percent in 1946, and the debt is \$259½ billion in 1946 compared to \$277 billion in 1956.

Of what value is this comparison if the increase in national income is not used to reduce the debt?

Mr. BURGESS. Well, it means it is a little bit easier to handle.

Senator MALONE. Well, it is easier to handle if you do not pay your debts.

Why do we not use some of the increased income to pay some of the national debt?

Mr. BURGESS. Well, we are, a little.

Senator MALONE. How much?

Mr. BURGESS. \$1.6 billion surplus this past year with \$2.2 billion debt reduction. That is not very much. I would like to see it bigger.

Senator MALONE. How long would that take to pay the debt off, about 300 years?

Mr. BURGESS. Something like that.

Senator MALONE. You do not expect to be in the Treasury at that time, I guess?

Mr. BURGESS. I rather think not.

Senator MALONE. Well, if you cannot pay some on the national debt, when we are so prosperous, how are you going to pay it if we have a depression in this thing that you call the national economy?

Mr. BURGESS. Well, I think that is a very good question, and it ought to be a very sobering question.

Senator MALONE. Why is it sobering?

Mr. BURGESS. Well, because I think we ought to be paying more.

Senator MALONE. Why are we not paying more?

Mr. BURGESS. Well, there are many reasons for that, I think.

Senator MALONE. What are some of them?

Mr. BURGESS. One is the cold war.

Senator MALONE. Yes.

Mr. BURGESS. The other is the various pressures for expenditure of one sort or another.

Senator MALONE. Where are the pressures coming from? Where?

Mr. BURGESS. Everywhere.

Senator MALONE. Could you not locate that rather specifically?

The only budget I see comes out of the White House and that contains billions to Europe and Asia.

Mr. BURGESS. Well, I think the White House is responding to pressures from all over the country.

Senator MALONE. I thought we campaigned for 20 years on the fact that went we got in we were going to tell the folks the truth and going to do what we thought was right.

Mr. BURGESS. I think that is right.

Senator MALONE. You think we are doing it?

Mr. BURGESS. I think they are doing it pretty well.

Senator MALONE. Why, then, do we increase the debt and continue to throw the money all over the world in peacetime?

Mr. BURGESS. Well, we are not increasing the debt right now.

Senator MALONE. We did 3 or 4 times here. I was the only one who voted against it on this committee one time.

Mr. BURGESS. Yes.

Senator MALONE. I never did vote for it.

Mr. BURGESS. Yes.

Senator MALONE. You really have not answered me yet, why you do not think when we are really prosperous why we do not pay a little on our debts.

Mr. BURGESS. I think we should pay more, myself.

Senator MALONE. Well, you do not think we are ever going to pay when we do not do it when we are prosperous, do you?

Mr. BURGESS. I agree with you.

Senator MALONE. There are a lot of people thinking you are not going to pay it. There are a lot of people who think they will do it like they did in Germany, pay it off with a possum hide. Will Rogers said, "Pay off the mortgage with a possum hide if this keeps up."

You are; are you not?

Mr. BURGESS. Well, we all are.

Senator MALONE. Take me out of it. I never voted for it and I will not vote for it here.

Mr. BURGESS. Well, the Congress is in on the game.

Senator MALONE. Well, Congress is pushed around. I had the Secretary of the Treasury, who kept telling me that Congress appro-

priates the money, and he put in a table here for 20 years of what Congress had appropriated and what had come from the White House, and it did not differ 3 percent except in 1 year. I told him it would not.

Who do you think is to blame? They are just scaring the Senators and Congressmen. They are going to defeat them for reelection if you vote against some of the funny things they send up here. If they go into my State with that in mind they will simply have to defeat me. I tell you that, because I will not vote for it.

Mr. BURGESS. Neither do I.

Senator MALONE. If I was where you were, I would not do it.

Now, your comparisons indicate the higher the percentage of debt to national income, the lower the debt will or can be, and the lower the percentage of debt to national income the higher the debt tends to be.

That may be complicated to you. Do you want me to read it again?

Mr. BURGESS. That sounds all right. I do not quite get it, Senator.

Senator MALONE. Well, you have certain comparisons of the debt in your original opening statement, and you indicate that the higher the percentage of the debt to national income, the lower the debt will or can be, and that the lower the percentage of the debt to the national income the higher the debt tends to be.

That seems to go along with this idea of the more you owe, the richer you are.

Mr. BURGESS. Well, I do not quite agree with that phrase.

Senator MALONE. I certainly do not. But your statement, your opening statement, seemed to leave a little doubt.

Mr. BURGESS. Well, it is not intended to, Senator. We are not intending to belittle the debt in any way, shape, or manner.

Senator MALONE. You will have an opportunity to correct this, as you know, and if you want to add a little to it, I would appreciate it, to make it a little clearer.

Mr. BURGESS. Yes.

Senator MALONE. We are very fond of saying that the appropriations we asked for, say, \$72 billion, is only a certain percent of our national income. And at \$100 billion, it would be a less percentage of the national income than maybe a much smaller amount would have been 25 years ago.

As a matter of fact, when we brag about a \$450 billion income and a continual increase, is not the increase mostly due to the inflation of the currency?

Mr. BURGESS. Exactly. I think we said that in our report, Senator. That is the trouble with it.

Senator MALONE. In other words, if you reduced a dollar 52 percent on the basis of—is it the 1947 dollar, or what is the basis that you use for that 47, 48 percent in 1939?

Mr. BURGESS. That was 1939.

Senator MALONE. Well, on the basis there, that would only be about \$200 billion income; would it not?

Mr. BURGESS. That is right; just about; a little more than that.

Senator MALONE. Could you not cheapen the dollar another 25 cents and double the income?

Mr. BURGESS. Well, that is the process which has been followed in a great many countries.

Senator MALONE. Well, are we not following it?

Mr. BURGESS. Yes; to a degree.

Senator MALONE. We are, are we not?

Mr. BURGESS. I would not say at the moment.

Senator MALONE. Continued inflation; how much did it increase the last couple of years; inflation?

Mr. BURGESS. Four percent.

Senator MALONE. All right.

Then, we could take that 4 percent off. If we go 4 percent a year for 24 years again, our annual income would be nearly a trillion dollars with no real increase.

Mr. BURGESS. That is right.

Senator MALONE. So, are we quite as rich as we seem to think we are, or we just feeling the effects of that cocktail?

Mr. BURGESS. Well, I think it is a little of both, Senator. We are doing a lot of very important and worthwhile things in this country.

Senator MALONE. Such as what?

Mr. BURGESS. Such as the building of new schools, the—

Senator MALONE. Who is?

Mr. BURGESS (continuing). The building of new utilities.

I mean the whole country is.

Senator MALONE. Where is all this complaint I hear about schools if we are building all these schools?

Mr. BURGESS. Well, whether we are building enough is another matter, but we built a great many. We built a lot of new roads.

Senator MALONE. They have not built many yet, but we are talking about it.

Mr. BURGESS. Well, I go up to New York once in a while, on the New Jersey Turnpike. That is a great improvement.

Senator MALONE. That is, we are way behind in our road building, any engineer will tell you that, in our country, way behind. We have not kept it up at all. The money has gone abroad.

Mr. BURGESS. Lots of things to be done, but we have made great progress.

Senator MALONE. We are about to make great progress. I think if you will look it over we will be just on the verge of it if we go through with this roadbuilding program.

Mr. BURGESS. I think that is right.

Senator MALONE. We cannot claim anything for it yet, but I hope by next year there will be many more projects started.

So, when we brag in a campaign and when the other party, the other administration, used to brag about it, we are really bragging about inflation when we brag about increased income, to a great extent, are we not?

Mr. BURGESS. Well, to some extent.

Senator MALONE. Well, 52 percent extent anyway—

Mr. BURGESS. Well, I will tell you, Senator, I like sometimes to go over to Europe and look back in this direction, and when you do that, we look pretty good.

Senator MALONE. This is how good we look. We priced ourselves out of every market in the world. Europe has been there 2,000 years. We left because we could not make a living there and they still can't.

Mr. BURGESS. Well, we have exported more goods this past year than ever before.

Senator MALONE. By paying taxpayers' money for it.

Mr. BURGESS. Part of it.

Senator MALONE. Most of it.

Mr. BURGESS. Part of it.

Senator MALONE. I can go into that with you, if you want to, but I do not think we ought to do it this afternoon. But I will go into it with you if you insist.

Mr. BURGESS. We both know the facts, I think.

Senator MALONE. The facts are we are subsidizing almost every export and increasing imports through free trade. If this keeps up a while longer with American capital going into these plants they are now starting, we're going to wipe out the local investor and workingmen. Even General Motors are bringing in their cars now.

Mr. BURGESS. That is right.

Senator MALONE. Ford has been doing it for years.

Mr. BURGESS. Yes.

Senator MALONE. The last time I counted them, he had 26 foreign plants, paying foreign wages and bringing in the cars.

Mr. BURGESS. Yes.

Senator MALONE. They are all starting to do it, and all this great push by these organizations to get American capital in foreign nations and to bring this stuff back here is to knock the ears off the whole workingmen here and the local investor, they cannot do that.

I told you how much each 100 pounds of wheat cost to send to Cuba and if you want to check that, I will be happy to have you correct me. It was \$1.35.

Mr. BURGESS. I will be happy to see the figures.

Senator MALONE. You take a look at the evidence when we had the sugar bill up here.

Mr. BURGESS. Yes.

Senator MALONE. So we buy our foreign trade.

Mr. BURGESS. Some of it, certainly.

Senator MALONE. Well, 90 percent of it.

Mr. BURGESS. I do not think that, Senator.

Senator MALONE. Well, take a look at it. I mean, after all, that is my field, and if you want to go into an argument with me, why we will turn the book back and go to work on it. If you would like to discuss it.

With the tax burdens on the folks as great as they are now, I guess you will agree with me they cannot pay much more, do you not?

Mr. BURGESS. They are pretty high.

Senator MALONE. Well, you are just taxing everybody out of business. We voted for an extension of the Small Business Organization, and we have utterly destroyed small business—income taxes, imports of the goods that they are trying to produce here with our standard of living, wages, and the income taxes. If a young fellow could borrow the money from a bank to go into business, he never could pay it back. I think you know that.

If he made money, we get it, the Government; and if he did not make it, he is broke, so he could not pay it back.

Now, he can either get a job in a public utility or he can go to work on civil service; that is about all he has left, is it not, if he does not inherit money?

Mr. BURGESS. Well, no, Senator.

Senator MALONE. Tell me one of these places that he could work. I wish you would bring one up, to explain it to me, because I have a couple of grandchildren growing up.

Mr. BURGESS. Well, I have a couple of boys that are doing all right.

Senator MALONE. What are they doing?

Mr. BURGESS. I know a great many other people.

Senator MALONE. What are they doing?

Mr. BURGESS. One of them is an engineer, a plant engineer for an industrial company in Cleveland.

Senator MALONE. That is what I am talking about. He went to work for them. Why did he not set up a business of his own? I set up a business in 1917 or 1919, but you cannot do it now.

Mr. BURGESS. Well, there are a lot of boys doing it.

Senator MALONE. Are they?

Mr. BURGESS. Oh, yes, a lot of new businesses stated.

Senator MALONE. Well, the casualty list is terrific, if you take a look at it.

Mr. BURGESS. Yes, that is always true.

Senator MALONE. Why? Because if they make some money, we take it. And if they do not make it, they are broke immediately and they cannot pay the bank back unless they inherit enough money to go into business.

Mr. BURGESS. Yes.

Senator MALONE. I am glad you agree with me on that.

Mr. BURGESS. I agree with you taxes are too high.

Senator MALONE. Not only too high but they have just put small business right on the rocks. You have a war economy where you are buying everything, and if you quit spending the \$40 billion of war money per year for 60 days, my opinion is you are out like a light, and you are afraid to quit it, even where we are spending it on obsolete equipment. And we are doing that right now and have been doing it for 10 years, shipping it to Europe. That, you are going to look up.

I have made some notes on this. I want to clarify some of the things you said. You said that we are growing up to the debt and it is becoming less burdensome. And then you compute the interest charge as a percent of the national income.

How do you obtain the relative burden of the interest charge?

Mr. BURGESS. Well, of course, one way of measuring it is simply to take its percentage of the national income.

Senator MALONE. And the more inflation, the less percentage.

Mr. BURGESS. That is right.

Senator MALONE. I think I understand it perfectly now. We will just pass that over.

Mr. BURGESS. Which we deplore.

Senator MALONE. Yes.

If you doubled the inflation tomorrow, it is still a less percentage.

Mr. BURGESS. That is right.

Senator MALONE. And that is where we are headed. There is not any question about that, is there?

Mr. BURGESS. Well, I hope there is.

Senator MALONE. Well, I know you do, but we have not stopped it; have we?

Mr. BURGESS. We have been working at it pretty hard. It is pretty hard to make headway.

Senator MALONE. Well, I have a little difference in it. And we refuse to do the only thing that would stop it. I think you have done a good job, juggling it, and making it seem easier, so it does not quite rub it so raw in one place by lengthening the bond terms. But you still have it and you are still going into inflation.

You said that about as many people benefit directly or indirectly by these interest payments as are hurt by them. What does this mean? You just started dividing up, sort of dividing up, the capital of the country?

Mr. BURGESS. Well, it simply is emphasizing the fact that interest payments are a two-way proposition; somebody pays the interest and somebody gets it.

Senator MALONE. That is true.

Now, let us examine that statement.

You know there is one advantage in being older than nearly everybody else, there are not very many—

Mr. BURGESS. You are not much older than I am.

Senator MALONE. There are not many advantages, but one is you have seen all these jokers come and go.

Mr. BURGESS. That is right.

Senator MALONE. In the early 1930's they said, "Look, even though the debt is going up, the interest payments are going down, because we do not pay as much interest; therefore, it does not matter."

Do you remember that?

Mr. BURGESS. Yes; I do.

Senator MALONE. Well, you did not believe that; did you?

Mr. BURGESS. No.

Senator MALONE. And I did not either.

Mr. BURGESS. No.

Senator MALONE. Because you and I knew, having been through—I think you go back to Woodrow Wilson and all the rest of the people that handled this thing?

Mr. BURGESS. That is right.

Senator MALONE. And you and I knew that once you got the debt up there, the interest would go up, and it has.

Now, who is getting most of the interest on these bonds?

You say that everybody benefits, or as many benefit as are hurt. I will say to you, a very small percentage of them are benefiting, of the people of the United States, except in a very small amount. And the frugal people—the competent people and the savers were hurt.

Mr. BURGESS. Well, the mutual savings bank, the mutual life-insurance company, gets its income.

Senator MALONE. The stockholders of those companies.

Mr. BURGESS. The stockholders, who are the depositors.

Senator MALONE. Is that right, the stockholders of these companies?

Mr. BURGESS. That is right.

The insurance, I do not know what it is, well over 90 million people are stockholders or depositors in those companies. (There are about 106 million policyholders in life-insurance companies and there are over 16 million regular accounts in mutual savings banks.)

Senator MALONE. Yes; and you just cut the value of the insurance we had 24 years ago, you cut the 52 percent, have you not?

Mr. BURGESS. But the higher interest rates, they do get the advantage of in better terms on their insurance, over a period.

Senator MALONE. Stockholders in the insurance companies, that is whenever they have a mutual company that it is paid back. But the insured had the purchasing power of their insurance cut 53 percent.

Mr. BURGESS. That is right.

Senator MALONE. But is it not a matter of fact that the banks are getting most of the real advantage and the stockholders in the banks throughout the Nation?

Mr. BURGESS. No; I think not, Senator. Banks' holdings of bonds are down. Bank earnings are not as high as industrial earnings relative to capital.

Senator MALONE. The interest has gone up on the amount of money they loan, on the amount of money they can loan on this paper it can turn in on the Federal Reserve and get cash for it and loan it again. All of that has gone up; has it not?

Mr. BURGESS. That is right.

Senator MALONE. So the people who have not been able to save much money and they want to borrow a little money to go into something, they have to pay that increased rate; do they not?

Mr. BURGESS. That is right.

Senator MALONE. And that is about 90 percent of the people; is it not?

Mr. BURGESS. No; I would not say that.

Senator MALONE. Well, it is a large percentage, is it not?

Mr. BURGESS. It is a good many people.

Senator MALONE. I agree with you.

Mr. BURGESS. It is a good many people.

Senator MALONE. You still want that statement to stand, it does not make any difference how high the interest rate is, about as many benefit as it liabilities.

Mr. BURGESS. I do not take the first part. I will not say it makes no difference about how high it goes. It does make a lot of difference.

Senator MALONE. But if it goes up to 10 percent—

Mr. BURGESS. I am just trying to see a little silver lining in this cloud.

Senator MALONE. Yes. But silver lining when men are trying to borrow money to increase their business or pay the grocery bill and then pay it back on the installment plan, most of them are hurt, are they not, individuals?

Mr. BURGESS. Well, no. I think as many people benefit as are hurt.

Senator MALONE. In other words, the successful ones divide with the unsuccessful. It does not really matter.

Mr. BURGESS. It is very, very hard to trace through.

Senator MALONE. Well, it is not hard to trace through in my country when they are trying to go into some kind of business or increase the business. Everybody is slowed up. The mines are closed down; the livestock business is hurt. That is the actual effect of it, is it not?

Mr. BURGESS. Well, so far, it has not slowed up the whole situation very much.

Senator MALONE. I guess we will have to go into that. You moved over into the general economy. You close some and encourage by loaning Government money. The free trade imports are killing

American investors and pulling workingmen out of jobs. The income taxes and the interest rates are closing them down. You have moved into the textiles. The textiles are destroyed by imports of Japanese cheap labor. There is not any question on that; is there?

Mr. BURGESS. I think there is a question. I am not a textile expert, but there are some textile people doing reasonably well.

Senator MALONE. Yes; I expect there are. Some of them who have invested money in Japan, have taken American machinery over there and are doing pretty good in connection with their local mills. And some of the mining people invested money in cheap labor mining countries and are doing pretty good.

But if you will investigate those people using American money and investing it at home, it is not so good.

And we have already gone through this thing that our Government today, starting with the Department of Commerce and going right down through these 4 organizations, the 4 of them we discussed, are all encouraging American capital to go over and do just that.

In Japan they pay 13 to 15 cents an hour, and we pay \$1.50 and \$1.80, and Americans have gone in and put in the machinery and are bringing the stuff back.

Now, you are talking about limiting the oil imports, so you have 1 or 2 men who are going to determine how much oil ought to come in. And they are on a 15-day production in some of these American States.

Nobody seems to worry about that except the individuals. You know that, of course.

Mr. BURGESS. I suppose that is true.

Senator MALONE. Well, of course it is true.

You can check it if you think it is not, and put it in the record.

Well, now, this business where the Federal Treasury gets back promptly in taxes a substantial slice of interest it pays out, I agree with you it does. It finally gets most of it, but how does it benefit anybody?

Mr. BURGESS. Well, all I was arguing there was that the penalty was not quite as big as the advertised figure, that is all.

Senator MALONE. That might be true. But through this inflation, you agree with me we have priced ourselves out of the markets of the world.

In other words, our cost of production has gone up so much that if we want to sell anything to a foreign nation, there has to be some kind of subsidy advanced beforehand or a subsidy of some kind to get it sold. Is that not about right?

Mr. BURGESS. Well, I would not go quite that far, but I see your point.

Senator MALONE. Will you go part way?

Mr. BURGESS. I will go a little way with you; yes.

Senator MALONE. All right.

We will save time by going a little way.

Was there an act passed on June 16, 1933, section 7 of the Federal Reserve Act, amended by Congress, to terminate participation by the Treasury in the earnings of the Federal Reserve System?

Mr. BURGESS. Yes; that is right.

Senator MALONE. Then, you do not participate in it?

**Mr. BURGESS.** Well, we do. As a matter of fact, there was retained in the law the provision that there could be levied a tax on Federal Reserve note issues, and that is the way we get repaid. In that way——

**Senator MALONE.** How much does it amount to?

**Mr. BURGESS.** About 90 percent of the net earnings of the System come back to the Treasury.

**Senator MALONE.** Come back into the general fund?

**Mr. BURGESS.** That is right; yes.

**Senator MALONE.** When the Federal Reserve authorities claim they can use the provisions of section 16, subsection 4, of the Federal Reserve Act, which relates to the placing of an interest charge on the issuance of Federal Reserve notes as a means of controlling the volume in circulation, are they distorting or are they not distorting the intended meaning of section 16?

**Mr. BURGESS.** Well, section 16 was part of the original Federal Reserve Act. It is very hard to say just what they had in mind. I do not think it is a distortion, really.

**Senator MALONE.** I have watched this Congress operate for 11 years, passing what the White House sends up here, and what they have in mind still baffles me unless it is the ultimate destruction of our economic system.

**Mr. BURGESS.** When you get back to 1913——

**Senator MALONE.** But the effect of it does not baffle me so much. That is obvious to everybody.

**Mr. BURGESS.** Yes.

**Senator MALONE.** Maybe they do not know what they are doing, I hate to say that about the Congress, but I think about 90 percent of the cases, that is it.

**Mr. BURGESS.** I would like to see that particular matter of the Federal Reserve Act clarified. I would like to go back to the old wording of the original act as to the earnings of the Federal Reserve System, so it would be perfectly clear what they are supposed to do.

**Senator MALONE.** Take it over to the Treasury, the general fund, is that it?

**Mr. BURGESS.** Ninety percent of net earnings or some figure like that, would go right back into the Treasury.

**Senator MALONE.** Into the general fund?

**Mr. BURGESS.** That is right.

**Senator MALONE.** But it would take a clarification.

**Mr. BURGESS.** I think the clarification would be better than leaving it as it is.

**Senator MALONE.** Then, this question: is it reasonable to suppose that Congress would provide that section 16 could be used to nullify section 7, and we already discussed section 7.

That is what you are recommending?

**Mr. BURGESS.** That is right.

**Senator MALONE.** Is it a fact that 90 percent of the Federal Reserve earnings turned over to the Treasury since 1946, that is beginning in 1947, is an interest charge on Federal Reserve notes, as provided for in section 16, and that the money that is turned back is really an interest charge?

**Mr. BURGESS.** Well, it has the effect really, what was in the original act, of turning back excess earnings of the System into the Treasury,

because you just do not want to keep it piling up in the System. It is a sound principle.

Senator MALONE. Now, has the Federal Reserve Board assumed the authority to amend section 7 of the Federal Reserve Act as it sees fit then?

Mr. BURGESS. Well, you can put it that way, in a way. But I think it is a proper exercise of discretion.

Senator MALONE. You do not think the act ought to be changed so that—

Mr. BURGESS. I would like to see the act changed just because people like you who read carefully do raise this question. I think it ought to be clarified.

Senator MALONE. But you think as long as it is discretionary, it is all right.

Mr. BURGESS. I would rather see it mandatory.

Senator MALONE. Because someone else may not want to pay it back.

Mr. BURGESS. That is right.

Senator MALONE. They might have other use for it.

Mr. BURGESS. That is right.

Senator MALONE. How do you then justify getting your 90 percent now? It is discretionary and that is the way you justify it?

Mr. BURGESS. That is right.

Senator MALONE. You said the debt reduction helps to combat inflation. If by inflation you mean rising prices, have not prices been rising as you have been holding the debt?

Mr. BURGESS. Well, we have not reduced it enough to have much effect on the situation.

Senator MALONE. I think—

Mr. BURGESS. If you reduced it by \$5 billion, you would find you had an effect.

Senator MALONE. If we could reduce it by \$50 billion, we might have a greater effect.

Mr. BURGESS. We certainly would.

Senator MALONE. In other words, if we, instead of giving \$70 billion in the last 10 or 12 years to foreign countries in cash and goods, had applied it to the national debt, we might have just a \$200 billion debt, might we not, according to your figures?

Mr. BURGESS. Well, I think if we had reduced it that much in that time, you might have a good deal of unemployment, for example.

Senator MALONE. Why?

Mr. BURGESS. Well, because you would be decreasing your volume of money. What you do, of course, when you reduce the debt, you collect taxes from a great many people, use it to pay off the debts.

Senator MALONE. You are collecting taxes anyway.

Mr. BURGESS. Yes. But you do not pay that out again.

Senator MALONE. You pay it out again right away. You are paying out, but paying it to foreign nations instead of the Treasury.

Mr. BURGESS. You redeem bonds and securities, but that does not put it out in the country in the same way.

Senator MALONE. The money is going out of the country and of course we settled this with the Secretary of the Treasury, and I did not care to bring it up, but I might bring it up now to clarify this business.

Mr. BURGESS. Yes.

Senator MALONE. And that is the money you give to the foreign nations, they can claim gold.

Mr. BURGESS. Yes.

Senator MALONE. Dollar credits, you agree?

Mr. BURGESS. Yes.

Senator MALONE. So that where are these dollar credits coming from, how do they accumulate. They have accumulated by dividing the capital cash of our taxpayers with the nations of the world. It is a socialistic idea, but nevertheless we are following it out.

Mr. BURGESS. Some of the dollar credits come from that source; yes.

Senator MALONE. You say, I have made these notes to make it very simple here—debt reduction releases funds for other use.

How does that debt reduction necessarily tend to keep prices from rising?

Mr. BURGESS. Well, it is a restraint on the economy. People pay these taxes in, and the money only flows back in redeeming debt.

Senator MALONE. Well, \$70 billion of it does not flow back. It has been going to foreign nations.

Mr. BURGESS. Well, that is over that period of years.

Senator MALONE. Yes; 10 years.

Mr. BURGESS. Yes.

Senator MALONE. And we did have a theory here for a long time; sometimes I am sorry I quit drinking that character-building whisky because that is what you need to swallow this talk about our fiscal affairs. They said that when you raised the taxes you prevented inflation because there was less money to buy things; therefore in Washington we should raise the taxes and regulate the buying power of the people.

Do you believe in that?

Mr. BURGESS. I would rather see the taxes lowered, because you would have them for the necessary expenditures.

Senator MALONE. But would you raise taxes to prevent inflation?

Mr. BURGESS. No; I would rather cut down the spending.

Senator MALONE. We agree on that, except we do not cut down on the foreign spending, and that is what I object to.

Mr. BURGESS. The trouble is, you and I do not control it, Senator.

Senator MALONE. Well, I do not. I just have 1 vote out of 96. But you will find my vote against all foreign expenditures. I wish you would remember that anyway when you leave the Government, or I do not see you more, or very often.

In your statement, the chart shows the Federal debt to be 35 percent of total debt of \$783.5 billion. You are talking there about the Federal and the State and private debts, are you?

Mr. BURGESS. That is right.

Senator MALONE. And 58 percent of the total debt of \$446.5 billion in 1946, the implication being that the position of the Federal Government in the picture is somewhat better in 1956 than it was in 1946, although the debt is much higher, our total debt. How do you figure that?

Mr. BURGESS. Somewhat higher; yes.

I think the position of the Federal debt is a little better.

Senator MALONE. The Federal debt, but the total debt in the country is more now than it ever was.

Mr. BURGESS. It is tremendous; yes.

Senator MALONE. How did that all come about and what makes us in a better position by reason of it?

Mr. BURGESS. Well, it is partly the fact that during the war a lot of these things were held back, the building of houses, the building of schools we talked about, roads, and so on. When you come to make up for some of that that we lost out during the war, naturally some of it has to be done out of the debts, increasing debts.

Senator MALONE. There was a time when the Government was run like a successful man ran his business. How long would a man be a success in business if he believed in the methods that you have outlined?

Mr. BURGESS. I do not know quite what you mean, Senator.

Senator MALONE. If he just believed he had to be further in debt in order to be worth more, and if he just kept on going more in debt than he could sell his business for, how could he be better off?

Mr. BURGESS. Of course, that fellow goes broke.

On the other hand, there are, as I think you would certify, a great many businessmen who make money by borrowing money, within proper reasonable limits.

Senator MALONE. Of course they do. But their capital assets increase, do they not?

Mr. BURGESS. That is right; yes.

Senator MALONE. But ours does not increase. You know the only difference that I could ever see between an individual and a government, and watching all these foreign governments which I visited—

Mr. BURGESS. Yes.

Senator MALONE. And that is an individual is finished when his bank quits him. And a government is not finished until the money it prints has very little or no value.

Is that the difference between an individual and a nation?

Mr. BURGESS. Yes, pretty nearly.

Senator MALONE. We will let that one go.

You said also in your statement—I will make it as simple as we can—that the Government can turn to banks for funds when necessary.

I guess the Federal Reserve did turn to the International Fund when it needed \$300 million in gold; is that what you mean?

Mr. BURGESS. It was not that we needed that \$300 million in gold; the fund needed dollars, so they bought it with gold.

Senator MALONE. They needed something besides paper money; is that it?

Mr. BURGESS. Of course, they do not deal in paper money, the International Fund.

Senator MALONE. That is apparent, but we do here. We needed something beside paper money, and the Federal Reserve was the place to borrow it.

Mr. BURGESS. We helped the fund to obtain dollars, which in turn helped improve our cash position.

Senator MALONE. You needed that, too, according to that 6¼ billion that you have left, and I agree with you there.

Is there any valid excuse for the monetization of debt by the Federal Reserve and the banks, except in time of great national danger when the Nation is involved in war, and when people in their wealth, includ-

ing their currency, may become sacrificial victims? Is there any excuse for it in peacetime?

Mr. BURGESS. Well, this "monetization of debt" is a nice big and fancy word. And there is some monetization of debt that goes on as a part of the supplying of credit for the country's growth. If you put it this way, we were talking this morning about the bank taking its Government bonds over to the Federal Reserve and borrowing. It is a perfectly proper operation within limits.

Senator MALONE. You said a limit was the capitalization of the bank.

Mr. BURGESS. Yes, that is in a sense, monetization.

Senator MALONE. If you want to modify that in any particular, I would like for you to give me a little more explanation of that when you read your testimony.

Mr. BURGESS. Fine. It is a little complicated.

Senator MALONE. But that is the principle which you gave me.

Mr. BURGESS. Yes.

Senator MALONE. Now, for 145 years, following the writing of the Constitution of the United States, we had a few bad periods, but we always came back without undue inflation. We had safety valves, so a man could go through bankruptcy if he overextended himself, he could go into receivership if he failed to observe the danger signals and run just as well, could he not, while someone squeezed a little water out of the business?

Mr. BURGESS. Well, a lot of people got hurt.

Senator MALONE. But they are going to get hurt worse now, are they not, if we keep this up?

Mr. BURGESS. That is the danger. You hit the nail right on the head.

Senator MALONE. In other words, a man may have a headache and get drunk in order to forget about it, but it does not help him in the long run, does it?

Mr. BURGESS. No.

Senator MALONE. And if he becomes an addict in 5 or 6 years, he goes to the hospital when he sobers up, does he not?

Mr. BURGESS. That is a very good illustration.

Senator MALONE. I think it is, and that is what we have been doing for 24 years, and I am sorry to say we have not slacked it up much. So the hospital is the end if we do not get our feet on the ground.

Mr. BURGESS. We have slacked it up, but not stopped it.

Senator MALONE. Well, long-term debts and that sort of thing. You have done a magnificent job handling an impossible situation. That is about the best way to describe it.

Mr. BURGESS. Thank you.

Senator MALONE. How you balanced that thing for 4 years, going on a fifth year, has been a marvel to me. One of these days somebody is going to make a misstep and we will have to pick it all up again, do you not think so?

Mr. BURGESS. I do not think it is quite that bad.

Senator MALONE. You do not. Where do you think we are headed if we keep this thing up 4 percent a year?

Mr. BURGESS. You mean increase in debt 4 percent a year?

Senator MALONE. No, increase in inflation.

Mr. BURGESS. Yes. Well, I think we will have—every boom, every big boom that keeps on too long ends in a bust.

Senator MALONE. Then you think it will end in a bust if we just keep on like we are doing it now?

Mr. BURGESS. Yes.

Senator MALONE. I agree with you, and that saved a lot of questions. I will go right along with you now.

So everybody who gets elected to office is afraid to take the gaff, so he just holds it until he serves his term, and hoping to God it will not fall on him. That is about the way it is; is it not?

Mr. BURGESS. Well, that is the tendency.

Senator MALONE. That is 4 years of this business.

Mr. BURGESS. That is the tendency, but I think we have sweated with it and tried to do something with it.

Senator MALONE. I think you have, but you have not changed the principle. So the reason I vote against all this stuff is because I am willing to go home and take it, whatever it is. I just tell them the truth and do not have to remember what I said, and then if the folks think I have missed the ball too many times, why I can go back to my engineering business. And if they do like it, why I will stay here.

But we have not been telling the people the truth, as a Congress and as an administration. We have been telling them how good it is. How many people we have employed, and all that sort of thing. Well, that happened, you know, on October 29, one time. We had everybody employed—everybody was getting rich until we went to bed one night with everything going good about like now and when we got up the next morning—I hope I do not need to describe that to you. They started jumping out of windows. And I think the next one will make that one look like a pup when it comes. Do you not?

Mr. BURGESS. Well, that is pretty hard to say, Senator.

Senator MALONE. The Secretary said the right thing. He said it will curl what hair he had left, if he were still in office. [Laughter.] And I agree with him.

Now, referring to your statement, respecting encouraging thrift by selling more securities to individuals. I would ask you if the principle is well established that it is easier for the Government to sell securities to more savers more readily when the currency is redeemable in a standard gold monetary unit than is the case when currency is not redeemable, all other factors being the same.

Mr. BURGESS. That is right.

Senator MALONE. In other words, if 40 percent of gold was behind this paper that you are putting out and gold was behind the monetary system, the people buying these bonds would not be quite so nervous, would they?

Mr. BURGESS. Well, of course, as we were, I think, discussing this morning, we have moved back into the direction of the gold standard. We have got a kind of gold standard, and to the extent the people have confidence that we are going to keep the money nailed down to the value of the gold, it is easier to sell bonds.

Senator MALONE. To what extent have we gone back to the gold standard?

Mr. BURGESS. Well, we have kept a firm position.

Senator MALONE. You mean it has not gotten any worse.

Mr. BURGESS. On the dollar price of gold—

Senator MALONE. It has not gotten very much worse, just about 4 or 5 percent in the last year; is that it?

Mr. BURGESS. It has not been that much a year, you know. Not for the past 4 years.

Senator MALONE. But it is 52 percent reduced in 24 years.

Mr. BURGESS. That is quite right; yes.

Senator MALONE. And still getting less, the purchasing power of the money.

Mr. BURGESS. At the moment, yes.

Senator MALONE. Yes; I read the paper every morning. We read that we have got a net decreased purchasing power of the dollar.

Well, now, then, you would agree, I am sure, with that statement—of course, we had a Secretary of the Treasury one time in 1879, Sherman, who found it to be the case after the redemption in 1879, he went back to the gold standard; did he not?

Mr. BURGESS. That is right.

Senator MALONE. And he did not get hurt too much; did he?

Mr. BURGESS. No; I think that was good for the country under those circumstances.

Senator MALONE. Do you think it would be good for it now?

Mr. BURGESS. No, I do not; not at the moment.

Senator MALONE. Why?

Mr. BURGESS. I would answer it the same as Mr. Humphrey did, that I do not think we are ready for it at the moment.

Senator MALONE. What do we have to do to get ready?

Mr. BURGESS. I think we have to get a little more stable world.

Senator MALONE. Well, you did not have any more stable world when Sherman was Secretary, did we?

Mr. BURGESS. I would think we did.

Senator MALONE. We just knew less about it. Did we not lead the way into the gold standard?

Mr. BURGESS. No; I think that England was back on gold at that time.

Senator MALONE. That was about all.

Mr. BURGESS. And I think——

Senator KERR. Off the record.

(Discussion off the record.)

Senator MALONE. Anyway, you think we ought to be headed toward a gold standard?

Mr. BURGESS. Yes; I think we ought to be moving in that direction.

Senator MALONE. But you think we have to stabilize every other country in the world before you can do it?

Mr. BURGESS. No; I would not say that.

Senator MALONE. Do we have to divide our wealth with all the nations of the world and be on an even basis before we do it?

Mr. BURGESS. No, sir.

Senator MALONE. We have established already that they own three-fourths of our gold, practically three-fourths.

Mr. BURGESS. Well, we never admitted quite the word "owned."

Senator MALONE. What was the difference, if they are entitled to get it under our customary procedure?

Mr. BURGESS. Well, under our customary procedure, there are the words——

Senator MALONE. And what——

Mr. BURGESS (continuing). In an emergency we would do what has been done in previous emergencies, we would embargo.

Senator MALONE. When you embargo it and refuse to meet the dollar balances in gold which is customary, what would happen to the market on our money?

Mr. BURGESS. The same thing would happen if you had been on a gold-redemption basis and had embargoed it.

Senator MALONE. What is that?

Mr. BURGESS. Well, if you had taken the step that you suggest and were on a gold-redemption basis, and had to back away from that and stop it, that would have a bad effect, too, of course.

Senator MALONE. That was inflationary. We did go off of it in 1933, and cheapened the money 52 percent since.

Mr. BURGESS. That is right. When England went off in 1931, it created a terrific disturbance in the world.

Senator MALONE. In other words, we must follow England, whatever they do?

Mr. BURGESS. No, sir. There is no such implication.

Senator MALONE. Well, we do. I do not know why we do.

Mr. BURGESS. Well, I did not think we did on Suez.

Senator MALONE. We financed her invasion, if that is good enough for you.

Mr. BURGESS. Their invasion did not take very much money.

Senator MALONE. And then we changed our mind. It killed a few people, and that does not amount to very much in England's life—they have done that to put down rebellion in their colonies for 300 years. Both France and England are doing it now and we are furnishing the material.

Now, is the principle that Sherman observed there before and after 1879 in this respect, invalid today? And, if it is, why? I guess we discussed it previously, but why is the principle now that we ought to proceed upon—

Mr. BURGESS. I do not think I can add anything to what George Humphrey put into the statement on that.

Senator MALONE. He said he was for a managed currency just to keep it where it is.

Mr. BURGESS. At present, he said.

Senator MALONE. He did not say he wanted to go toward a gold standard. You have said that.

Mr. BURGESS. Didn't he? Well, I would say it.

Senator MALONE. What is that?

Mr. BURGESS. I think we ought to go toward a gold standard.

Senator MALONE. I think so, too. And the quicker the better.

Mr. BURGESS. I would like to see it when it can be done safely.

Senator MALONE. Then it is a matter of degree; that is the only thing?

Mr. BURGESS. It is a matter of degree.

Senator MALONE. Who should decide that?

Mr. BURGESS. I think the Congress.

Senator MALONE. In other words, when you run out of funds and you play the string out, you come back to Congress.

Mr. BURGESS. Well, we come back—

Senator MALONE. You played the string out just about now in this inflation.

Mr. BURGESS. We come back most every day, Senator.

Senator MALONE. Not to get any advice on currency. We have already established that fact.

Mr. BURGESS. Well, we get a lot.

Senator MALONE. You do not get any at all. You know it better than I do, do you not?

Mr. BURGESS. No. I think—

Senator MALONE. What can Congress do unless they pass a law limiting the Federal Reserve or limiting the Treasury in this managed currency? How would they limit it unless they passed an act amending your policy or your latitude?

Mr. BURGESS. That is right. That is what they would have to do.

Senator MALONE. That is what we are holding these hearings for. Maybe we ought to do it. I am of the opinion we should right now, after listening to the Secretary and to you. You and the Federal Reserve have too much latitude.

Mr. BURGESS. We have been very efficient, haven't we, very persuasive.

Senator MALONE. You have been very persuasive and lucky in handling a bad situation. How you have kept it balanced on the ladder this long, I do not know. I do not know that you are very sure.

Mr. BURGESS. I think the situation is a little better than you fear, Senator.

Senator MALONE. Well, I hope it is.

You think that a redeemable currency is better than an irredeemable currency, whenever you can reach it?

Mr. BURGESS. I do.

Senator MALONE. And redeemable in gold coin of the realm?

Mr. BURGESS. That is right.

Senator MALONE. I have two bills in the hopper. I put them in the record before. One of them was to establish a free market for gold for the very reason there is a great debate as to, when you go back on the gold standard, whether you can do it at \$35 an ounce, or whether you would have to take some account of the inflation as has happened since the valuation of gold.

What do you think in that regard, if we were ever to go back?

Mr. BURGESS. Well, Senator, I think we agreed we want to move toward a gold standard.

Senator MALONE. I know. It is a matter of degree on how far.

Mr. BURGESS. I think it is very important to keep your ratio toward gold solid as a rock. I think it gives great confidence to people, and I think if you have a market where your price of gold fluctuates, you are going to disturb people's confidence.

I think the best prelude to getting back on a gold standard is to hold the price of gold steady for a long period of time, and reestablish confidence in it.

Senator MALONE. I was in South Africa. I had been hearing this business about gold selling for \$60 or \$70 an ounce in foreign markets. You have heard that?

Mr. BURGESS. Yes. I know it is not so.

Senator MALONE. I was over there in 1947 or 1948. Every nation I go into, I end up with listening for the answer to how much gold it would take to take up the slack of the \$60 per ounce, or whatever price

it is selling; and in South Africa, where they wanted the free market very badly, they thought it might not take very much to bring it back to around \$35 or even \$40 an ounce. They wanted us to continue to buy all gold offered at \$35 per ounce in any case.

But my point was simply, you have had so much inflation since you fixed this price of gold, you have cut it in half, that you might, instead of trying to put the toothpaste back into the tube and going back to \$35, you might have to figure out what the world price ought to be on a free market, and take some account of it.

You do not believe that?

Mr. BURGESS. No, I do not. I have heard the South African argument.

Senator MALONE. Well, I heard the argument in this country. I do not know.

Mr. BURGESS. I can understand their argument. They produce half the gold, and they would like very much to have us pay them more dollars for each ounce of gold they sell.

Senator MALONE. Well, people I know in this country do not put it on that basis.

Mr. BURGESS. Yes.

Senator MALONE. But you do not believe it, anyway. But I do not know. I am trying to clarify the record with your statement.

Mr. BURGESS. I do not believe it.

Senator MALONE. But you do believe, on the \$35 gold, we should go back to it at the first opportunity, or as soon as we can settle all of the world problems?

Mr. BURGESS. Yes, when we can do it safely.

Senator MALONE. Do you think by depleting the gold we own, actually, under our customary method of operation, that we are getting any nearer to when we could go back on the gold standard? Since we can only legitimately claim about 20 percent of the amount we have stored?

Mr. BURGESS. Well, I think it depends on two things: One is the supply of gold in relation to the liabilities. The other is the general feeling of confidence in your situation and in your money. And I think the latter is more important than the former.

Senator MALONE. Yes.

Well, I have a bill in this Senate committee, I will fill in the number in the record, I do not remember it now, just to go back on the gold standard. And many believe that the only way you are going to stop this thing is to go on the gold standard, just like they did in 1879. Just return to it.

Mr. BURGESS. That the way to resume is to resume.

Senator MALONE. That the way to resume is to resume, and not just keep on balancing that set of boxes up there until one day you stub your toe and lose all of it.

Mr. BURGESS. I have felt that way sometimes. In some of the speeches I made some years ago, I advocated it. I made a speech about that in 1938 or 1939, and then the war broke out. So I am a little more cautious.

Senator MALONE. You mean going back to the gold standard?

Mr. BURGESS. That is right.

Senator MALONE. You mean after you got hold of the currency yourself, you want to manage it without the embarrassment of being tied to a gold standard.

Mr. BURGESS. We do not have hold of the currency.

Senator MALONE. Well, you have been running it now for 4 years.

Mr. BURGESS. We have been doing our share of it as best we could.

Senator MALONE. You know they told me that in Shanghai. I went to Peking, and Nanking, and Tsingtao in 1948 during the war in China, and the State Department officials always were pouring it on me what a terrible man this Chiang Kai-shek was, and I said finally in self-defense, "What bad thing has he done?"

"He destroyed the currency. He brought in all the gold and silver and gave us paper for it."

I said, "I guess he had a precedent for that; did he not?"

And that was the last I heard of it. We set the precedent, if you will remember, in 1933.

Mr. BURGESS. Yes.

Senator MALONE. Now, you said in answer to a question of Senator Frear, you think our condition was less stable in March of 1954 than it was in 1940. And you said you thought very much—

Mr. BURGESS. That was Mr. Humphrey, I believe, was it not?

Senator MALONE. That could have been. That could have been.

But what do you think of it? Why?

Mr. BURGESS. Less stable than in 1940?

Senator MALONE. Yes.

Mr. BURGESS. 1940, of course, the European war was in full swing. I do not know. That is a very interesting question. We have no big war going on in the world, but we have got this cold war, the Russian business.

Senator MALONE. You have soldiers in 73 nations, financing them, but they are dead or on their way to the salt mines a few days after the all-out war would start, because you could not get them out and could not feed them. But they are there to spend money to help those nations.

But including all of that, you think we should keep it up just as we are?

Mr. BURGESS. You mean running our money?

Senator MALONE. Yes.

Mr. BURGESS. Yes, I would for now.

Senator MALONE. Just keep balancing a column of boxes there?

Mr. BURGESS. Well, we have talked about—we have agreed we would like to have a budget in better balance. That would help a great deal.

Senator MALONE. Who makes up this budget?

Mr. BURGESS. Well, sir, we all do. Congress has a great finger in it. The administration—

Senator MALONE. Congress does not have a thing to do with it. All you have to do is look at the recommendations from the White House for 24 years and see how much Congress appropriates.

Mr. BURGESS. Oh, yes. But, Senator, on the Agricultural bill, the administration had to send up a budget which would carry out the bill passed by Congress, and that is true of veterans and a great many others.

Senator MALONE. That is true. But when you confine it to expenditures in this country, you are not getting hurt very much. You would not be above—you would not be raising the budgets every year.

But what we are doing is financing the foreign nations. That is breaking the camel's back.

Mr. BURGESS. Senator, the increases recently have been in expenditures here, and not abroad.

Senator MALONE. I think we ought to go into that if that is what you believe. We put out about \$70 billion abroad in cash and groceries for the last 10 years, and you have raised your national defense to about \$37 billion, and you are spending in this country, to keep the economy alive, that \$37 billion and that \$5 billion average that you put out, about \$6 billion a year, to foreign nations.

Mr. BURGESS. Well, it is not that big right now.

Senator MALONE. What is that?

Mr. BURGESS. I would not think it was that big right now.

Senator MALONE. Well, that is a matter of record.

Mr. BURGESS. Yes.

Senator MALONE. We are just loaning money from these four corporations to American business and foreign nations to build up competition with our own producers.

Mr. BURGESS. You include these international corporations?

Senator MALONE. No, I did not at first, because our \$72 billion was a bigger budget than anybody had ever had, and the foreign expenditures were greater, were they not?

Mr. BURGESS. What?

Senator MALONE. Foreign expenditures were getting greater all the time.

Mr. BURGESS. Getting greater all the time? I would not say so, no.

Senator MALONE. Well, they are not reduced.

Mr. BURGESS. Well, the foreign aid bill that is before the Congress now is smaller than last year's.

Senator MALONE. How much money do you have to spend that is already appropriated, in the foreign aid?

Mr. BURGESS. Well, that is smaller than it was a year ago.

Senator MALONE. It is about \$7 billion, is it not?

Mr. BURGESS. I do not know. We can check it.

Senator MALONE. If you will check that and put it in the record, I would appreciate it.

Mr. BURGESS. We will be glad to check that.

Senator MALONE. I think you have \$6 billion or \$7 billion as a backlog.

Mr. BURGESS. Something like that.

(The information referred to is as follows:)

INTERNATIONAL COOPERATION ADMINISTRATION,  
OFFICE OF THE DIRECTOR,  
Washington, D. C., August 12, 1957.

HON. W. RANDOLPH BURGESS,  
Under Secretary of the Treasury.

DEAR MR. BURGESS: The information shown below is provided in response to the question concerning foreign aid unexpended balances which was asked of you by Senator Malone during the course of the meeting on Saturday, August 3,

of the Senate Finance Committee's investigation of the financial condition of the United States.

The records of the agency show that obligations and expenditures under the mutual security program from its inception in April 1948 through May 31, 1957, are as follows:

	Funds available	Expenditures	Unexpended balance
Total mutual security program.....	<sup>1</sup> \$45,483,160,474	\$38,684,815,442	<sup>1</sup> \$6,798,345,032
Military assistance.....	22,493,651,400	17,775,958,780	4,717,692,620
Economic and technical assistance.....	22,989,509,074	20,908,856,662	2,080,652,412

<sup>1</sup> Excludes \$56,535,754 in reserves for return to Treasury.

Data as of June 30 are not yet available due to the considerable time required for certification of all obligations at the end of the fiscal year under the requirements of section 1311.

Yours very sincerely,

JOHN B. HOLLISTER.

Senator MALONE. Now, Mr. Secretary, to sum this up, we do have a managed currency that we went on in 1933, and you want to continue it?

Mr. BURGESS. I would for the present.

Senator MALONE. But you do—I get this difference in your testimony and the Secretary's—you really want to point toward a gold standard?

Mr. BURGESS. I would, personally.

Senator MALONE. But you just think that you have to go along this way as long as the world is upset?

Mr. BURGESS. As long as it is upset this much.

Senator MALONE. Has there ever been a time in 2,000 years that the world was not upset, that there was not a war somewhere?

Mr. BURGESS. Well, it is relative. It is relative. I think we are worse upset now than we have been a good many times in the past.

Senator MALONE. There is something which puzzles me. We used to go to war because they said we have to protect certain foreign nations to get certain materials not otherwise available to us. Have you heard that?

Mr. BURGESS. I think I can recall that, Senator.

Senator MALONE. Mr. Wilson said that. He said if Germany controlled Europe, we would be next on the list, and we have to protect certain nations in order to get critical materials not otherwise available.

Now, that went right on through Roosevelt, Truman, and then we started to do it, we had to get this material from foreign nations.

I want to again direct your attention to the survey that the Committee on Interior and Insular Affairs made, where we make the positive statement—and I will debate it with anybody, anywhere, at any time—that you can make the Western Hemisphere self-sufficient for everything you need in war or peace, and you do not need a pound of anything through the Suez Canal. This is Senate Report No. 1627 of the 83d Congress. So we are still keeping troops in Europe and Asia, regardless.

I rode the full length of that proposed pipeline in Saudi Arabia when they were building it across Arabia in 1947, went into the Abadan oil plant, the largest in the world. I knew the British were

going to lose it, because they were not paying the Iranians anything—12 cents per barrel of oil. We were paying them 50 cents just across the border. So they lost it and we gave it back to them after paying the damages. That is just about as simple as I can put it.

Now we are going to protect that pipeline across there to protect oil going into Europe. Europe converted from coal to oil when their industries are built on coal mines. So now we have to furnish the oil for them and furnish the protection in Arabia to get it.

Do you know how far that pipeline is from Russia?

Mr. BURGESS. No.

Senator MALONE. About 500 or 600 miles. It will be like Russia protecting a pipeline in Cuba.

So you think we ought to keep that up, and until that gets settled over there, which will be about 2,000 years more, we ought to just go along the way we are; is that what I am understanding?

Mr. BURGESS. I do not know enough about that oil situation to be an expert in it, Senator.

Senator MALONE. You know it will not be settled. I was in India, Calcutta, New Delhi, and Karachi in 1948. And then I come up into the heartland of Asia from Russia—other side of the mountains. They have no living standard in India. They have no economic system. They do not even know what we are talking about. That applies to China and about three-fourths of the world. So you say that all has to iron out before we go on the gold standard?

Mr. BURGESS. No, no; I do not say that. I do not say that. I think the whole picture needs to be a little clearer than it is now.

Senator MALONE. Maybe we ought to start paying a little bit more attention to our own business, do you think?

Mr. BURGESS. We have got plenty to look after right here, lots of things that need to be done.

Senator MALONE. I agree with you, Mr. Secretary, and I think you have made a very good witness and a very frank witness.

Mr. Chairman, that ends the cross-examination.

Mr. BURGESS. Thank you.

Senator KERR. Thank you very much, Doctor.

The committee on Monday morning has some matters it will consider in executive session, so we will recess this hearing until 10 o'clock Tuesday.

Mr. BURGESS. Thank you, sir.

Senator KERR. You were certainly more than cooperative, coming here on Saturday.

Mr. BURGESS. You are very gracious, and I appreciate all those kind words.

(Whereupon, at 3:20 p. m., the committee recessed, to reconvene at 10 a. m., Tuesday, August 6, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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TUESDAY, AUGUST 6, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Long, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury; Paul Wren, assistant to the Secretary of the Treasury; George Willis, Director, Office of International Finance, Treasury Department; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator Martin is recognized.

Senator MARTIN. Mr. Chairman, I want to express, once more, my appreciation of the fine manner in which you are conducting this most important hearing. Also, deeply appreciate the constructive questions being asked by my colleagues of the committee. The great interest shown by the members of the committee and the press has been most encouraging.

I feel we are accomplishing a great deal by stimulating more widespread interest in the dangers confronting our economic stability. At the same time we are widening our own understanding of the Nation's financial condition, the monetary and fiscal policies now in effect, and the problems and practices of debt management.

The testimony of the Honorable George Humphrey, the questions propounded to him and his answers are of great importance to all Americans because he presented a very sound estimate of the finances of this, the greatest Nation of the world.

Also, I have been most favorably impressed by the clear and constructive testimony given by the Under Secretary of the Treasury, Mr. Burgess. I regret that he is soon to relinquish the important position he has filled so ably. It will be substantial loss to the Treasury.

Mr. Chairman, before interrogating Mr. Burgess, I want to make a brief statement.

We want to keep a stable economy in the United States. We want to protect the savings of every American family and preserve not only those dollars of saving, but their purchasing power as well.

In the event of war, one of the most powerful elements of our defense will be our economic stability and the strength of our productive resources. Recently Russia repudiated a debt of 260 billion rubles in the hands of its people. A dictator government, without conscience, can do this.

In America we want to keep the savings of our people secure. We want the individual to have and retain the rewards of his initiative, hard work, thrift, and creative ability.

As I have considered the material developed in these hearings, one single fact of basic significance stands out in respect to the current inflationary pressures.

We have wanted to enjoy more than we have earned.

This effort has taken two forms:

1. The use of excessive amounts of credit to buy more of both consumer goods and capital goods; and
2. Increases in profits and wages greater than increases in productivity.

Both courses of action have caused prices to rise—the first by raising the demand, the second by raising costs and also by generating increased income and demand.

There is no point in placing blame for these pressures. Our goal should be to find the cure—and that is the purpose of these hearings.

The Federal Reserve, and to a much lesser extent the Treasury, has the monetary and fiscal tools to limit the expansion of credit, and these tools have been used. The second basic source of upward pressure on costs, prices, and demand, presents a more difficult problem.

As long as increases in profits and wages exceed increases in productivity, costs and prices will continue to rise until serious price resistance develops. When this resistance does develop, we will be confronted with the choice of limiting the increases in compensation to the increase in productivity, or of facing reduced sales, lower employment, and decreased profits.

Both Mr. Humphrey and Mr. Burgess have stressed also the significance of business expenditures for new plant and equipment and public construction activity in creating and sustaining inflationary pressures.

But why, may we ask, have these expenditures loomed so large in the past few years? As to new plant and equipment, much of the increased expenditures result from a desire to offset rising costs of production—wages and materials. Because of annual wage increases, every effort must be made to offset increased costs, as far as possible, by greater efficiency.

Furthermore, growth in consumer demand calls for added capacity. With the experience of postwar expansion it has become increasingly clear that costs of construction and of new equipment have moved steadily upward.

Delay in new construction or installation of improved equipment results in facing higher expansion costs later. Therefore, many are undoubtedly encouraged to expand at the earliest date possible to avoid the impact of higher costs.

Thus we have seen a great bunching of industrial expansion, which has resulted in abnormally—in fact, record—levels of expenditures, thus creating wage and price pressures, which in turn are felt in

the whole economy. Capital spending by business is estimated at a rate of \$41 billion for 1957, about double that for 1950.

Similarly, public construction activity, which amounted to \$7 billion in 1950, is expected to be about twice as large in 1957.

These large demands for funds have brought about inflationary pressures on materials and manpower. Higher wages and prices have resulted and these, in turn, are reflected in the total demand and prices of goods.

Simultaneously, the available supplies of funds have been absorbed, thus creating a scarcity of funds, which is automatically reflected in higher interest rates.

We have an enormous public and private debt. Our chairman made mention of this in his statement preceding his questioning of the Secretary of the Treasury. I reiterated that statement before I questioned the Secretary.

Those who have studied the matter know we owe too much money here in the United States. We are expanding Government operations and industrial production too much on borrowed money, particularly money borrowed from banks, because such borrowing increases the amount of money in circulation and further stimulates inflationary pressures.

Mr. Chairman, there has been much criticism of the increased cost, or the rent, of money. It is a fact that interest rates in the United States are lower than most of the nations of the world.

Only by holding the supply of credit at a level below the demand therefor can we exert a brake on increased borrowing to build and buy. Such credit limitations are our most effective and most impartial anti-inflationary weapon.

It does have the undesirable side effect of permitting interest rates to rise. This is unfortunate, for all of us want to rent money as cheaply as possible. But by preventing inflation, we save much more than the increased cost of money due to higher interest rates.

The value of money has depreciated all over the world. With the exception of a very few countries, the depreciation of money has been much less in the United States than in other nations.

For example, from 1947 to 1957, the purchasing power of money has dropped in—

	<i>Percent</i>		<i>Percent</i>
Chile.....	94	Norway.....	33
Brazil.....	72	Netherlands.....	32
Japan.....	65	Denmark.....	30
Greece.....	65	Canada.....	29
France.....	63	Ireland.....	29
Finland.....	59	Italy.....	27
Australia.....	53	West Germany.....	24
Mexico.....	47	Belgium.....	22
Britain.....	38	United States.....	20
Spain.....	38	India.....	18
Sweden.....	34	Switzerland.....	11

You will notice just two of those countries I have mentioned are lower than the United States.

In all parts of the world, the same question is being asked: "Will prices continue to go up?" In Great Britain there is most serious

concern. In a recent speech, Peter Thorneycroft, the Chancellor of the Exchequer, said :

If a nation pays itself 7 percent more for doing no more work, as happened last year, price increases will follow as night follows upon day. No economic or governmental magic, no system of controls can stop that process. Before those price increases thus generated are to form the basis for another round of wage increases, the country should ponder the damage which could be done to this Nation and all who work in it. \* \* \*

The truth is that this nation must either squarely face the problem of inflation and accept the policies necessary to check and curtail it, or else it must face a continual decline in the value of its currency.

It seems to me that we face the same choice here in the United States.

Throughout much of the rest of the world, and perhaps in our own country, the upward pressure on prices will be overcome only by the assumption of greater responsibility for the general welfare by the leaders of business and the leaders of labor.

That is not likely to occur, even in our own country, until far greater public pressure has been developed than up to this time.

There have been indications that many people in this country do not sincerely object to "mild" inflation. In moderate doses, it gives an impression of well-being to many of our people.

Wages appear to be rising; profits seem to be increasing; the worker and the stockholder are grateful; and the position of the labor leader and corporate manager is made more comfortable and secure.

Yet we know, and the average American citizen will have the sense to realize, that the apparent primrose path of inflation can lead only to disaster. It means the robbery of every saver, every veteran, every pensioner, every citizen who has contributed to social security.

I am convinced that monetary and fiscal policy alone will not overcome current inflationary pressures here at home, but I am equally certain that any easing in the availability of credit by action of Federal Reserve Board at this time could have but one result—further bidding up of prices for labor and materials, thus stimulating further inflation of prices all along the line.

Mr. Burgess, what are your reasons for not agreeing with the contention that higher interest rates are a cause of inflation? I want you to take your full time and explain this just as you feel about it.

#### STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Mr. BURGESS. Yes.

Senator MARTIN. I will not interrupt you unless there is something I do not fully understand.

Mr. BURGESS. All right.

Well, Senator, I have been very much interested in this idea that the present inflation had as one of its principal causes the increase in interest rates.

Over a long period of years, I have been a student of these monetary affairs, and I am old enough, as you are, Senator, to have been through a number of experiences.

I know something about the economic literature, about the business cycle, and about inflations, and I must say I have not been able to find anywhere a support by any of the reputable economists for the belief that interest rates in themselves are a cause of inflation.

Maybe I am not quite up to date in what some of the modern economists have developed, but I have not heard it, and it runs contrary to my whole experience, because I have been through a good many of these business movements, as you gentlemen have, and I just do not think it happens that way.

I think that interest rates are something that happen as a result of an inflation, and not as a cause.

Now, what is the way that these business movements occur?

We have been through them—1919, 1929, and so forth.

What happens, it seems to me, is that first you have money available, and then you have demand. People have confidence and use the money. And as they use the money, the demand increases to a point where the available materials and labor are not quite adequate to meet the demand, and then prices and wages begin to go up.

Then about that time, we begin to use up the available money, and then the interest rates go up—the interest rates are a rather small factor in the whole business.

In the past, when you ran out of money, sooner or later that stopped the movement. That is what happened in 1907 and 1908. It was a perfectly typical experience. The business movement went ahead, and prices rose, with speculation.

Then the banks ran out of money, and they had to pull down the shades while they sorted out and found who was solvent and who was not; and in a few months they put up the shades and went to work again.

But nobody would seriously contend that the increase in interest rates, which were very considerable then, was the cause of that inflationary movement.

You can trace it through any number of these periods.

Right after World War I, 1919 and 1920, we came out of the war with a tremendously expanded volume of credit. Everybody had money. They had not been able to buy goods. They rushed out to buy them when price controls were removed, and prices of commodities began to go up to the sky. And then pretty soon we began to run out of money, and interest rates went on up, and the Federal Reserve recognized that with an increase in interest rates.

The banks borrowed a tremendous amount of money, and money ran out and it stopped, and there was a drop in prices.

That has happened, to my understanding, time after time, and I think that is exactly the thing that has happened here.

Prices have gone up because the demand was in excess of the available supply of materials and labor to carry on at that price level, so the price went up.

Senator MARTIN. Mr. Secretary, you still believe in the law of supply and demand?

Mr. BURGESS. I think it still holds, Senator.

Senator MARTIN. I think so, too.

Mr. BURGESS. I have no question about it.

Senator MARTIN. I am fully in agreement with your answer.

Now, Mr. Secretary, am I right in understanding that you think that while monetary and fiscal restraints may cause rolling readjustments in the economy, such readjustments may prevent a runaway inflation later?

Mr. BURGESS. Well, Senator, I think we have had experience in the history of this country and in the history of other countries that that is so. We have had various occasions when we got by with rolling readjustments. And 1953-54 was one.

In the spring of 1953, we were having an inflation, there is no doubt about it, and monetary and fiscal restraints were allowed to be exercised, and we straightened things out. People had too much inventory, people were borrowing too much on installment credit.

The thing was leveled off. We went through a rolling readjustment in 1953 and 1954. The adjustment was partly aided by cutting Government expenditures, but we went through a period there of leveling off without any serious decline.

I think the same thing happened in previous periods. Senator Anderson was inquiring about those, whether we knew of times when interest rates went up when they were not followed by a depression.

Well, 1923 and 1924, 1927 and 1928, 1948 and 1949, all were periods of that sort when, with fairly moderate changes in interest and in credit, we finally came through with a rolling readjustment.

In 1948 we had a good surplus in the Treasury, \$8 billion. We came through with a surplus which helped to calm down that inflationary trend. Some people ask, "Was that period inflationary?" I know it was, because I was working with the American Bankers Association, and we sent a team throughout the country, trying, under the leadership of Joe Dodge and Bob Hanes, to talk to the bankers about restraining their credit so they did not add to the inflation.

Those things operated together and gave us a rolling readjustment in 1949, and we came out of it without anything serious.

So I think that can happen again.

Senator MARTIN. Mr. Secretary, in other words, may not the policy of monetary and fiscal restraint and rolling readjustments be the ones which, in the long run, will produce the lowest average unemployment and the highest average employment and, therefore, be the policy which is most consistent with the objectives of the Employment Act of 1946?

Mr. BURGESS. Well, I think there is no question about it, Senator. The great thing that has done so much damage in this country is boom and bust, and we had terrible examples of it in 1920, in 1929, and 1930.

That means that the restraints were not applied in time.

On the other hand, on other occasions when the natural restraints have been allowed to apply early enough, you could have these smaller adjustments which, in the long run, led you to a more or less steady upward growth.

Senator MARTIN. Mr. Secretary, in my statement that I made before I started to question Secretary Humphrey, I referred to various depressions. These had been the result of what you have just explained?

Mr. BURGESS. I think so; yes, sir.

Senator MARTIN. Is it not true that the effects of fiscal and monetary changes are not always immediate, and consequently one should not expect, for instance, to find a close year-by-year correlation between changes in the price level and changes in the money supply?

Mr. BURGESS. I think that is entirely true, Senator, because so much of our business in this country is done on long-term contracts. We make a contract to build a building, and the effects of that on labor and prices are felt over 2 or 3 years.

When we build a system of roads or public buildings, even building a house, that man makes his decision to build a series of houses in the autumn, he starts to build them in the spring. He does not complete them until autumn. There is a year's span before the full effect of his operation is felt.

And a great many of our undertakings are even on longer-term decisions.

Senator MARTIN. Mr. Secretary, you mentioned the other day the importance of velocity in the monetary equation. Would you kindly elaborate in regard to this factor? Just take your own time and tell us about it.

Mr. BURGESS. That is a very interesting thing. As a matter of fact, it is one of the earliest studies I made, way back in the early twenties, the study of the velocity of money.

At that time Irving Fisher had come out with his theory of the equation of exchange. He said that money times the velocity (the rate of turnover), is equalled on the other side by prices times the volume of business, volume of trade ( $MV=PT$ ). And as a mathematical statement, nobody can deny that.

So many people go astray, forgetting that it is not just the money that is outstanding; that it is how fast you use it. And I have some figures here of the sort which are published regularly in the Federal Reserve Bulletin. Here is a figure for the ratio of demand deposits and currency (that is money) to gross national income, gross national product.

When we came out of the war in 1946, the money supply was equal to half the country's gross national product, so of course there was lots of money to go to work, and the money that was there did not have to turn over very fast. It did not have to be used very quickly. The velocity at that time, in 1946, was only 15 times a year.

Well now, what is the situation today? The ratio of demand deposits and currency to gross national product, instead of being half, is only a third, and so that supply turns over more rapidly. It turns over, in 1956, 24 times a year.

The interesting thing is that since 1955, the rate of turnover of money has increased 10 percent, approximately, from 22 to 24 times a year.

So the fact that our money supply has increased only 1 percent does not show you the picture at all. It is the rate of use of that money.

Senator MARTIN. Yes.

Mr. BURGESS. And that rate of use is far more important at the moment than just the money supply. And that is why you have got to hold back a little on the money supply. It is the only thing you have got control of, because it is this tremendous use of money which is back of our inflation. That is something that is very hard to get at.

Senator MARTIN. Mr. Burgess, at that point, how do you define the rate of use? Make a further explanation on that.

Mr. BURGESS. What you really do is take the volume of checks, that are drawn against the banks throughout the country, as against the money supply; and that shows you, the number of checks drawn in a year compared with the money supply, shows the number of times it turns over.

You see, we have very good figures for the checks that are drawn. All the principal cities have clearing houses, and they count the checks that go through, and the Federal Reserve System counts the checks that go through it, so you can make a very good estimate.

Usually you leave out New York, because that is so affected by speculative turnover. When you get a big speculation like that in 1929, those big New York deposits turned over very rapidly. It was not that there were new deposits created but the speed they turned over. It is just due to fellows going around and checking out their money faster.

Some men will lend it to other people. In 1929, for example, business corporations were lending their money to people speculating on the exchange. That was outside the reach of the banks and the Federal Reserve System, but it made for rapid use of that money.

Instead of lying idle, it was put into the stock market.

Senator FLANDERS. Senator, will you yield for just a moment?

I would like to inquire, this formula  $MV=PT$ , I forget how you defined the T.

Mr. BURGESS. Trade.

Senator FLANDERS. I know what it is.

Mr. BURGESS. We call it trade.

Senator FLANDERS. Trade. It is the volume of physical—

Mr. BURGESS. Gross national product is a good way to do it—real output.

Senator FLANDERS. Yes.

Senator MARTIN. Mr. Burgess, do you have further statistics?

What I was thinking, Mr. Chairman, if you do not object, we might put that into the record. This is a very interesting discussion to me.

Mr. BURGESS. Yes.

Senator MARTIN. It is a phase that I just have not fully understood. You brought it out, and I think it is very interesting, and I can see your point very clearly.

(The tabulation referred to is as follows:)

*Relationship of the money supply to total national product and the annual rate of turnover of demand deposits, 1919-56*

Year	Ratio of demand deposits and currency to gross national product	Annual rate of turnover of demand deposits	Year	Ratio of demand deposits and currency to gross national product	Annual rate of turnover of demand deposits
	<i>Percent</i>	<i>Times</i>		<i>Percent</i>	<i>Times</i>
1919	26	36	1938	35	20
1920	27	37	1939	37	19
1921	29	32	1940	38	19
1922	29	31	1941	36	19
1923	27	33	1942	33	18
1924	27	32	1943	37	17 16
1925	27	33	1944	38	16
1926	27	34	1945	44	15
1927	27	36	1946	50	15
1928	27	38	1947	47	17
1929	25	41	1948	42	18
1930	28	34	1949	42	17
1931	31	29	1950	38	19
1932	35	24	1951	35	20
1933	34	22	1952	35	20
1934	33	22	1953	34	21
1935	35	22 23	1954	35	21
1936	35	22	1955	33	22
1937	34	22	1956		24

NOTES.—Ratio of demand deposits adjusted and currency outside banks as of June 30 to gross national product for calendar years. Turnover of demand deposits at member banks at leading centers outside New York City. Turnover data not strictly comparable over entire period because of 2 changes in series.

Source: Federal Reserve Board.

Mr. BURGESS. Well now, it just happens that one of the soundest journalists there is wrote two articles on this subject in the New York Times. The second one appeared on Monday, on yesterday, and the first one was a week before.

The second one contained a few paragraphs that I thought explained velocity of money extremely well. Would you like me to read that? It would not take but a minute.

Senator MARTIN. Mr. Chairman, if you do not object, if we might just put that in the record.

And then any further comment that you might want to make, Mr. Burgess, you make, because that is very helpful. It is kind of a new—it looks very clear to me now, but before you brought it up and made an explanation, I will admit I had not thought of that phase.

The CHAIRMAN. I share Senator Martin's view, and I hope you will elaborate on that.

Mr. BURGESS. I will be very glad to.

The CHAIRMAN. Just one point there. When you say the number of checks, you mean—

Mr. BURGESS. I mean the dollar amount.

The CHAIRMAN. Yes.

Senator JENNER. Read those two paragraphs you started to read.

Senator CARLSON. Read the paragraphs.

Mr. BURGESS. All right. It says:

#### MONEY AND JOBS

Perhaps as simple a way as any to picture the role played by velocity in determining the effectiveness on the economy and the price level of a given volume of money is to place the statistics on money side by side with those on employment.

The most recent figures available show total civilian employment standing at 66.5 million. This is a high level of employment, but, for certain purposes, such as potential production, personal income, consumer purchasing power, or Federal revenues, it is important to know whether the average workweek of these 66.5 million gainfully employed is, let us say, 36.4 hours, or 41 hours. An increase from the lower of these two figures to the higher would represent an increase of more than 12½ percent in the Nation's labor input.

For purposes of rough comparison the 66.5 million figure for civilian employment might be likened to the \$135 billion in money outstanding. Since the second quarter of 1955, when the monetary authorities introduced their restrictive credit policy, the expansion of the Nation's money supply has been held to \$2.4 billion, or about 1.8 percent. As a percentage of the gross national debt it has actually declined from 34.6 percent to 31 percent.

But if the figure on the supply of money may be compared with that of civilian employment, then the velocity of circulation may be said to be a rough counterpart of the length of the workweek. And while the money supply has risen by only 1.8 percent over the past 2 years, its rate of activity has risen by no less than 13.6 percent. The net result of these two changes has been to expand the effective money supply by nearly 15½ percent, a figure exceeding by almost one-quarter the amount by which the national economy has expanded in the same period.

That is the effective money that operates on prices and causes them to go up.

Senator MARTIN. Mr. Chairman, I would suggest that the whole article and also those figures Mr. Burgess has, go into the record.

Mr. BURGESS. The figures run back to 1919. I think it is rather interesting to have them.

Senator MARTIN. It is.

Mr. BURGESS. The way that responds to the changes.

Senator FLANDERS. Those are the velocity figures?

Mr. BURGESS. Those are the velocity figures.

Senator MARTIN. Thank you, Mr. Burgess, for that very helpful and interesting explanation.

(The article referred to is as follows:)

#### SPEEDUP OF MONEY (II)—A FURTHER EXAMINATION INTO WHY TIGHT CREDIT TENDS TO GO FASTER

(By Edward H. Collins)

In last week's piece here the writer sought to stress the importance of distinguishing, at any given time, between the country's money supply, on the one hand, and on the other its "effective" money supply, which is to say the volume of money outstanding multiplied by its rate of activity.

When we speak of the money supply we usually have in mind the sum of (1) demand deposits "adjusted" and (2) currency outside the banks. The most recent figures show these, in round figures, at \$107 billion and \$23 billion, respectively, a total of \$135 billion.

Strictly speaking, it should be pointed out, perhaps, that there are no figures available showing the velocity of the money supply as here defined. Since there is no way of measuring the activity of the currency component, figures on velocity must necessarily be based upon the behavior of the 80 percent of the total represented by demand deposits.

So far as the regularly published figures on velocity are concerned, no attempt is made to cover all of this 80 percent. Three series of figures appear each month in the Federal Reserve bulletin. One is confined to New York City banks, a

second covers the banks in 6 other leading financial centers of the Nation, and the third covers the banks in 337 other centers. Unless otherwise indicated, the series usually referred to, officially and unofficially, is the last named, which is, of course, the most comprehensive, geographically, of the three. The activity, or velocity, of demand deposits is "the ratio of debits to deposits after deducting interbank and Government accounts."

#### MONEY AND JOBS

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But if the figure on the supply of money may be compared with that of civilian employment, then the velocity of circulation may be said to be a rough counterpart of the length of the workweek. And while the money supply has risen by only 1.8 percent over the past 2 years, its rate of activity has risen by no less than 13.6 percent. The net result of these two changes has been to expand the effective money supply by nearly 15½ percent, a figure exceeding by almost one-quarter the amount by which the national economy has expanded in the same period.

#### SQUEEZE LIFTS VELOCITY

At first glance it might seem paradoxical that at the very time when the monetary authorities are directing their policies to halting a further increase in the available supply of credit, the velocity of circulation should decide to rise sharply, thus seeming to defeat the whole purpose of the so-called tight money policy. Actually, as the annual review of the Bank for International Settlements observes, such a development follows quite logically from any central bank policy that seeks to contain the money supply and increase interest rates.

That is why such policies, though usually successful in the long run, frequently have only a modest effect on the volume of spending (and hence the price level) in their early stages, and find their first real response in a rising velocity of circulation. This seeming contradiction is explained by the fact that they bring into play the phenomenon Keynes has defined as "liquidity preference."

When the rates on short-term paper rise sharply, as they have during the past 2 years, for example, this fact has a marked effect on the form in which business keeps its liquid assets. In such a situation the tendency is for business firms to reduce that part of their reserves kept in the form of demand deposits to an absolute minimum, and to put these reserves partly on time deposit and partly in Treasury bills or other short-term paper.

This means that the issuers of such paper come into possession of funds that had hitherto consisted of dormant demand deposits. The related shift to time deposits has a similar effect, inasmuch as the now reduced supply of demand deposits must be used more actively in order to finance the same, or an increased, volume of business.

Only as idle deposits are absorbed into active circulation can the restrictive policies of the monetary authorities be expected to achieve their full effectiveness.

Senator MARTIN. Now, Mr. Secretary, it has been said that the inflation after World War II resulted from the pressure of excessive savings plus current income at that time, set against an absolute shortage of goods that people needed badly.

You have already commented on that, but do you agree?

Mr. BURGESS. Yes. I might want to define the word "excessive." You mean in excess of the amount of goods?

Senator MARTIN. That is right.

Mr. BURGESS. It is not excessive from the moral point of view.

Senator MARTIN. No.

Mr. BURGESS. As the Senator from Vermont will certify, no amount of savings is excessive from the moral point of view.

Senator MARTIN. That has been one of the great strengths of this country.

Mr. BURGESS. That is so. The amount of money available at that time was more than the supply of goods.

Senator MARTIN. In contrast to the inflation after World War II, does the recent inflation reflect the pressure of cumulative increasing wage and other costs which cannot be absorbed by producers, but which inevitably must be passed on to consumers in higher prices?

Mr. BURGESS. I think that is a true statement.

The other day, I said I thought that this present increase in the cost of living, just in the past year, was due to three causes:

One, it was the lag from previous things that had taken place. Going back to what you said earlier, I think in this economic business we always ought to remember the old biblical expression, "The Fathers have eaten sour grapes, and the children's teeth are set on edge." That we suffer now or benefit now from things done many years ago, and last year, and the year before, and so on.

So I think these cost-of-living figures now are showing the effects of things which have been done over the past decade, in part.

Also, the factor you mention is a very great factor, that wage costs and service costs have gone up very fast. That is not just union labor. The hiring rate for college graduates is not determined by union rules. It is competition in the market.

And you see these great spreads in the newspapers every Sunday, of what they will pay engineers and other young people coming right out of college. It gives them a totally erroneous idea what the world is like. But that is the result of supply and demand.

Senator MARTIN. If I might be permitted to say, I noticed there are several places now where they have an oversupply of engineers. I presume they are probably men who are not competent. That is probably it about as much as anything.

But, nevertheless, I do not think it is good to advertise those things to our young men, because there is just no easy way to attain efficiency.

Mr. BURGESS. I think it gives a false impression of what the situation is going to be.

Now, the third cause of this situation, I think, is the capital boom, the tremendous capital expenditures which are piled on top of the other two causes.

Senator MARTIN. You mean by that, buildings—

Mr. BURGESS. The building of office buildings, of State-municipal projects. You see, the State and municipalities have increased their debts \$5 billion a year in the past 3 years.

A great deal of unhappiness among State and municipal people exists about the interest rates they are paying, and I sympathize with them. But the fact is, they have borrowed more money in these 3 years than ever before in their history, and there just is not that much money of that sort available.

Their demands have overflowed the banks of the tax-exempt market, so they have to sell their bonds to people for whom the tax exemption is not of great value, so their rates have gone up faster than interest rates in other places.

But they cannot blame the Federal Government for that. They are just trying to borrow more money than there is available.

Senator MARTIN. Well, you mentioned a while ago looking backward, and a lot of people criticize that, but when I was a young man, we gave a whole lot of consideration before we built a new courthouse or before we built a new schoolhouse.

Mr. BURGESS. That is right.

Senator MARTIN. We began by figuring first whether or not we could afford it.

Mr. BURGESS. And some of these buildings that are being built, schoolhouses and courthouses, and so forth are——

Senator FLANDERS. Mr. Chairman.

That is in the Bible, too.

Senator MARTIN. Thank you.

Mr. BURGESS (continuing). Are somewhat more expensive than they need to be, to put it mildly.

Senator MARTIN. Let me tell you, I sometimes think if we would all get back to statements we find in the Bible, we might be on more secure ground.

Mr. Secretary, I am now going to ask you some questions relative to agriculture. I am not going into that very much, because Senator Carlson is so much better qualified to do that than I am, but I do want to bring it out at this time, this morning, because I think it has quite a bearing.

I am one of the folks who still feels that agriculture is a most important segment of our economy, and we have got to keep it up.

Much is made about the falling behind of the farmer in net income. Besides lower prices received in earlier years, the farmer is also faced by increasing costs of equipment and material used in farming.

For example, the prices of some important items have increased, according to the United States Department of Agriculture, as follows:

Item	Average 1947-49	1952	June 15, 1956	June 15, 1957
Tractors under 20 horsepower.....	\$1, 260	\$1, 520	\$1, 430	\$1, 530
Tractors under 30-39 horsepower.....	2, 100	2, 710	2, 740	2, 980
Cultivators.....	195	253	273	294
Combines.....	2, 580	3, 390	3, 600	3, 870
Farm wagons.....	143	158	168	179
Trucks, 2-ton.....	1, 960	2, 280	2, 540	2, 870

These are but a few of the examples of items in farmers' costs of production. Prices which include repeated wage increases, escalator clauses, and other costs, which must be paid by farmers, and all too often cannot be passed on by farmers, but must be absorbed out of their marketing returns, thereby reducing their net income.

I would appreciate it very much if you would comment on this, but I want to repeat again, I want Senator Carlson to go more in detail relative to agriculture than myself.

Mr. BURGESS. Well, Senator, I do not have any particular expertness in agriculture. I will say, my wife and I operate a small farm on a very modest scale. But what you say is absolutely correct about the farmer.

It is one of the results of inflation, when we have had the experience in two world wars that inflation puts farm prices up, first; but the latter stage is worse than the former, because when they come down, the other prices continue crawling on up, and the farmer finds himself at the end of the period very much worse off, as he has this time.

And I do not know any sure cure. One has to work his way out of this gradually and let nature take a hand, at least gradually to put the thing in better relationship.

Senator MARTIN. Now, Mr. Secretary, I would like to go into another field.

If other countries are faced with this same inflationary problems as the United States, I would like to know what action they have taken. To what extent have prices risen in Germany since the end of the war, and to what extent have they risen since 1952, if you have such information available?

Mr. BURGESS. Well, you warned me that you might ask about that. In Germany, the cost of living index is up 39 percent since 1946. A good part of that was in the first 2 years. They had their monetary reform in 1948, in which they revalued their money and simply extinguished a lot of credit.

And after 1948, their index is only up from 122 to 139. That is, over that period of 8 or 9 years, it has been very stable, and they have done that by the very time-honored methods.

I think I might quote that.

Senator MARTIN. I wish you would go into that rather thoroughly, Mr. Secretary.

Mr. BURGESS. All right.

Senator MARTIN. Because I think—and at that point, without objection, I would like to put into the record a statement by David Lawrence.

Mr. BURGESS. Yes.

Senator MARTIN. Now, some of the figures here are the same as I had in my statement, but it is some comment by David Lawrence, which I think might be helpful to us, and I will ask to have that placed in the record at this time.

(The article referred to is as follows:)

[From Washington Evening Star, Thursday, August 1, 1957]

**MANY NATIONS' MONEY DECLINES—NINETEEN COUNTRIES' PURCHASING POWER FOUND TO BE SAGGING WORSE THAN UNITED STATES**

(By David Lawrence)

They can't blame President Eisenhower, but some of the very same troubles that have drawn the fire of critics here are plaguing many of the other nations of the world.

Thus, Britain has found it necessary to increase postal and telephone rates in order to meet wage increases to postal workers.

Likewise, the British Information Service is being given a sizable increase in appropriations in order to maintain and expand television, radio, and movie programs overseas—a sharp contrast to the lack of vision of the American Congress

in cutting down sums needed in the worldwide fight against the Communists. The Moscow government is spending for propaganda 10 times what Britain and America combined are appropriating for that purpose.

But for the most significant discussions appearing in the press of the world concern the topic of inflation. The British Secretary of the Treasury, in a public speech to the people of Britain, said the other day:

"If a nation pays itself 7 percent more for doing no more work, as happened last year, price increases will follow as night follows upon day. No economic or governmental magic, no system of controls can stop that process. Before those price increases thus generated are to form the basis for another round of wage increases, the country should ponder the damage which could be done to the nation and all who work in it \* \* \*

"The truth is that this nation must either squarely face the problem of inflation and accept the policies necessary to check and curtail it or else it must face a continual decline in the value of its currency."

The facts about the decline of currencies in all countries of the world are not generally realized.

For the American dollar today is worth only 28 cents in purchasing power as compared with 1900. Since 1940 the dollar has been steadily declining in value and, compared with 1940, now is worth around 50 cents in what it can buy.

In the last 10 years the American dollar has gone down 20 percent, the British pound has declined more than a third and the French franc has dropped by almost two-thirds. Here is a table, compiled by U. S. News & World Report on the drop in the purchasing power of money of various countries from 1947 to 1957:

	Percentage down		Percentage down
Chile.....	94	Norway.....	33
Brazil.....	72	Netherlands.....	32
Japan.....	65	Denmark.....	30
Greece.....	65	Canada.....	29
France.....	63	Ireland.....	29
Finland.....	59	Italy.....	27
Australia.....	53	West Germany.....	24
Mexico.....	47	Belgium.....	22
Britain.....	38	United States.....	20
Spain.....	38	India.....	18
Sweden.....	34	Switzerland.....	11

Relatively speaking, the American dollar has stood up better than all of the 21 other countries except 2.

Some of the countries where currencies appear strong have been experiencing vast unemployment, which has curbed inflationary tendencies. Full employment, on the other hand, has set up a pressure for higher wages, and this in turn has resulted in higher prices.

America's inflationary troubles were really intensified by the impact of World War II and of the Korean war in 1950. Lately there has developed what Under Secretary of the Treasury Burgess describes as "a capital goods inflation." Shortages of plant and equipment, the natural development of which was interrupted and delayed by the Korean war, now have brought new demands for money.

The economic readjustment of the world to so-called peacetime conditions—with huge arms programs continuing to drain governmental budgets—is still far from a reality.

Senator MARTIN. Now, you go ahead, and I would like for you to go into it rather thoroughly.

Mr. BURGESS. Well, I was interested in quoting again from David Lawrence's magazine. He quotes Ludwig Erhard, who is the Economics Minister of Germany, who is a very astute and vigorous person. He just picks up four points that Erhard makes.

He said, first, there should not be an easy-money policy. Second, governments should avoid deficit spending. Third, employers have the duty to resist wage increases that must be followed by price increases. Fourth, wherever a free market economy prevails, there are sound currencies.

Now, those are really the four principles on which Germany has stabilized her money.

Senator MARTIN. In your vast knowledge of economic matters, will you comment on what you think of those four principles that he expounded?

Mr. BURGESS. Germany is about as dramatic a case as any you could see. I was in Germany in 1946. I visited Berlin, which was a completely devastated city. When we went to lunch at the American guesthouse, we inquired what tip we should put beside our plate, and they said, "Well, the best thing you can put is two cigarettes," because their money was useless. So the best thing you could give them were cigarettes.

Now, the German Government took hold of this thing, not with any novelties, but with just exactly these principles that Erhard has suggested.

They got, or we got—it was a combination—Joe Dodge, who later became Director of the Budget in this country, who at that time was a banker in Detroit, and they worked out what was called the Dodge plan, which was a plan for cutting down the excess money. If you had a deposit in the bank, they cut about nine-tenths of it off. Then they started a new currency, and that new currency from the beginning was controlled. They put the interest rate way up. Then they got their Government budget under control and then they started freeing their markets from controls just as fast as they could.

Now, they followed the same policies—you might be interested in a list of the things that they have done in this current inflation, just since 1955. We just made a list and thought it might be interesting to have.

In January to June 1955, the Central Bank sold on the open market securities of about \$150 million worth.

August 1955, they increased the Central Bank discount rate from 3 to 3½ percent.

September 1955, they increased the banks' reserve requirements.

January to June 1956, they reduced import duties on selected articles by substantial amounts, freeing the markets.

March 1956, they increased the Central Bank discount rate to 4½ percent, jumped it a whole percent.

May 1956, they increased the Central Bank discount rate to 5½ percent, another whole percent up. They have got it back now, I think, to 5 or 4½.

July 1956, they reduced the tariff on all imports in the industrial sector and some agricultural imports by 25 percent.

August 1956, they reduced the coverage allowed on export guaranties, that is, they didn't subsidize their exports so much through credits, I mean.

November 1956 and April 1957, they removed quota restrictions on certain imports, that is, gradually freeing up those markets.

May 1957, they increased bank reserve requirements.

May 1957, they lowered the banks' rediscount ceilings 15 percent. That is, the ceiling is the amount they would allow the banks to borrow from the Bank Deutsche Laender, and they lowered that so they could not borrow as much money.

May 1957, they removed dollar import quota restrictions, also on imports from nondollar, non-OEEC countries. You see, they do that step by step.

May 1957, reduced the rediscount line of the export credit company of the Central Bank by \$25 million, shutting down again.

June 1957, they announced a plan to reduce tariffs another 30 percent on a range of articles.

Then July 1957, just a few days ago, they announced the Central Bank will buy export drafts only after the merchandise has already been forwarded in order to reduce credit extension to exporters.

So what they have done, even with a good record of stability with this inflation that sprung up in the past year, is to put on the credit brakes in a way that makes ours look like nothing at all. And they have preserved their price level as steady as ours, a little better, just the last year or two.

Senator MARTIN. Thank you very much, Mr. Secretary.

Now, we will go to France. To what extent have prices risen in France since the end of the war, and to what extent have they risen since 1952, and what is the present policy of the French Government?

Mr. BURGESS. In France, taking 1946 as 100, their prices are now 408. That is, their prices have increased four times, quadrupled.

If you take it since 1952, the fact is we have not any very good figures, their index shows they are only up 2 percent since 1952.

The CHAIRMAN. What was that first date?

Mr. BURGESS. The first date was 1946 to 1957; in those 11 years prices have quadrupled.

Now, in the past 4, since 1952, there was practically no change in their official index, but that is not a true reflection of their situation. In the past year and a half, they have lost almost \$1 billion of their gold and dollar reserves because they have allowed people to import goods too freely. In that way they have tended to keep the price level, domestic price level down, but they have bought it with their gold reserves. So at present France is in a critical position, and they are trying to get their budget in shape. Their budget is very badly out of balance. They have had very bad luck on that because ever since World War II they have been engaged in a war of one sort or another—Indochina, Algeria, Suez—so they have had bad luck.

And on the other hand they have been plagued by political difficulties so that they are always making plans for balancing the budget and restraining credit and then the fellow who makes the plans gets thrown out of office. But they are trying very hard now to improve their situation, and we all hope this time it will go better.

Senator MARTIN. Thank you very much.

Now, we will go to England. To what extent have prices risen in England since the war and to what extent have prices risen since 1952?

Mr. BURGESS. Well, in the United Kingdom they have had a greater inflation than in Germany and a greater inflation than we have had. Prices have risen 71 percent, the cost of living index, 71 percent, since 1946; whereas ours has risen 43 percent. Germany is 39.

If you take since 1952, the United Kingdom is up 18 percent, Germany is up 4 percent, and we are up 5 percent. So they have not done quite as well as Germany or we, or, for that matter, some of the other

European countries like Belgium or Holland. They have had their problems. Of course, as you know, they devalued once during that period, they devalued their currency, which tended to chase their prices up.

The CHAIRMAN. What did you say ours has gone up, what year?

Mr. BURGESS. Since 1946 it has gone up 43 percent and since 1952 it has gone up 5 percent.

The CHAIRMAN. Since 1939 it has gone up 100 percent?

Mr. BURGESS. That is right.

The CHAIRMAN. A little over 100 percent?

Mr. BURGESS. That is right. We have done better than most anybody else, but that does not mean we have done as well as we should.

The CHAIRMAN. How much has England gone up since 1939?

Mr. BURGESS. It is more than double. Have we got that?

Yes, we have got that here. The United Kingdom is up 159 percent since—this is 1937, but that is the same thing practically. That is, the index is 2.6 times the earlier date. It has gone up 1.6.

Senator MARTIN. Mr. Secretary, I do not want to burden you with all of the countries; neither do I want to burden the committee; but I wonder if you would want to make any general statement relative to current inflation out over the world?

Mr. BURGESS. Well, Mr. Senator, they practically are all having it. It is a problem we meet every day. Tabulations are made by the Bank for International Settlements or by the International Monetary Fund, and I do not believe there is a country in the world today that is not plagued by this same inflationary pressure. And in general it is for the same causes, that they are trying, as you stated it, very well, I think, they are trying to do a little more than they have got the resources to do. They are trying to pay themselves and spend more than they earn, and the prices are going up practically everywhere.

Senator MARTIN. Well, thank you very much.

Mr. BURGESS. I might add, Senator, that we see this thing working every day through the eyes of the International Monetary Fund, which has its headquarters here.

They have proved a very useful organization because they make a constant study of the situation in these countries. They review the picture of each country, and those countries come to the fund to want to borrow money so that the fund has to determine what policies they will adopt in deciding whether a country is a good risk or not.

We have had 4 or 5 of the countries of Latin America in to the fund just in the past few weeks, and I can tell you that the fund, which represents about 60 countries, has a board of directors of some of the best international minds on this matter. They have the same standards about whether they will lend to a country that Mr. Erhard set forth in the quotations I read and that Senator Douglas set forth in his report in 1950. They will not lend money—and a good deal of it is our money because we put up the dollars that those people use—they will not lend to a country unless it gets its budget in order, unless it is following a vigorous monetary policy of restraint, so that they keep their inflation at least in reasonable hand, and until they are—have got their currency tied to a standard value, using the dollar in most cases because the dollar is the standard of value for the world.

Now, some of those countries are using other methods. They are in such bad shape that these methods alone will not do it. Some of them have to use selective credit controls. A lot of them have exchange controls, export and import controls. You see, those countries, most of the countries of the world, when they follow a wrong course, get pulled up pretty sharp pretty soon because when they follow wrong courses in their budget and money and have an inflation, they begin to lose their gold reserves or their monetary reserves and then they are broke. They go broke quicker.

Our trouble is we are so rich, we have got so much reserves and we are so much more productive than the other countries of the world that we can commit a good many of the sins in the Decalogue for some time before it catches up with us.

Senator WILLIAMS. Is that a trouble or a blessing?

Mr. BURGESS. Well, it is a little of both, Senator. It is a very pleasant situation to be in; but sooner or later those things tend to catch up on you. Senator Flanders will give you the Biblical quotation for that one, too, I am sure.

Senator MARTIN. Mr. Secretary, this is very interesting and helpful, but now before we go further, I would like to ask you this question: Are there any countries that have either held the line since 1946 or 1952 or strengthened their currency?

Mr. BURGESS. Well, there are a good many that have strengthened their position a great deal. I have been to Italy, for example, and have been over their situation. I think what Italy has done in a very difficult situation has been quite extraordinary. They have kept their inflation down since 1952. They have only had a 12 percent increase in their cost of living. And when you consider the strains on Italy and its limited natural resources, it is good, and the way they have done it is just the good old-fashioned classical way of a firm monetary and fiscal policy.

They have a wonderful fellow there who runs the central bank and he has a hand as firm as I have seen. He has a great influence in keeping the government from spending too much or following easy money policies.

They followed——

Senator MARTIN. Mr. Secretary, if I might interject, he is kind of the Harry Byrd of Italy.

Mr. BURGESS. There is a great deal to that. I would second that point.

Senator MARTIN. Does it not usually take some very firm man or a collection of men to keep a stable currency?

Mr. BURGESS. Yes; I would say a collection of men.

Now, Italy was very fortunate not only in having the head of the central bank who was good, but they had a wonderful old man as President, Einaudi, who was an economist, he had been a teacher of economics in college, and he believed all these good classical rules that we have been trying to follow, and it worked in Italy.

You take the case of Greece. Greece looked to be just about as hopeless as any country in the world, and yet they have got their inflation under control.

How have they done it? Just in the good old-fashioned way.

The CHAIRMAN. Explain that now.

Mr. BURGESS. They have not made money easy. They got their budget under control and they have exercised a firm credit policy. We had one of our Treasury boys over there as a Treasury attaché, a very able fellow who helped them with that.

Now, Greece, heaven knows, has not got very large natural resources, and they are subjected to all kinds of pressures. We have given her some aid, which I think has been handled well and usefully. But a few years ago the situation in Greece looked practically hopeless. It just shows what a sound policy will do.

Austria is another case. It is right under the shadow of the Iron Curtain, and she has handled her affairs well and is coming out much better than you would have expected.

But you can take case after case. In Latin America for example, I can illustrate it time after time after time, Senator, and none of these countries has pulled through and has made its situation livable for the common man in any other way that I could see other than by the good sound classical methods.

Senator MARTIN. Mr. Secretary, should not that be the objective of all of us, to make it sound as far as the common run of man is concerned?

Mr. BURGESS. That certainly should be our objective at all times, all the time.

Senator MARTIN. Could you give us an illustration of a South American country where they have handled this most satisfactorily?

Mr. BURGESS. Well, Peru. Peru was having a very serious inflation, and they got in a team of economics experts, a very good team, who reviewed the whole situation. They sent a man from the Monetary Fund. They looked into the situation very carefully. They adopted an exchange rate that was realistic. They got their budget in better order. They adopted a firm monetary policy. We gave them a small line of credit from the Treasury from our stabilization fund.

The Monetary Fund gave them a credit. They have not had to use it, because with the pursuit of sound policies, they made out all right.

There are some other countries trying it and working out programs, and it is tremendously encouraging to see the number of countries that are making a good honest try and not letting a political point of view dominate their economic thinking.

Senator MARTIN. Mr. Secretary, are there any cases where money supply has been increased to keep interest rates low, with a resultant inflation?

Mr. BURGESS. Many. That is what happens typically. When they keep money easy, do not balance their budgets, then they are off to the races, and you can give any number of cases of that sort.

Senator MARTIN. Mr. Secretary, is not keeping balanced budgets and government pay as you go one of the most satisfactory and soundest economic policy that we could pursue?

Mr. BURGESS. Well, sir, I think a sound fiscal and monetary policy, sound budgetary policy and a sound and courageous money policy are two of the greatest instruments we have ever discovered for keeping currency stable, keeping the cost of living stable, and providing an atmosphere in which the ordinary man can make social progress. They are the best methods we know.

Senator MARTIN. Mr. Secretary, we have discussed quite extensively the International Monetary Fund and things like that—inflation in other countries—and you have already discussed this to some extent; but I think it is so important: What do you feel you have learned from your experience with other nations along the lines that we have just been discussing?

Mr. BURGESS. Well, sir, I think I really have just summarized that: that watching these countries as they try to strive for the higher standard of living we have in this country, that the ones which have made the greatest success are those which have followed, first, sound fiscal policies with their budgets; second, sound monetary policies; third, that have tried to keep their currencies stable in relation to gold and the dollar.

I must say that a number of them have used other methods. There have been other methods used of credit control of one sort or another, exchange control or credit control. When a country is in bad enough shape, those first things are essential, but they are not quite enough.

Now, in England they are trying a very interesting experiment with what they call the Capital Issues Committee. Nobody can borrow big sums of money without the permission of that central committee. That is true of bank loans; that is true of capital issues in the market. They actually exercise it with a fairly lenient hand. They do not try to step in and dictate too much. But in their situation, they felt they could not handle the problem of inflation without some credit control of that sort.

Of course, in France they just introduced some further import controls. That is partly because they have not been able to do these basic things.

But the main things are the ones I have emphasized.

Senator MARTIN. If we would do any of those things in our country, I suppose, there would be very serious criticism, objection, because we are controlling the individual?

Mr. BURGESS. Well, our belief, Senator, is if we do control the basic things, budget, our monetary policies, let our central bank operate the way it was intended to by the law and not interfere with it, and not go off on this easy money tack, if we do that, if we keep our dollar nailed to this \$35 an ounce for gold—that those are the essential things and that we would not have to put in a lot of these fancy controls all of which are directly contrary to the American way of thinking. We do not believe in controlling the individual lives of people.

Senator MARTIN. Of course, we all talk that we want the free enterprise plan of economy in our country to work, controlled by the law of supply and demand. And still when we now talk of easier money for housing; and the governors, the Council of Governors of the United States passed a unanimous resolution asking for lower interest rates, and so on—we have all got to take a responsibility, and there may be political casualties; but it is just, to my mind, it is just as important to have a stable economy as it is to win a war when you are engaged with a country that is trying to destroy the freedom of the individual. Is that about correct?

Mr. BURGESS. I agree, sir.

Senator MARTIN. I apologize, Mr. Chairman, for taking so much time.

The CHAIRMAN. That is all right. I think this is a most interesting testimony.

Senator MARTIN. The Secretary, I know, has given a lot of things which have been very interesting to me, and I hope it will be helpful to the members of the committee.

Mr. Chairman, this may be interesting and encouraging to you and to Mr. Humphrey and to Mr. Burgess. I was at a military camp not a great while ago, and some junior officers, quite a group of them, approached me and said: "We would like to talk to you a little bit. We have been following the Finance Committee hearings. We are interested very much in a stable economy. We are young businessmen. Some of us are getting military compensation, and we want to make some suggestions to you." And this was the surprising thing to me. They said: "You men on the Finance Committee should lower taxes."

Then I said: "How would we pay the bills?" They said: "We as individuals, if we do not have the money, we cannot buy things. If you folks would just cut taxes, then the Government"—then I said: "They will borrow the money." They had gone to a surprising extent. They said: "Then you keep the ceiling on the debt."

Well, I said: "How about your State?" Well, it was up in the Commonwealth of Pennsylvania. They said: "Well, the same thing, the legislature must not appropriate so much money. Keep taxes down." Well, I said: "Maybe they will not do it." They said: "Well, then, we will elect members to the legislature that will carry that policy out."

I said: "How about local governments, your town and city councils and your county commissioners?" They said: "Well, we are going to elect men to keep taxes down." They said: "If you will keep taxes down and will not let them borrow the money, we will take care of this thing."

And I was really surprised at the interest they were taking; and you know that what they were suggesting was not so bad after all. But the thing that encouraged me was those young men, still in uniform, serving their country, that they were also interested in the economic side of things. They had talked it over at their mess and they appointed a committee to come and talk to me. And I tell you, after they had gone, I almost had tears in my eyes, because of the real patriotism of those young men.

Now, Mr. Secretary, we will get over to the Federal Reserve now.

The CHAIRMAN. Senator Martin, will you just permit a few questions?

Senator MARTIN. Yes.

The CHAIRMAN. Mr. Burgess, I understood you to say that sound fiscal and monetary policies would prevent inflation. I would like you to evaluate the increased labor costs above productivity.

Mr. BURGESS. Yes.

Mr. CHAIRMAN. Many people believe that is one of the causes of this present inflation.

Mr. BURGESS. Well, I think it is; and while I have emphasized fiscal and monetary policies, I have also said that they cannot do the job alone. I have said some other countries had to use some other methods. I think in this country we do not want to use detailed credit controls. That is contrary to our way of thinking. And I think we

have got to consider the ways in which business people and individuals can handle their own affairs in a cooperative way with the Government and do their share in stopping inflation, because the Government cannot do it all alone. The Government has the greatest responsibility, but they cannot do it all alone.

There is no doubt in my mind what you say is right, that in many cases—

The CHAIRMAN. That is, where the increase is above the productivity?

Mr. BURGESS. That is right.

The CHAIRMAN. Yes.

Mr. BURGESS. And there is one problem about compensation that is a very difficult problem. In some industries they have been able by labor-saving devices, by machinery and so forth, to get the productivity, and suppose you just pay the wage equivalent to the increase in the productivity. Well, that is fine for that industry. They can go on.

But what about the neighboring occupation, whether it is shining shoes or a tailor shop or working in the household, or what have you, they are not going to work for wages less than they can get in the factory. So that this thing laps over into occupations where you cannot get that increase in productivity in any way we know now. That is one of our problems.

So in those other occupations with a salary scale set perhaps quite properly, by great increases in productivity, the scale set by that means that in many cases you have to increase compensation much faster than the productivity; that is one of the causes of inflation.

The CHAIRMAN. Thank you.

Senator MARTIN. Thank you, Mr. Chairman.

If I understand the policies of the Federal Reserve, these are not designed to raise interest rates, but instead, are designed to permit the supply of credit to increase less rapidly than the demand for credit. Is that not so?

Mr. BURGESS. Well, I think it is fair to say this: Their primary responsibility is for the volume of credit. They do not want the volume of credit to get out of hand and raise prices.

I think there come times when the central bank has to raise interest rates as one of its implements, raise the discount rate. Now, that was true in this record I showed in Germany. At times they did not just operate on the supply of credit. They put up the interest rate as a warning to people that you cannot carry this any further.

Now, that has a direct effect in making it more expensive for people to borrow at the central bank, but it may be used as a psychological method.

I do not think our Federal Reserve System in this period has used this instrument. They have been working on the supply of credit. They have been adjusting their rates as the market changed. They have not led the market, and they have not used the rate in a "meat axe" kind of way. They have not felt the situation justified it. We all hope we can work out of this period without these abrupt increases in discount rate.

Of course what we have had is nothing, talking about high rates here. I noticed the letter of the First National City Bank, which has been handed to me this morning, gives the prime loan rates in various

countries; and the United States is at the bottom of the list. Our prime loan rate in our banks is 4 percent.

Senator MARTIN. Mr. Chairman, I would suggest that that be put in the record. I was trying to get hold of that, but I did not have it. I think it will be—

The CHAIRMAN. Did you want the whole thing?

Mr. BURGESS. Just a little table.

Senator MARTIN. Just the table.

The CHAIRMAN. Without objection, the table will be inserted in the record.

(The table headed "Current Prime Loan Rates in Various Countries" is as follows:)

*Current prime loan rates in various countries*

	Rate		Rate
Bolivia	<sup>1</sup> 16	Iraq	6-7
Korea	12-15	Singapore	6-7
Chile	12-14	Spain	6-6½
Greece	12	Colombia	6
Brazil	12	Dominican Republic	6
Israel	11	El Salvador	6
Peru	11	Guatemala	6
Ecuador	10	Liberia	6
Austria	9½	South Africa	6
Mexico	9½	Venezuela	6
Germany	9	India	5½-6½
Japan	9	Egypt	5½-6
Finland	8-8½	Hong Kong	5½-6
Argentina	8	Australia	<sup>2</sup> 5½
Uruguay	8	Canada	5½
Iran	7½-8½	Netherlands	5½
Italy	7½	Great Britain	5¼-5½
Turkey	7-9	Philippines	5-7
Denmark	7-8	Belgium	5-5½
Syria	7-8	Portugal	5-5½
Costa Rica	7	Cuba	5
France	7	New Zealand	<sup>1</sup> 5
Honduras	7	Panama	5
Lebanon	7	Norway	4¾
Nicaragua	7	Switzerland	4½
Sweden	6½-7	Puerto Rico	4¼
Ireland	6¼	United States	4

<sup>1</sup> Not including 9 percent representing tax and other charges.

<sup>2</sup> Trading banks average rate.

Senator MARTIN. Make any comments you wish to.

Mr. BURGESS. I would say the average rate of the more advanced countries is about 5½ to 5 percent. Sweden is 6½ to 7; India, 5½ to 6½; Hong Kong, 5½ to 6; Australia, 5½; Great Britain, 5¼ to 5½; and we are 4 percent. The nearest to us is Switzerland, 4½. Norway is 4¾.

Senator MARTIN. Thank you very much.

Mr. Secretary, on the other hand, I assume, as is almost always the case when the supply is smaller than the demand, there is an incidental effect of an increase in price; in this connection an increase in the price of money, or an increase in interest rates; is that correct?

Mr. BURGESS. Well, it is bound to be when the demand is greater than the supply, the price goes up unless somebody interferes and tries to hold it down.

Senator MARTIN. Mr. Secretary, in the course of these hearings, it has been implied that since we have comparatively high interest rates at the same time that we have some recurrence of inflation, this demonstrates that higher interest rates cause inflation. Will you give us your views as to the conclusion?

Mr. BURGESS. Well, as I said at the opening, in my statement, I was interested in hearing this theory about interest rates being the cause of inflation, but I guess I must be old fashioned or something and my observation of the way things happen may be defective because I am just totally unable to see it.

I think interest rates, of course, are part of the cost of production—a very small part. They are the result of inflation, of a demand for credit greater than the supply. The price goes up. It is the result, and not a cause.

Senator MARTIN. You may not have these figures. Since it is argued that higher interest rates caused inflation, I asked you to get for me information as to the comparative costs of interest and labor in certain industries.

Mr. BURGESS. Well, Senator, in his original testimony, Mr. Humphrey put a lot of figures in the record on that, showing for manufactured goods and for public utilities and farmers, and so on, the percentages that interest rates are of total costs. And they showed pretty well that interest rates were a minor cost.

In public utilities, interest expenses are one of the largest, they are 4 percent of gross revenues, a little less than that.

Agriculture, he estimates that of the farmers' costs, 5 percent are interest costs.

But we got out some figures from tabulations of our income-tax returns for industrial corporate groups which show that, for two periods, 1952 and 1954, there is a little lag on these, you cannot get these too quickly, but these figures show, compiled from our income-tax returns, the total interest paid in different industries in relation to their total expenses.

Now, these expenses are called total compiled deductions. That simply means expenses, expenses which can be computed as an income-tax deduction. Here is the way it reads: Primary metal industries have total expenses, total compiled deductions, of \$18.727 billion, and total interest paid of \$138 million. Or the interest paid is 0.7 percent of their total expenses.

Now, that does not cause inflation in prices. That was in 1952.

Senator MARTIN. 1952?

Mr. BURGESS. The exact figure is 0.74 percent. It is seventy-four one-hundredths of 1 percent.

The CHAIRMAN. What was the rate of interest there?

Mr. BURGESS. The rate of interest in 1952—well, suppose you take the prime bank rate, it would have been 3 percent was it not, Bob—around 3 percent?

Mr. MAYO. That is right.

Mr. BURGESS. So the rate is up 1 percent.

The CHAIRMAN. Is the prime rate 4 percent now?

Mr. BURGESS. Yes. The off-prime rates are a little more.

In 1954 there were no great changes in interest rates. It was lower, if anything. The percentage of interest to that total expenses was 0.75, that is, seventy-five one-hundredths of 1 percent.

In fabricated metal products, the total expenditures were \$11.7 billion. Interest paid was \$38 million. The percentage of interest to the total expenditures was thirty-two one hundredths of 1 percent.

You see, you could double that and it would not make any real difference in your expenses of doing business. So to say that is the cause of the higher prices is just ludicrous.

The CHAIRMAN. Well, on the \$800 billion total that we now owe——

Mr. BURGESS. Yes.

The CHAIRMAN. What do you think will be the effect of the new Federal interest rate you have established at 4 percent?

Mr. BURGESS. I would say it would still be less than 5 percent in total. You mean the overall interest rate?

The CHAIRMAN. Everything. The \$800 billion owed in this country.

Mr. BURGESS. It would be way under that. Of course, that includes States, municipalities, and it includes the Federal Government.

The average interest rate now on the total Federal Government obligations now outstanding is 2.7. You see, there is still a great deal outstanding at the lower rate.

The CHAIRMAN. You anticipate continuing increases, do you not?

Mr. BURGESS. I think they will be increased as long as these rate levels continue, but I do not expect them to continue, Senator. I think these are a temporary situation in this inflationary period.

The CHAIRMAN. Could you make a rough estimate for the record as to what you think in the present atmosphere the interest rates on these bonds coming due—I am speaking of private bonds, corporations, and so forth?

Mr. BURGESS. Yes.

The CHAIRMAN. What would be the total interest that we would pay?

Mr. BURGESS. Yes. I think we can make——

The CHAIRMAN. \$800 billion.

Mr. BURGESS. Yes.

The CHAIRMAN. When, 4 years ago, was it not, we owed \$600 billion?

Mr. BURGESS. That is right.

The CHAIRMAN. Yes, please, for the record.

Mr. BURGESS. That will be a pretty rough estimate, Senator.

The CHAIRMAN. Well, take a shot at it, projected 12 months ahead, because the interest rates are going up.

(The information requested is as follows:)

The table below is based upon estimates prepared by the National Income Unit at the Department of Commerce, except for the Federal Government interest where we have used Treasury figures on the interest on the public debt. The estimates for 1957 are very rough projections of trends made by the Treasury in response to the above request of the chairman. Further refinement of these data for 1957 or for years beyond 1957 would be purely in the realm of guessing.

*Monetary interest paid by business, consumers, and Government*

[In billions of dollars]

Calendar year	Business <sup>1</sup>	Consumers <sup>2</sup>	Government		Total <sup>3</sup>
			Federal	State and local	
1939	5.6	0.8	1.0	0.8	8.2
1940	4.9	.7	5.0	.6	11.2
1941	5.6	1.0	5.0	.5	12.1
1942	6.3	1.3	5.3	.6	13.6
1943	6.9	1.6	5.5	.6	14.6
1944	7.6	2.0	5.6	.6	15.8
1945	8.8	2.2	6.0	.7	17.7
1946	9.9	2.5	6.1	.7	19.2
1947	11.1	3.0	6.4	.8	21.3
1948	12.2	3.3	6.6	.9	23.0
1949	13.6	3.8	6.5	1.1	25.0
1950	15.5	4.3	7.0	1.2	28.0
1951 (estimated)	17.0	4.7	7.3	1.5	30.5

<sup>1</sup> Including all mortgage debt.<sup>2</sup> Households and nonprofit institutions, mortgage interest is shown under "Business."<sup>3</sup> Interest as a component of personal income differs from this concept in that it includes not only total monetary interest paid (less monetary interest received by business and government) but also net interest received from abroad and net imputed interest.

Source: Department of Commerce and rough projections by Treasury for 1957.

Mr. BURGESS. These figures, I do not need to read them in detail, but here are the percentages: Motor vehicles, twenty-three one-hundredths of 1 percent; textile products, forty-three one-hundredths of 1 percent.

Senator LONG. A little slower, please. Motor vehicles?

Mr. BURGESS. Motor vehicles, twenty-three one-hundredths of 1 percent. That is 0.23. Textile products, 0.43, forty-three one-hundredths of 1 percent. Crude petroleum and natural gas, that is 1.22 percent. That is the highest percentage of interest rates to total operating expenses. Petroleum and coal products, 0.40. Construction, thirty-three one-hundredths of 1 percent. Those are for 1952.

Senator LONG. Construction is what?

Mr. BURGESS. 0.33.

Now there is another interesting point here. If you take—some of these corporations receive interest as well as pay interest. They invest in United States Treasury bills or they have subsidiaries that pay interest to them, or they have other securities of one sort or another.

If you take their net interest paid, in the case of motor vehicles, for example, their net interest paid is a minus; that is, they receive more than they pay out, because some of them sell their cars for their own account on time and they get interest in.

But I will be glad to put these in the record.

Senator MARTIN. I would suggest, Mr. Chairman, I think that would be interesting to all of us, if you just put those in the record.

(The tables headed "Net Interest Paid Compared With Total Compiled Deductions, 1952 and 1954, by Selected Industrial Corporate Groups" and "Interest Paid Compared With Total Compiled Deductions, 1952 and 1954, by Selected Industrial Corporate Groups" are as follows:)

*Interest paid compared with total compiled deductions, 1952 and 1954, by selected industrial corporate groups*

[Dollars in millions]

	1952			1954		
	Total compiled deductions	Total interest paid	Percent of deductions	Total compiled deductions	Total interest paid	Percent of deductions
Primary metal industries.....	\$18,727	\$138	0.74	\$18,315	\$138	0.75
Fabricated metal products <sup>1</sup> .....	11,734	38	.32	12,913	47	.36
Motor vehicles.....	17,534	40	.23	18,349	41	.22
Textile mill products.....	12,683	55	.43	11,537	55	.48
Crude petroleum and natural gas.....	3,786	46	1.22	3,494	42	1.20
Petroleum and coal products.....	23,206	92	.40	26,835	128	.48
Construction.....	14,698	48	.33	17,003	50	.29

<sup>1</sup> Except ordnance, machinery, and transportation equipment.

Source: Statistics of Income.

*Net interest paid compared with total compiled deductions, 1952 and 1954, by selected industrial corporate groups*

[Dollars in millions]

	1952					1954				
	Total com- piled deductions	Interest			Percent net in- terest of deductions	Total com- piled deductions	Interest			Percent net in- terest of deductions
		Paid	Re- ceived	Net			Paid	Re- ceived	Net	
Primary metal industries.....	\$18,727	\$138	\$59	\$79	0.42	\$18,315	\$138	\$39	\$99	0.54
Fabricated metal products <sup>1</sup> .....	11,734	38	11	27	.23	12,913	47	12	35	.27
Motor vehicles.....	17,534	40	53	-13		18,349	41	53	-12	
Textile mill products.....	12,683	55	16	40	.32	11,537	55	16	39	.34
Crude petroleum and natural gas.....	3,786	46	13	33	.87	3,494	42	9	34	.97
Petroleum and coal products.....	23,206	92	52	40	.17	26,835	128	62	65	.24
Construction.....	14,698	48	9	39	.27	17,003	50	12	38	.22

<sup>1</sup> Except ordnance, machinery, and transportation equipment.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Statistics of Income.

Mr. BURGESS. It reduces the net interest payment down to very small figures.

Senator LONG. Just what interest was that?

Mr. BURGESS. They are the same industries as we had in the first one, Senator, and this gives the net, as well as the total.

Senator MARTIN. Mr. Secretary, the soundness of the Federal Reserve limitation on the growth of credit as an anti-inflationary policy seems to be acknowledged when it is admitted that there would be an inflationary effect from a flood of additional credit; yet there is complaint about a drought of credit.

It is urged that we should have a little more credit, not a lot, but a little more credit. In a period such as the present, is that not equivalent to saying we do not want a lot more inflation, just a little more inflation?

Mr. BURGESS. Well, I think all I need to say for that is, is that I agree with you, Senator.

Senator MARTIN. Mr. Secretary, in the course of the recent questioning, the point was made that the Federal Reserve holds about

as many Government securities as it did when you came into office; and since that was about the high point, there was an implication that the Federal Reserve had supported the market as fully during the last 4½ years as in the period prior thereto.

If I understand this theory at all, the Federal Reserve supports the market by buying. It depresses the market by selling. And by merely holding securities without buying any additional, it does not support the market but merely maintains a neutral position. Is that correct?

Mr. BURGESS. Well, I think it is, Senator. You do not support just by holding what you have. That does not help us in our roll-over financing, except as a neutral factor.

It is when they increase their holdings that it matters. The fact is that there was more increasing of the holdings before we came in than since, because when we came in it was practically \$25 billion, it is, of course, reasonably down now, but it has been running around \$25 billion right through, whereas in the previous year it was increasing.

Now, I do not say that as any criticism either way. The fact is that the total holdings of Government securities by the Federal Reserve System is no measure whatever of whether they are supporting the market. The question is how they do it and why. For example, if we lost \$500 million worth of gold from this country, that would take \$500 million worth out of our reserves. Then if the Federal Reserve replaced that in the country's bank system by simply buying \$500 million worth of Government securities, that would not be making any more credit available to the country. It would not be supporting the market. It would simply be keeping the credit base where it is.

Now, the credit base of the country is affected by many different things, by the needs for the growth of the country. You have to keep the credit base growing a little bit.

But what happens with gold, whether it is in or out, that affects the credit base. Or what happens with the reserve requirements of the bank. You can increase the credit base by reducing reserve requirements.

Now, I think the Federal all through this period, before we came in and after, has been trying to keep the amount of money needed in the credit base; and I think they have done pretty well over the entire period. We think that they were forced, through purchases of securities at times of financing, to go into it a little heavier than they should during the earlier period, but on the whole, during the period they have tried to supply the basic credit needed by the country, and you cannot judge that by just looking at the round figures.

Senator MARTIN. Mr. Secretary, on Friday, I believe it was, you told us about the procedure the Treasury now follows before any major refinancing. As I understand it, you stated that you meet with bankers, insurance people, the savings bank men, to discuss investors' needs in order to obtain necessary information upon which to base your determination as to the amount and maturities that you can sell and the lowest interest rates at which you can obtain the funds. Is that the present practice of the Treasury Department?

Mr. BURGESS. Yes, sir.

Senator MARTIN. If you want to elaborate on that, proceed.

Mr. BURGESS. Well, perhaps your next question would be whether there has been any change in the way of handling it since we came in. Perhaps we can handle that all together.

Senator MARTIN. Yes, go on.

Mr. BURGESS. I have been connected with these operations as I think I said the other day, since about 1930. For the 8 years from 1930 to 1938, I was the manager of the open-market operations for the Federal Reserve System; and I also advised the Treasury on their financing, both under Mr. Mellon and Mr. Mills and under Mr. Woodin and Mr. Morgenthau.

The method that we followed at the early stages of that was that in the Federal Reserve Bank in New York, where I was, we did most of the work. I undertook to interview the dealers and the banks and the various buyers of securities and then used to make a recommendation to the Treasury Department on what they should do. Sometimes the Under Secretary would come to New York and sit down with me and we would interview a lot of people.

Of course, they would always get opinions from the other Federal Reserve banks, and the Federal Reserve Board always had its ideas about it.

Under Mr. Morgenthau, I think it was, that procedure was developed a little more fully. He used to invite some of these people to Washington to meet with him; and over a period of years he developed a practice of having a committee of the American Bankers Association come to Washington and meet with him, and a committee of the Investment Bankers Association. I know about it because I was a member of the American Bankers Association committee; and the procedures that were followed by Secretary Morgenthau and Secretary Vinson and Secretary Snyder were identical with those which we are following; that is, they met with these committees and got their views, told them about the Treasury position by using the same kind of charts that Mr. Mayo showed this committee, so that they would understand our problem, and then getting their counsel on what should be done.

Now, I think the only difference in the procedure is that we have tried to cover a little wider scope. There has been a life insurance economic committee. I think they meet occasionally with Secretary Morgenthau. We have met with them rather more frequently.

We have had a committee of the mutual savings banks, which I do not think was organized before. I meet with some other groups. For example, I have had meetings with the treasurers and comptrollers of the States of the Union. They are quite large buyers of Government securities for their pension funds and for their working funds.

We have, of course, used our trips through the country, both my own and other members of the staff to visit with everybody that we thought would have an interest. For example, when I made a trip a while ago to Des Moines, I took a couple of days to go out in the country and visit some of the rural banks and talk to the farmers about their situation. They were not very much interested in our Government security offerings, but the country banks were very much interested in the difference in interest rates between their commodity loans guaranteed by the Commodity Credit Corporation and the rate

on Treasury bills; so it was very interesting to get their point of view on that.

All I can say is we try to cover just as wide a scope as we can on these inquiries and take in as many people who have something to say on the subject as is useful to us.

Senator MARTIN. Thank you, Mr. Secretary.

A considerable amount of time was spent last week in attempting to prove that your desire for flexibility in interest rates meant higher rates. Has the trend in interest rates been continued this way upward since you assumed office?

Mr. BURGESS. No, Senator. The rate has fluctuated. It went up in the spring of 1953. In the summer of 1953 it went down. In 1954 it went down. In fact, we did some of our financing in 1954 at rates that were lower than they had been in 1952.

When this housing boom developed in 1955 and the capital boom developed, the demand for credit increased interest rates, and our rates went up along with it. So that we have had literally exactly what we have talked about; we have had flexible interest rates.

Senator MARTIN. Mr. Secretary, I appreciate your time in answering these questions, many of them which are rather difficult. If you have now any comment or summation that you would like to make, I would ask the indulgence of the chairman and the committee that you would have that opportunity.

Mr. BURGESS. Well, Senator, I do not think I have anything to add to what I have already said. I am afraid I have made too many speeches this morning already.

Senator MARTIN. I think, Mr. Secretary, some of the speeches that you made this morning will be very helpful. I want to reiterate again, Mr. Chairman, I have been very much encouraged by the interest that the people out over the Nation are taking in this inquiry.

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

The CHAIRMAN. Senator Frear is away, and he has yielded until—he goes to the bottom of the line, so the chair recognizes Senator Williams.

Senator WILLIAMS. Did you want me to proceed?

The CHAIRMAN. Yes.

(Discussion off the record.)

The CHAIRMAN. Senator Williams is recognized.

Senator WILLIAMS. Mr. Secretary, I have very few questions.

In answer to one of the questions of Senator Martin, you were referring to the manner in which some of the foreign countries have been able to control inflation.

If I understood you correctly, you said they did it by exercising the sound old-fashioned methods of first controlling the debt, and second—controlling the credit. Is that correct?

Mr. BURGESS. That is right.

Senator WILLIAMS. How do you think we are managing our budget in this country? I know you spoke in the last few days in reference to the control of credit.

Mr. BURGESS. Yes.

Senator WILLIAMS. And higher interest rates. Do you think we are doing a good job as far as the budget is concerned?

Mr. BURGESS. I think we are doing just a fairly good job, Senator. It is a lot better to have a surplus than it is to have a deficit.

But I think at a time of inflation like this, from the point of view of the Treasury and the economic situation, it would be better to have a bigger surplus.

Senator WILLIAMS. Now, speaking of the budget, the proposed budget, I think, sent to Congress was around \$72½ billion. Do you think it would be inflationary for us to enact that, comply with that request of the budget?

Mr. BURGESS. The President has already——

Senator WILLIAMS. Or do you think it should be cut?

Mr. BURGESS. You are talking about the budget of 1958. The President has already sent up several modifications downward, and in the administration of the budget I think there has been clear evidence the administration is going to try to keep under that rather than over, if it can.

I have great respect for the ability of the Congress to find some ways of economizing, and I think the Congress has found some ways.

Whether we would agree with the precise ways is beside the point, for this broad question. I am personally very sympathetic to both the Executive and the Congress hammering away at this problem and doing the best they can to get the spending down.

Senator WILLIAMS. You think it is a responsibility of both to try to bring that budget down?

Mr. BURGESS. Yes, I do. Partly because many of the appropriation recommendations, that the President sends to the Congress are his interpretation of what is required to carry out the law passed by the Congress, some of which was according to his recommendation, and some of which was not.

So that the Congress, both in respect to those appropriations and with respect to others, I think has an extraordinarily important function.

Senator WILLIAMS. Based upon the progress which has been made in that direction, and, as you say, there has been cooperation both between the executive and the legislative branches, in achieving that goal, do you think it is safe to say the debt limit can be held at \$275 billion?

Mr. BURGESS. Well, Senator, if you would allow me, I would prefer to leave that question for Secretary Anderson, to discuss with your committee. I have talked it over with him, and I know he is going to be in touch with you for a discussion of it.

Senator WILLIAMS. Do you think we will be confronted with that question before this Congress adjourns?

Mr. BURGESS. Well, I am sure that Secretary Anderson will want to talk with you about it. He has only had a chance recently to really study it, and it is a real problem.

Senator WILLIAMS. If I understood you correctly, you said that one of the methods by which these other countries had been able to hold inflation down was that they were firm and had the necessary courage to stand firm and hold the line; is that correct?

Mr. BURGESS. That is correct; yes, sir.

Senator WILLIAMS. Would you say that this would be a time that this committee should stand firm if that request comes up here, stand firm and hold the line?

Mr. BURGESS. In principle, yes. Whether that applies to this specific point, I would rather leave to the Secretary.

Senator WILLIAMS. Has not the trouble always been, throughout history, that each request would be exceptions to the rule?

Mr. BURGESS. How right you are, Senator, and how one learns that day by day in this great city.

Senator WILLIAMS. I would like to have the benefit of your opinion, though, because I have great respect for your ability and knowledge—

Mr. BURGESS. Yes.

Senator WILLIAMS. Of the conditions of the Treasury, as to whether you think we can hold that line at this time.

Mr. BURGESS. Would you mind, Senator, if I left that to Secretary Anderson. I think it would be more appropriate for him to give his opinion on that than for me.

Senator WILLIAMS. I do understand that you think the other countries, then, who did stand firm, were taking the proper steps?

Mr. BURGESS. That is correct; yes.

Senator WILLIAMS. I have a feeling that we will stand a little firm on that, too.

Mr. Secretary, you referred to the control that Congress has over the debt, and I think in your statement you pointed out that FNMA and Commodity Credit and the International Bank were able to borrow money outside, on their own, and that these amounts were not included in the Federal debt; is that correct?

Mr. BURGESS. That is correct, yes.

Senator WILLIAMS. Do you think that is a sound policy to be extended—I am not asking whether we should repeal the existing law—but do you think that is a sound policy, or do you think we should have all of these debts consolidated under the ceiling?

Mr. BURGESS. I would rather see Commodity Credit borrowing from Treasury than our going to the market. We tried that several times. It is expensive, and it involves a lot of extra machinery.

The International Bank for Reconstruction and Development, of course, that is set up separately, and it should borrow separately.

The new FNMA, I think you could debate both ways, whether that should be set up separately or whether it should borrow from us.

When that bill was drawn, you will remember that what we were trying to do was trying to get away from a Government, a wholly Government, subsidized agency for supporting the mortgage market, and we wanted to make it a cooperative venture, with the people who used it buying stock in it, so that it would get a measure of independence, let us say, like the Production Credit Corporation or the Federal Land Banks.

I have a great deal of sympathy with that principle. We were hit by a situation where we had to buy a lot more mortgages than we would have preferred, and I think it was right to do so because, as I think I have stated before here, when you do have a credit restraint in an inflation, it hits some people more than others, and it hits some people who are not in a position to bear the blow as readily, and you have a social responsibility to try to ease that blow a little here and there.

That is a very touchy thing, because it is awfully easy, if you ease the blow here, there, and the other place, to dull it so it ceases to be effective. But we did have a specific situation there that I think justified some action, Senator.

Senator WILLIAMS. But in general, do you think that it is a constructive trend for Congress to set up these independent agencies where they can borrow direct and be outside the debt limit?

Mr. BURGESS. I am afraid of it, Senator. I think if you get too many of them borrowing out there, it is too hard to keep the thing under control, and it is difficult.

I think in a few cases—you have the case right now of the TVA. You are going to set them up as a separate borrowing agency.

Senator WILLIAMS. That was my next question. I was going to ask you if you thought that was a constructive proposal.

Mr. BURGESS. Well, I do not know their operation as fully as I should, so I do not have a firm opinion either way. I think there is good argument on both sides of it.

Senator WILLIAMS. But, unfortunately, we cannot vote on both sides of it.

Mr. BURGESS. I know. If I had to vote, I would bone up on it.

Senator WILLIAMS. If I understand correctly, one of the proposals is that the TVA would be allowed to set up a borrowing capacity for either \$700 million or \$750 million, and it would not be included as a part of the debt. Is that right?

Mr. BURGESS. That is right.

Senator WILLIAMS. And Congress would have no control over it.

Mr. BURGESS. Well, there the question arises whether some of these borrowings should not be subject to the Budget review.

Senator WILLIAMS. Do you think it would be wise in such instances as in TVA, to provide their borrowing must be included as a part of the national debt, since they are a direct obligation of the United States Government?

Mr. BURGESS. I would rather see it that way. I know that, at the moment, it is very hard to do that. We are in a tight box. But as a matter of principle, I think it would be sounder.

Senator WILLIAMS. But would not keeping us in a tight box, help us in this difficulty of controlling inflation?

Is it not a fact we are just going to stay in a tight box for a few years, if we get out of this situation?

Mr. BURGESS. I think so, yes.

Senator WILLIAMS. And we might just as well begin to face it; and you would recommend, as I understand it, that TVA financing might be better, I mean more constructive, that way.

Mr. BURGESS. Yes; if you put that in the subjunctive, Senator, I will go along with you.

Senator WILLIAMS. Yes.

In the recent foreign aid bill, we also had a provision to set up a new financing agency for foreign aid, a billion and a half for the next 2 years, which would be set up \$750 million a year. Would they borrow from the Treasury?

But if I understand that correctly, that, too, will not be included in the national debt if they sell them on the outside; is that correct?

Mr. BURGESS. There I am in a difficult position. As I understand it, that bill is in conference. There is an administration position on it, and I do not believe I can appropriately comment on that one, Senator.

Senator WILLIAMS. But you still feel that it would be better if these borrowing agencies were included as a part of the national debt?

Mr. BURGESS. Well, there are two separate things there, are there not? One is whether the borrowing agencies should borrow outside, in the market, rather than from the Treasury.

Senator WILLIAMS. That is right.

Mr. BURGESS. Versus the case of a corporation or an agency which would borrow from the Treasury, and the question of what the budgetary control should be over that particular borrowing.

Senator FLANDERS. The question is whether they should borrow at all.

Senator WILLIAMS. Yes, that is right. And also the question of whether their borrowings, if they do borrow, should be included as a part of the national debt.

Mr. BURGESS. Well, I think there is no question about the new foreign financing agency. That would borrow directly from the Treasury, so that would be a part of the debt.

Senator WILLIAMS. That would be a part of the debt?

Mr. BURGESS. Oh, yes. They are not going to borrow outside. They are going to borrow from the Treasury. So its financing is within the debt.

Senator WILLIAMS. And will be kept within the debt limit.

Mr. BURGESS. Yes.

Senator WILLIAMS. In your opening statement on page 16, you refer to a  $2\frac{1}{2}$  percent long-term bond issue which was sold in 1944 and 1945, and which were later exchanged for nonmarketable investment bonds in 1951 and 1952, and I think you departed from your statement and said, "They were exchangeable for a bond which had a 5-year maturity date." Is that correct?

Mr. BURGESS. Well, the holder of those bonds could at any time he wished exchange those bonds for a  $1\frac{1}{2}$ -percent 5-year note.

Senator WILLIAMS. What were they originally? They were  $2\frac{1}{2}$ ?

Mr. BURGESS. They originally were  $2\frac{1}{2}$ -percent bonds, 1967-72, that is, callable in 1967, maturing in 1972.

Senator WILLIAMS. And they were exchanged for what type bonds?

Mr. BURGESS. They were exchanged for  $2\frac{3}{4}$ -percent bonds of 1975-80, callable in 1975, and maturing in 1980.

So it purported to be a longer term bond, but you had a hole out. You could at any time exchange it for this shorter term obligation.

Senator WILLIAMS. That was my understanding, even though they were payable in 1975-80, they could be exchanged for 5-year bonds.

Mr. BURGESS. They were not marketable, but they could be exchanged at any time for  $1\frac{1}{2}$ -percent marketable notes.

Senator WILLIAMS. What was the object in calling or refinancing a long-term issue that had originally been sold at  $2\frac{1}{2}$  percent and refinancing it at a higher rate, and putting a shorter term maturity on it in order that they could convert into these higher rates of today?

Mr. BURGESS. Well, it does sound kind of odd. But looking at it at the time, it seemed to be the thing to do, like the boy who threw the brick through the plate-glass window.

Senator WILLIAMS. Well, is this not a brick thrown through a plate-glass window?

What was the size of the issue involved?

Mr. BURGESS. About \$15 billion was converted, as I remember it.

Senator WILLIAMS. They were converted in 1951 and 1952; is that right?

Mr. BURGESS. Mostly in the spring of 1951, March 1951.

As I understand it, Senator, the situation was this: The Federal Reserve System was very restive at the price-support policies. The demand for credit was rising, other interest rates were going up, and yet the Federal Reserve System found itself supporting this 2½-percent bond at slightly above par.

They made one attempt to shake themselves a little loose from that. They lowered the prices, I think it was in December 1950. They were very anxious to get a freer market for money, because they saw that inflation was taking place.

The Korean war had broken out, we were arming for the cold war. But they and the Treasury were afraid, to throw this market open without support, with such a tremendous volume of these 2½-percent bonds outstanding.

There was a very great volume, and particularly these last two issues, the Victory loan and the one that preceded it.

Senator WILLIAMS. When you say they were outstanding, who held that issue?

Mr. BURGESS. Insurance companies, savings banks, private investors. With minor exceptions they were not eligible for bank investment, so very little was in the hands of banks.

Senator WILLIAMS. Do you have the breakdown of the holdings on that?

Mr. BURGESS. Yes. We can put that in the record.

(The information referred to is as follows:)

On March 4, 1951, the Secretary of the Treasury announced the offering of the investment series B long-term nonmarketable Treasury bonds in exchange for outstanding 2½ percent Treasury bonds of June 15 and December 15, 1967-72. Of the \$19,656 million of those issues outstanding, the following were exchanged by the various investor classes:

Classes of investors:	Total exchanges
Insurance companies.....	\$3, 338, 227, 000
Mutual savings banks.....	1, 252, 055, 000
Savings and loan associations, building and loan associations, and cooperative banks.....	124, 199, 000
Pension and retirement funds.....	1, 847, 274, 000
Commercial and industrial banks.....	171, 782, 000
State and local governments, other than their pension and retirement funds.....	549, 995, 000
Individuals.....	182, 941, 000
Federal Reserve and Treasury accounts.....	5, 583, 802, 000
All others.....	525, 363, 000
Total.....	13, 575, 638, 000

The following year, on April 30, 1952, the Treasury reopened the investment series B for cash and in exchange for 2½ percent Treasury bonds of 1965-70, 1966-71, and the remainder of the two issues of 1967-72 previously offered the exchange. At that time an additional amount of \$1,758 million was issued, \$450 million for cash and \$1,307 million on exchanges.

Mr. BURGESS. There was also a bank-eligible 2½, but it was not one of these.

So they tried to figure out a way that they could decrease the risk of opening up the market to a free market, and they decided they had to somehow get out of the way a mass of these 2½ percent bonds.

And that was the origin of this ingenious device. They refunded them into something which was attractive, put another quarter percent interest on it, and gave them this way out. So that was attrac-

tive, and that lifted this whole mass of \$15 billion of bonds outside of the market so they could then go ahead with their program of freeing interest rates from control.

Senator WILLIAMS. Were there not other 2½-percent issues outstanding at the same time?

Mr. BURGESS. There were some, but they were of shorter maturity, and they thought that if they lifted out this last group, that they could handle the others without too much trouble.

Senator WILLIAMS. Did they lift out all long-term issues, or were there other issues outstanding?

Mr. BURGESS. There were other issues.

Senator WILLIAMS. Outstanding.

Mr. BURGESS. You see, these bonds had been used in each one of the war loans, 60-65, 62-67, and so on.

Senator WILLIAMS. When they were sold, were they sold on the basis that they would be guaranteed?

Mr. BURGESS. No. We were very careful about that. I say "we" because I was running the war loan drive in the Second Federal Reserve District for the third and fourth war loans. We told our salesmen not to say anything of that sort.

At the same time, the market had been supported, they knew it was going to be held more or less during the war, and a lot of the buyers, I think, got the presumption that they were buying a bond which would be held at par.

Senator WILLIAMS. But the net effect, as I understand it, was that this bond issue which was sold, \$15 billion bond issue sold in 1944 and 1945—

Mr. BURGESS. Yes, the \$15 billion exchanged.

Senator WILLIAMS. Were 25-year bonds.

Mr. BURGESS. That is right.

Senator WILLIAMS. And they were callable in 1967, 22 years, or matured in 27 years?

Mr. BURGESS. That is right.

Senator WILLIAMS. And this refinancing at a quarter of a percent higher rate with a 5-year exchange privilege, has the net effect of throwing that \$15 billion all eligible for conversion into these 4 percent bonds today; is that not true?

Mr. BURGESS. Well, indirectly some of them could, but there are some features that would stand in the way of doing that.

Senator WILLIAMS. What would they be?

Mr. BURGESS. If somebody 5 years ago had converted and taken these 1½ percent notes, then he would have the cash to subscribe for these 4 percent bonds.

Now, any of them could convert into the 5-year 1½ percent notes now, but he could then sell it only at a substantial discount, because these 1½ notes are selling around, what is it—89 or so?

Senator WILLIAMS. How long was this conversion privilege to put them into 5-year notes in effect?

Mr. BURGESS. Excuse me?

Senator WILLIAMS. Did the holders have to accept the conversion privilege right at that time, or was it continuing?

Mr. BURGESS. They can make the conversion any time.

Senator WILLIAMS. At any time?

Mr. BURGESS. At any time. So they could do it today, those who are still holders.

Senator WILLIAMS. That is the point I am making: Either they have converted them into short-term bonds which would be becoming due on an annual basis—

Mr. BURGESS. That is right.

Senator WILLIAMS. Or they could convert them today, for instance, within a space of a year the whole \$15 billion could be converted into 4 percent today.

Mr. BURGESS. Only at a loss. Suppose you had a thousand dollars of one of these bonds, and you converted that into a 1½ percent 5-year note, and you wanted to get cash on that, you wanted to sell it in the market, and you would find you could only get 89 for it, \$890 for your \$1,000 bond, so you would take that loss.

Senator WILLIAMS. What percent were converted at that time?

Mr. BURGESS. There are still \$9 billion or \$10 billion outstanding, as I remember it. Originally, \$15.3 billion were put out; \$5 billion were converted. So the amount outstanding is a little over \$10 billion.

Senator WILLIAMS. Over the maturity of these bonds, the 25-year scheduled maturity, how much in additional interest would you suggest it was going to cost the Government as a result of that refinancing in 1951-52?

Mr. BURGESS. That has a good many variables in it.

Senator WILLIAMS. Well, the \$6 billion that have been will all have to be refinanced at the higher interest rates, at least, will they not?

Mr. BURGESS. Yes, over a period. Of course, there are still a lot of these notes where the holders are just going to hold them until they mature.

Senator WILLIAMS. Mature.

Mr. BURGESS. So they are only getting 1½, so you are one up on those fellows.

Senator WILLIAMS. Do you think the interest rates are going to drop in the next 12 months or so?

Mr. BURGESS. Well, I think that is about an even bet.

Senator WILLIAMS. But assuming the interest rates maintained stability—

Mr. BURGESS. Yes.

Senator WILLIAMS (continuing). We would lose from 1 to 1½ percent for the last 20 years of these bonds; would we not?

Mr. BURGESS. Yes; that is right.

Of course, the holder of the 2½ had a marketable bond. So if you just left it alone, he could sell that bond in the market.

Senator WILLIAMS. That is right

Mr. BURGESS. Now, for now 87, or whatever it is.

Senator WILLIAMS. But he could not call on the Government to pay him 4 percent interest on it.

Mr. BURGESS. Well, if he sold it and got the cash and then bought some of these 4s, he could. He has some of the same privilege, in a way, that the new fellow has.

Senator WILLIAMS. Except, Mr. Burgess, as I understand it, and I am not trying to argue the point but just trying to understand it, had they not refinanced this issue and had Mr. Jones sold his bond and Joe Doaks purchased it, they would still have been held so far as the Government is concerned, and you would have still been paying 2½

percent interest rates, and you would be paying this interest rate 15 years from now.

Mr. BURGESS. That is right.

Senator WILLIAMS. But as it is, we will be paying 4 percent on a substantial part of it, and maybe all of it.

Mr. BURGESS. Really only a small part. I think it is very hard to figure it out in dollars and cents, but I think the whole operation cost the Treasury money.

I think, as I say in my statement, if you had to make a compromise like that in order to bail out of the situation we were in, to carry out this chore, why, it was worth the price.

Senator WILLIAMS. Then the net additional cost will be somewhere varying between \$100 million and \$200 million a year for the remainder of that maturing bond issue, depending upon the proportionate part that has been transferred; is that right?

Mr. BURGESS. That is right, subject to checking the figures.

Senator WILLIAMS. And in 15 years, it would be \$1.5 billion.

Mr. BURGESS. I would like to check the figures.

Senator WILLIAMS. I wish you would furnish an estimate as near as you can, as to the extra cost of refinancing.

(The information referred to is as follows:)

COST OF EXCHANGING LONG-TERM 2½ PERCENT BONDS INTO 2¾ PERCENT  
INVESTMENT B BONDS

The net interest cost to the Treasury of exchanging some of the longer-term 2½ percent marketable bonds for 2¾ percent nonmarketable convertible investment B bonds from April 1, 1951, through June 30, 1957, has amounted to \$15 million.

On April 1, 1951, about \$13.6 billion of the 2½s of June and December 1967-72 were exchanged into 2¾ percent investment series B bonds of 1975-80. An additional \$1.3 billion was exchanged from June to December 1952.<sup>1</sup> To provide some degree of liquidity the investment B bonds are convertible into marketable 1½ percent 5-year notes at the owner's option.

Of the \$15.3 billion 2¾s originally issued, a total of about \$4.8 billion have been converted into these 1½ percent exchange notes. Three semiannual issues of these notes have already matured (the first April 1, 1956), and have been refunded into regular marketable issues.

The total interest cost through June 30, 1957, of the 2¾s which were issued in exchange for \$14.9 billion of 2½s has been \$1,978 million and the cost of the exchange notes \$258 million. In addition the refunding of the maturing notes has cost \$58 million. This makes a total interest cost of \$2,294 million. On the other hand, the Treasury has not had to pay interest on the 2½s which were exchanged. That interest would have amounted to \$2,279 million over the period beginning April 1, 1951, through June 30, 1957. Thus the net cost to the Treasury has been \$15 million.

Senator WILLIAMS. Do you know of any other instance in which such steps have been taken wherein a long-term issue had been refinanced, called and refinanced, at a higher interest rate when it was not necessary? Have you ever done that before or since?

Mr. BURGESS. I do not remember such a case. Of course, it was a voluntary offering.

Senator WILLIAMS. It was a voluntary offering, but it was a voluntary conversion.

Mr. BURGESS. Yes.

<sup>1</sup> This exchange included the marketable 2½s of March 1965-70 and March 1966-71 as well as some more of the Junes and Decembers of 1967-72. In addition \$450 million was issued for cash at the same time.

Senator WILLIAMS. And it would be equivalent to the Government voluntarily today just moving in and, to all the holders of long-term  $2\frac{1}{2}$  percent bonds, say, "We will give you 4 percent tomorrow, and just be good fellows."

Is that not substantially what we did?

Mr. BURGESS. It is that type of operation. It was not as expensive as giving them 4 percent.

Senator WILLIAMS. Well, anything that is going to cost us from \$100 million to \$200 million a year for 15 years over and above what it was necessary to cost, is a rather expensive operation.

Mr. BURGESS. That is right, but let's check the figures.

Senator WILLIAMS. We would not do that in private business, would we?

Mr. BURGESS. The only thing that justified it was their desire to get out of this difficult situation they were in with respect to the market. That relates to what I said here the other day, that we financed the war at such a very low rate of interest that it would not stick. It was an uneconomic level.

Senator WILLIAMS. Did the Federal Reserve System own any of that issue?

Mr. BURGESS. Yes. They had quite a lot. They had bought a lot supporting the market.

Senator WILLIAMS. Of that \$15 billion issue?

Mr. BURGESS. That is right. So that they converted, what was it, \$2 billion or \$3 billion?

(The information referred to is as follows:)

The Federal Reserve banks exchanged \$2,714 million  $2\frac{1}{2}$  percents of June and December 1967-72 for investment series B bonds. These were subsequently exchanged for 5-year  $1\frac{1}{2}$  percent exchange notes as follows:

Date of exchange	Issue acquired	Amount exchanged
		<i>Millions</i>
July 1951.....	Series EA-1956.....	\$1,000
October 1951.....	Series EO-1956.....	500
April 1952.....	Series EA-1957.....	500
October 1952.....	Series EO-1957.....	714
Total.....		2,714

Mr. MAYO. It was at least that.

Mr. BURGESS. Some of this interest goes to the Federal Reserve, where it comes back to the Treasury.

Senator WILLIAMS. In speaking of that, I think you told us once before, how much of the Federal revenue comes back to the Treasury?

Mr. BURGESS. About 90 percent of their net earnings.

Senator WILLIAMS. Net earnings. Is that net before dividends, or net after dividends?

Mr. BURGESS. Well, the dividends are pretty small. The dividends are 6 percent on their capital. That is after dividends.

Senator WILLIAMS. That is after dividends.

Mr. BURGESS. Yes.

Senator WILLIAMS. Is that fixed by law?

Mr. BURGESS. No, Senator, that is not. It is an interpretation of the law, which says there may be a tax on issues of Federal Reserve

notes; and the Federal Reserve Board has, somewhat arbitrarily, perhaps, but nevertheless I think soundly, interpreted that to mean that they should pay earnings in excess of some figure, back to the Treasury.

Senator WILLIAMS. Is it discretionary, that figure, set at their own discretion?

Mr. BURGESS. Yes; that is discretionary with the Board.

Now, there is in the Robertson bill, which is now before the House Banking Committee, a revision of that law which would go back substantially to the original terms of the Federal Reserve Act, which would make it a legally specified franchise tax for doing business, which would have the same effect, and would turn back about 90 percent of the net earnings to the Treasury, and I think that would be a very good thing to do.

Senator WILLIAMS. Who owns the stock of the Federal Reserve banks?

Mr. BURGESS. The member banks.

Senator WILLIAMS. The member banks?

Mr. BURGESS. Yes.

Senator WILLIAMS. And while we are not anticipating such a thing, but just in the event Congress abolished the Federal Reserve banks, who gets the surplus, that is the accumulated surplus, and the earnings?

Mr. BURGESS. Somebody asked that the other day. The law specifies it, and we just have to look that up, but I am quite sure it is the Treasury.

Here we are. It is section 7 of the Federal Reserve Act:

Should a Federal Reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Senator WILLIAMS. Well, then, in effect, with the exception of the amount which is paid in dividends on the stock, the accumulated surplus in the Federal Reserve System belongs to the United States Government.

Mr. BURGESS. That is right. Yes.

Senator WILLIAMS. I think it might be well, if you have it there, to put in the amount of net earnings of the Federal Reserve System.

Mr. BURGESS. Yes.

Senator WILLIAMS. Because they have only paid back into the Treasury, to the Federal Government, about 67 percent of their earnings.

Mr. BURGESS. Sixty-seven percent of their gross earnings; 90 percent of the net.

Senator WILLIAMS. Well, would you put in the record the amount of the net earnings?

Mr. BURGESS. Yes; we would be glad to. Over a period of years?

Senator WILLIAMS. Yes.

(The information referred to is as follows:)

*Earnings, expenses, and distribution of net earnings of Federal Reserve banks, calendar years 1947-56*

[In thousands of dollars]

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Current earnings .....	158,656	304,161	316,537	275,839	394,656	456,060	513,037	438,486	412,488	595,649
Current expenses .....	65,393	72,710	77,478	80,572	95,469	104,694	113,515	108,733	110,060	121,182
Current net earnings .....	93,263	231,451	239,059	195,267	299,187	351,366	399,522	328,753	302,428	474,467
Additions to current net earnings .....	2,887	6,517	31,664	38,969	388	2,195	2,096	527	178	380
Deductions from current net earnings .....	508	414	3,392	675	2,516	611	3,155	661	443	383
Net additions or deductions (-) .....	2,379	6,103	28,272	38,294	-2,128	1,584	-1,059	-134	-265	-24
Net earnings before payments to U. S. Treasury .....	95,642	237,554	267,331	231,561	297,059	352,950	398,463	328,619	302,163	474,443
Paid U. S. Treasury (interest on Federal Reserve notes and sec. 13b) .....	75,260	166,690	193,146	196,629	254,874	291,034	342,568	276,299	251,741	401,555
Dividends paid .....	11,523	11,920	12,329	13,083	13,865	14,682	15,568	16,442	17,712	18,905
Transferred to surplus .....	8,453	18,523	21,462	21,849	28,320	46,534	40,537	35,888	32,710	58,988
Transferred to reserve for contingencies .....	406	40,421	40,394							

Source: Annual Reports of the Board of Governors, Federal Reserve System.

**Mr. BURGESS.** Of course, this method I have cited was only in force from 1947 on, but I think that is—we would be glad to put that in the record.

In 1956, they paid \$401.5 million to the Treasury. So it is a substantial item.

**Senator WILLIAMS.** What were their net earnings in 1956?

**Mr. BURGESS.** Their net earnings before payments to the Treasury were \$474 million. They paid \$18 million in dividends, and transferred \$54 million to surplus, and paid the rest into the Treasury.

**Senator WILLIAMS.** What has been their net earnings—I think they were established in 1913.

**Mr. BURGESS.** Yes. The aggregate net earnings from 1914 to 1956—they started operating in October 1914—the net earnings over that period were \$3,867 million.

**Senator WILLIAMS.** And they paid \$389 million in dividends; is that right?

**Mr. BURGESS.** That is right. And they paid \$2,450 million to the Treasury under Federal Reserve notes, and they paid the Treasury as franchise tax \$149 million. So it is \$2,602 million.

**Senator WILLIAMS.** And accumulated reserves.

**Mr. BURGESS.** \$876 million accumulated reserves.

**Senator WILLIAMS.** That belongs to the United States Government?

**Mr. BURGESS.** It reverts to the Government if they liquidate. It is much the same thing.

**The CHAIRMAN.** What is a franchise tax?

**Mr. BURGESS.** Well, the original Federal Reserve Act provided they should pay a franchise tax to the Government, which was all their earnings after expenses, after 6 percent dividends on their paid-in capital stock, and after setting aside a certain amount of surplus, 10 percent of the balance, I think it was, would be paid as a franchise tax.

**The CHAIRMAN.** You call that a franchise tax.

**Mr. BURGESS.** The Banking Act of 1933 terminated that. They were not earning much during that period, and it did not seem to be an important matter.

But then, as their earnings piled up, their consciences started acting up, and they started paying.

**Senator WILLIAMS.** Mr. Burgess, the Secretary referred to the recent \$24 billion refinancing issue and gave us a chart showing that 60 percent of that issue was sold to the Federal Reserve System.

That is largely due to the fact, is it not, that this \$24 billion bond issue was not offered to the general public, but was offered only to the holders of the old bonds?

**Mr. BURGESS.** That is right. That is true of any refunding. And the Federal Reserve held 60 percent of the maturing issues.

**Senator WILLIAMS.** So, therefore, they, along with the rest of the public—

**Mr. BURGESS.** They simply turned over, in this exchange, what they had for the new issue.

**Senator WILLIAMS.** Would it be advisable at this time to get as large a percentage as possible of these bonds in the hands of the public in general?

**Mr. BURGESS.** Yes, as a general matter. But as to the Federal Reserve System, it has got to hold as many Federal bonds as they

hold now if they are going to support this present volume of credit. They have either got to hold Federal securities, or they have got to make an equivalent amount of loans to member banks, or they have got to reduce reserve requirements that much.

So that we cannot reduce much the holdings of the "Fed" unless we decide we want to substitute some of these other ways of supplying the amount of credit that the country needs.

Senator WILLIAMS. So they were offered to the Federal Reserve in exchange for \$14.5 billion held, on the basis that it would not have been practical to take it out of the System; is that right?

Mr. BURGESS. That is right. There was not anybody else to buy them in that large amount.

Senator WILLIAMS. Well, the reason I asked that question, I have had several suggestions that other people would have been glad to buy a 4-percent issue at this time.

Mr. BURGESS. Well, it was very easy for them to do, Senator. The 3 days that the books were open, the rights were available at either par and  $\frac{1}{32}$ , or par and  $\frac{3}{32}$ , so anybody who wanted them could have bought them very easily by buying the maturing issue that was for sale.

You see, there were a billion dollars of them not converted and, of course, the new issues are available in the market right now if anybody wants to buy them. They have gone to a little premium, but not very big.

Senator WILLIAMS. In speaking of inflation in your testimony here, you referred to the fact that we have got a 2-cent drop in the dollar in the last couple of years, which represents a 4-percent drop, through inflation.

And that is attributed, both by you and by the Secretary and many others, to the fact we have an expanding economy or extremely prosperous times.

Mr. BURGESS. That is right.

Senator WILLIAMS. My question is: Do you think we can have an equal amount of inflation or even a greater amount of inflation in time of depression?

Mr. BURGESS. Well, that is a little bit hard to do. You have to pump out a lot of money. Because the trouble is that this velocity is low at a time of depression. People do not use the money, so it does not have the same effect on prices, and they do not buy all the goods that are available.

Now, you do have some price increases at times in periods of depression. It is not usual, but you did have a little recovery of prices between 1933 and 1939, and all of that was, in a sense, a period of depression.

Senator WILLIAMS. In France, for instance, they have had some of the wildest inflation. Would you say the inflation in France was due to prosperity?

Mr. BURGESS. Oh, yes. France is tremendously prosperous, practically full employment. It is one of those cases where everything is fine except their money situation.

Business has been rebuilding itself in France. Their production is high, their wages are rising.

Senator WILLIAMS. You think that has been the situation for the last 5 or 6 years, and was that the result of inflation?

Mr. BURGESS. Well, I would not say it has been the result of inflation. I think inflation is the result of the——

Senator WILLIAMS. Extreme prosperity?

Mr. BURGESS. Of the very great prosperity, plus unsound financing.

Senator WILLIAMS. Well, if France has been in the midst of such a degree of excess prosperity, why it is that we have been having to subsidize her for the past few years?

Mr. BURGESS. A great deal of the difficulty about the financial picture in France is that she has had these long, dragging, difficult military problems, like Indochina, where she was hanging on, and we supported her in that.

The money we sent to France was to let her do that.

The Algerian war is costing France something like a billion dollars a year; that is a lot of money, and 10 percent of the French budget, and makes it difficult.

The fact is, we have decreased our aid to France very sharply. It is down. What they get now is largely in the form of offshore procurement, and the expenditures of our troops over there.

We are not doing much in the way of aid.

Senator WILLIAMS. What is the value of the franc today?

Mr. BURGESS. The official rate is 350 to the dollar. But it is selling in the open market at about 435 to the dollar.

Senator WILLIAMS. 435?

Mr. BURGESS. Thereabouts.

Senator WILLIAMS. How much was the franc worth about 10 years ago?

Mr. BURGESS. Well, it was worth 4 times that much, or about 120 to the dollar.

Senator WILLIAMS. That is a country which has had the wildest inflation. You think that could be attributed to prosperity in France?

Mr. BURGESS. Well, I think most of that is due to their financial difficulties.

Senator WILLIAMS. Deficit spending?

Mr. BURGESS. They have not had the budget in balance in the whole of that 10 years, to the best of my knowledge.

Senator WILLIAMS. In fact, they have not had it for considerably longer than that.

Mr. BURGESS. They have been very slow in getting their credit policy in shape, getting their discount rate up, and the Government keeps borrowing from the Bank of France.

Their market for Government securities has been pretty bad. In order to sell some bonds a few months ago, they had to have a purchasing power bond, a 5-percent bond, I think it was, but with the value guaranteed in relationship to French stock-market prices.

Senator WILLIAMS. They did not have an effective control over the debt ceiling, did they?

Mr. BURGESS. That is quite right.

Senator WILLIAMS. Such as you advocate we maintain here.

Mr. BURGESS. In principle, I do advocate it. I think that has been a good thing for us.

Senator WILLIAMS. In the 1920's, the inflation we had in the 1920's, to what would you attribute that?

Mr. BURGESS. Well, I think there were two major parts to that.

One of it was real estate. We had a terrific real-estate boom. That included the Florida boom.

Senator WILLIAMS. Excessive expansion?

Mr. BURGESS. Excessive expansion, speculation in real estate.

And the other was security speculation, which got badly out of hand.

Senator WILLIAMS. That was in 1929.

Mr. BURGESS. Well, it really got underway——

Senator FLANDERS. Was there not a commodity speculation then?

Mr. BURGESS. Not so very much in 1928 and 1929, Senator.

Senator FLANDERS. I am thinking of sugar.

Senator BENNETT. In 1920.

Senator FLANDERS. 1920.

Mr. BURGESS. In 1920, you had a terrific commodity speculation, but not so much in the late twenties, and that was one thing that fooled us. Commodity prices were pretty steady, so we said there was not inflation.

Well, it was inflation. But the inflation was elsewhere.

Senator WILLIAMS. The present inflation that we have has not reached that degree, but it is giving us all concern because, as the chairman pointed out the other day, it is equivalent to a 4-percent depreciation of the dollar in the last 18 months.

Mr. BURGESS. That is right.

Senator WILLIAMS. Would you attribute this to excessive speculation in credit?

Mr. BURGESS. No.

Senator WILLIAMS. Excessive credit expansion?

Mr. BURGESS. No. I think our capital boom is one of the big things in it, and I think I would go back to my three-way analysis:

I think one of it is time lag. It is the fathers have eaten sour grapes, and the children's teeth are set on edge.

It is the result of the war hangover, and so forth.

Another is increase in costs, which is a matter of perhaps paying ourselves more than we earn.

And the third is capital-goods boom.

Senator WILLIAMS. Do you think that this capital-goods boom or the expansion of productive capacity was accelerated too much by the granting of amortization certificates?

Mr. BURGESS. I think it was, some.

Senator WILLIAMS. Do you think, had we repealed the amortization authority a few years ago, it would have had a more wholesome effect on the economy?

Mr. BURGESS. Yes.

Senator WILLIAMS. You think it would?

Mr. BURGESS. Yes. I would not say it was a major factor, but it was a factor.

Senator WILLIAMS. No. I think you pointed out, and I agree with you, that no one of these points can be accepted as the determining factor. They are all contributing factors.

Mr. BURGESS. That is right.

Senator WILLIAMS. The committee yesterday recommended that granting these amortization certificates be drastically curtailed immediately, to end in its entirety in 2 years.

Do you think that is a step in the right direction?

Mr. BURGESS. In the right direction, yes sir. I do not want to put the Treasury seal on that particular bill until I have had a chance to read the bill and our boys have studied it.

Senator WILLIAMS. The Secretary has already endorsed it.

Mr. BURGESS. If he has endorsed it——

Senator WILLIAMS. I was speaking in general terms, not on the specific language of a bill, but in principle.

Mr. BURGESS. Exactly; yes.

Senator WILLIAMS. Now, I think you have spoken before on the point that you think prices of wages and prices of commodities both have been contributing factors in this inflationary spiral.

Do you think that an increase in Government salaries at this time would be inflationary?

Mr. BURGESS. I think it would be unwise, Senator. I think we had better get our own financial affairs in order before we make another increase, much as I would like to see an increase.

I think one of our long-term problems is, we do not pay our people enough who work for the Government. But I think first things come first.

The first thing is to try to stabilize the cost of living for these people who work for the Government. They are the ones who really take it on the chin if you do not conduct yourself so that you stabilize your cost of living.

Senator WILLIAMS. And you think that in approaching that goal, we have all got to be hit somewhere where it hurts us a little bit?

Mr. BURGESS. That is right.

Senator WILLIAMS. Would you say that the recent decision to curtail importation of oil from abroad, would be inflationary, result in higher prices of oil domestically?

Mr. BURGESS. Well, I do not know enough about oil, Senator, to really answer that question. I would assume that if we had enough domestic production to fill the bill without inflation——

Senator WILLIAMS. Well, prices would be lower with heavier imports; that is automatic. Would that not be true?

Mr. BURGESS. Well, I just would not want to venture a guess on that.

Senator WILLIAMS. If they would not be lower, there would be no need of curtailing them.

Mr. BURGESS. Well, no. I think it is a matter of quantity as well as a question of price.

Senator WILLIAMS. Yes. Do you think we could curtail imports of commodities in general without having inflation?

Mr. BURGESS. No. I think it would contribute to inflation if we curtailed imports more than we do now.

Senator WILLIAMS. And do you think that the decision to curtail the importation of oil, is to some degree inflationary, as I understand it?

Mr. BURGESS. To some degree. Now, how much, I do not know. But one has to consider the other factors in it, of course, as well.

Senator WILLIAMS. But it does add one more factor toward the inflationary spiral; would that be your opinion?

Mr. BURGESS. It has a tendency that way.

Senator WILLIAMS. You were speaking, in answer to a question of Senator Martin, of the fact that Germany has done a comparatively

good job in stabilizing their currency in recent years, although you referred to a situation where just prior to 1948, I think, they reevaluated their currency. What did they do when they did that?

Mr. BURGESS. They called in the old money and put out new money. Their new money was secured by the central bank.

Senator WILLIAMS. What was the ratio of exchange?

Mr. BURGESS. Well, it was different ratios for different amounts of deposits. The general, I think, or more prevalent ratio was about 1 to 10; but I would want to check that for the record; and so they actually wiped out a certain amount of money. They had too much of this money around and they actually, in effect, wiped out much of it.

Senator WILLIAMS. In wiping out the money to that percentage, whatever it might be, they, in effect, wiped out the savings of the people in Germany, is that not true, as far as pensions, life insurance?

Mr. BURGESS. To some extent. The banks, for example, were left with very little capital, and they had to earn their way out again.

Senator WILLIAMS. Well, a man who had his life savings deposited in a bank, in this reevaluation, he was given credit for about one-tenth of what he had prior?

Mr. BURGESS. Well, of course, the previous inflation had pretty well wiped it out before.

Senator WILLIAMS. That is true.

Mr. BURGESS. So it was just a residue they had.

Senator WILLIAMS. That is true; but it was recognizing the condition?

Mr. BURGESS. That is right.

Senator WILLIAMS. And in recognizing that condition, they recognized that about 90 percent of the savings had gone?

Mr. BURGESS. That is right.

Senator WILLIAMS. And the same thing would be true—

Mr. BURGESS. The 10 percent that they kept was a good 10 percent.

Senator WILLIAMS. That is right.

Mr. BURGESS. That was the important thing. They made that good; and as I said before, you do not do any of these things without hurting somebody.

Senator WILLIAMS. But the point that I am emphasizing was that, in effect, when they did that, they recognized that 90 percent of the savings of the people had gone, whether it be life insurance or whether it be pension funds?

Mr. BURGESS. Well, they did apply different ratios to some of those different funds.

Senator WILLIAMS. It would be X percent?

Mr. BURGESS. Perhaps I could put into the record a table just showing what the percentage is.

Senator WILLIAMS. I wish you would.

Mr. BURGESS. All right.

(The table referred to follows:)

#### 1948 CURRENCY REFORM OF WESTERN GERMANY

In June 1948 the deutschemark superseded the reichsmark as the currency in Western Germany.

Every person received 1 deutschemark for 1 reichsmark up to 60 reichsmarks, and no additional deutschemarks for the next 540 reichsmarks. For total currency and bank deposits in excess of the first 600 reichsmarks, the rate of conversion was 1 deutschemark to 10 reichsmarks. Of the amount of deutsche-

marks thus computed, one-half was immediately released, 10 percent was released 4 months later, 5 percent was available only for investment in certain medium- and long-term bonds and 35 percent was wiped out. This resulted in an overall conversion rate for currency notes and private bank deposits of approximately 1 to 12½.

The reichsmark bank deposits of all Government agencies, the deposits of banks held in the central banks and all interbank deposits were canceled and replaced by cash or deposit allotments to permit continued operations.

With certain exceptions, debts and contractual obligations in reichsmarks were converted at the rate of 1 deutschemark to 10 reichsmarks. The 1 to 10 conversion was applied to insurance policies and to most pensions, and to savings in the form of bonds and certificates issued by mortgage banks, institutions for municipal credit, ship mortgage banks and sinking fund institutions.

The 1948 currency reform did not provide for the conversion of the reichsmark obligations of the German Government into deutschemarks. This was left to be worked out at a later date by the German Government.

Senator WILLIAMS. Because there is a lot of question raised as to just how inflation would affect the different people. And I think, as you pointed out in your statement, the unfortunate part of inflation is that most of us like it when it first starts.

Mr. BURGESS. That is right. Some of us like it more than others, Senator.

Senator WILLIAMS. Yes. But I mean in general it means higher wages and higher prices and gives us the feeling of greater security in the beginning, does it not?

Mr. BURGESS. That is right; yes.

The CHAIRMAN. Senator Williams, I wish you would ask for France. I was in France in 1945, and they were compelled to turn in their old currency to get new currency, I think at about one-half value.

Mr. BURGESS. Well, they had the German occupation money outstanding. No; it was not. I guess they had used francs, but it was a kind of occupation franc.

The CHAIRMAN. For the record, you might include the experience in France.

Senator WILLIAMS. I think that is a good suggestion.

(The material referred to follows:)

#### FRENCH CURRENCY CONVERSION IN 1945

In June 1945 the French Government called in all currency notes of 50 francs and above for exchange into new notes. This conversion did not include any provision for blocking of currency or deposits.

For the exchange of old currency, a person was given an immediate issue of new notes up to a total of 6,000 francs plus 3,000 francs for each member of a household. The balance became available in 2 weeks.

In the 2 months from May 31 to August 2, 1945, the currency in circulation fell by 105 billion francs from 549 billion to 444 billion. This decline in currency in circulation after the currency conversion was attributable both to the failure of persons to turn in currency hoards the origin of which they did not wish to have questioned by the authorities, and to a considerable voluntary increase in deposits in the banks by persons who turned in the old currency and kept the proceeds in the form of deposit balances. By the end of November 1945, note circulation had almost returned to the end-May level.

Mr. BURGESS. I will be glad to do that. But they did not do a drastic enough job when they did it.

Senator WILLIAMS. France did not recognize the conditions as they did in Germany; and to a large extent, it can be attributed to the problems they have now?

Mr. BURGESS. I think so.

Senator WILLIAMS. Do you not feel, whether it be France, Germany, or in our own country, it is better to recognize these problems, emphasize the dangerous aspects of inflation and point them out to the people than it is to try to hide it?

Mr. BURGESS. I think that is our only refuge; we have got to do it, Senator, because if we fool people, it would not last in the long run.

Senator WILLIAMS. I have had some State officials raise the question as to the interest, rapid rise in interest rates for local and State securities. That was discussed before, and I think you made a very good explanation as to why these rates were rising even a little faster than some of the others due to the fact that local governments have increased their borrowing so much greater than the availability of tax-exempt money?

Mr. BURGESS. That is right.

Senator WILLIAMS. But in connection with that, some of the State officials have pointed out that they have lost some of their sources of selling, with the rapid expansion of tax-exempt foundations, the large expansion of welfare funds and various pension funds, all of which are tax exempt. There is no incentive for them to buy tax-exempt bonds when income is not taxable anyway.

Do you think that has had any effect?

Mr. BURGESS. Oh, yes, I think so. I think so. The amount of funds that are going into agencies that are materially tax exempt is very large—pension funds, savings and loan associations, savings banks. It is a lot of money.

Senator WILLIAMS. And in reinvestment of those funds, they naturally do not purchase tax-exempt securities, they are not interested in that?

Mr. BURGESS. Not unless they get a yield that is comparable with the taxable.

Senator WILLIAMS. Well, they would not get that under our system of taxation, unless the bonds were not any good, is that not true?

Mr. BURGESS. Well, it is amazing what a yield you would get now on some revenue bonds which really pay a pretty good yield, even exclusive of taxation. But, of course, you are right; they are not as good.

Senator WILLIAMS. Do you think this trend has expanded to the point where Congress is going to have to give some consideration to changing the tax-exempt status of some of these foundations and institutions?

Mr. BURGESS. Well, I have never worked very much on that problem, Senator. I do not think we ought to do anything on it without most careful consideration.

Senator WILLIAMS. Well, I appreciate that, but I was wondering if the Treasury had ever given any consideration or thought to that?

Mr. BURGESS. I do not think we have any considered opinion yet on that.

Senator WILLIAMS. Do you think that is a problem which is diminishing or do you think that this trend is expanding?

Mr. BURGESS. I think the trend is expanding. Of course, one problem here is that we are not saving as much money as we ought to save. We are not saving quite enough money for providing the money for all of the things we want to do; and the great expansion in our saving now, some of it, is taking place in some of these funds we are

talking about: life insurance, pensions, et cetera. The amount is rising, the amount of those funds, steadily. You hate to see that penalized. You want to see it made attractive. Savings and loan associations, too, they are up to some, I think it is \$37 billion in savings and loan associations. Well, that is a fine thing.

Senator WILLIAMS. But as the dollar has depreciated to its existing rate of a little below one-half, has that not had the indirect effect of wiping out one-half the savings, of the value of the savings so far as the American people are concerned?

Mr. BURGESS. Yes. That is one element in this thing. You already have got that prejudice, justified prejudice, that people have developed about fixed income investments; so you want to be careful about doing anything else to make them less attractive.

Senator WILLIAMS. That is true. But with one-half of the savings, the value of the savings of the American people already destroyed through inflation—

Mr. BURGESS. Yes.

Senator WILLIAMS. Do you not think the hour is late enough for us to be giving some serious attempt to getting firm and holding this line?

Mr. BURGESS. I quite agree; yes. I quite agree.

Senator WILLIAMS. And back again by holding the debt limit?

Mr. BURGESS. Well, in principle, yes.

Senator WILLIAMS. Suppose we put it this way: Do you think if we remove the debt limit that we could hold and control inflation?

Mr. BURGESS. Well, I would not remove it right now. I think it is a real help at the moment.

The CHAIRMAN. You agree with that, do you not?

Senator WILLIAMS. We are in complete agreement on that, and I was just trying to get as much endorsement, words of encouragement because I have a lot of respect for you. It has to be firm. I think we have to hold that line, and I think if we hold that line, it will be a stabilizing effect so far as our American dollar is concerned.

I noticed that in the daily report of the gold reserves, that the extent of our gold reserves, minus the amount which has been set aside for foreign earmarking, is well below the stated reserves. I wish you would explain that.

Mr. BURGESS. The only qualification I would like to suggest to your statement is the phrase set aside for foreign account. The foreign money here is in the form of dollar balances. It lies right alongside your balance in the bank. That is, all they have is dollars. They do not have gold. They do not have any piece of paper that says they are entitled to gold.

We simply have a policy in our dealings with foreign governments and central banks that if they want to turn some of their balances into gold, we will do it under present conditions. We are, of course, very firmly committed to the principle that the dollar should be nailed to a value of gold. And one way you hold it there is being willing to pay out gold when foreign countries demand it. That is a terribly important and vital thing for us.

I do not think there is any likelihood that these foreigners are going to demand gold in amounts larger than we can take care of very comfortably. And the main reason for that is that the dollar has been such a good currency in the world that all over the world

people would just as soon have dollars as they would have gold. And that reputation, of course, is more valuable than the gold itself. It is a stabilizing factor in the whole world. It is terribly important. So that as long as we keep that confidence in the American dollar, we do not really have to worry about these people running in and asking for gold.

Of course, there is the advantage of keeping dollars also, that they earn a little money when they leave dollars with us, they can invest in Treasury bills or what have you. But the thing to do about all this is to keep the dollar good.

Senator WILLIAMS. And in the event that, as you say, you don't think will happen, but if they were all called at one time and a request made for conversion in gold——

Mr. BURGESS. Yes.

Senator WILLIAMS. The decision would be with our Government as to whether they did or not?

Mr. BURGESS. That is right. We have that authority.

Senator WILLIAMS. You have that authority?

Mr. BURGESS. Yes. And in times of emergency, which is the only kind of time we would be doing this, it has been the practice to put an embargo on gold shipments. We did it back in the emergency of 1933; and other countries would do it. They recognize that. What they want to do is to make sure that the value of their deposit is kept. They want it always good as gold, and that depends on our having the gold and also depends on the policies we follow, the things we have been talking about this morning.

Senator WILLIAMS. And in reality, is not the strength of the currency of a nation based not so much on its holding in gold but rather on its ability to build confidence with its people and nations in the world by demonstrating their ability to manage their monetary affairs; is that not true?

Mr. BURGESS. That is right.

Senator WILLIAMS. And the most important asset is our confidence in our own Government?

Mr. BURGESS. That is right.

Senator WILLIAMS. As it is represented by our confidence in the American dollar?

Mr. BURGESS. Yes, sir.

Senator WILLIAMS. I think it was pointed out the other day by the chairman and by Secretary Humphrey that if we were to drop back to the 1955 level of the economy, there would be a \$12 billion loss in revenue; and we would convert the projected couple of billion dollars surplus to a \$10 billion deficit almost overnight. You recall that testimony, I think?

Mr. BURGESS. I do.

Senator WILLIAMS. Since that time, I have been thinking, because I think that that should give us concern, certainly 1955 was not a low level of employment. But in making that computation, was not consideration given that it would roll back wages and everything else with it, and earnings of corporations, or was that computation made only on rolling back the corporate earnings?

Mr. BURGESS. Well, your chairman made the computation.

Senator WILLIAMS. It was made by the joint committee.

The CHAIRMAN. By Mr. Colin Stam and the Secretary of the Treasury.

Mr. BURGESS. Yes.

Senator WILLIAMS. But the thought that ran through my mind in this prospective rollback of corporate earnings, if a part of it was in a projected rollback of earnings of employees, in reduced payrolls, would not also the prices be down wherein our expenditures for roads and defenses would likewise be lower and our expenses would automatically be rolled back?

Mr. BURGESS. They would be some, but not much.

Senator WILLIAMS. It would not be much, but I was wondering how much that would be as an offset?

Mr. BURGESS. It would be some, but we would have a problem, there is no doubt about that.

Senator WILLIAMS. You think it would not be offset too much by that factor?

Mr. BURGESS. Well, these things happen very quickly and one problem about Government is that expenditures adjust a little slowly to the events that take place.

Senator WILLIAMS. I was not trying to establish that it was, but just asking.

But anyway, if such an incident did happen and could happen, what would be the two methods of financing? What would be the method of financing that deficit? Would it not be a case of either raising the debt ceiling where you could absorb the deficit with additional bond issues, or higher taxes; is that not true?

Mr. BURGESS. That is true.

Senator WILLIAMS. What would you advocate?

Mr. BURGESS. Well, of course, it is very hard to handle these things on a hypothetical basis. I am sure I do not know. I think we would do both.

Senator WILLIAMS. Have we not about reached the end of our taxing ability?

Mr. BURGESS. Well, we have in some directions, but if war broke out, we would discover that we had not.

Senator WILLIAMS. Well, that is true.

Mr. BURGESS. Of course, the whole point of that illustration again emphasizes what you and I were talking about: sound policies. The one thing that would carry us back in any such fashion as we are discussing is a pattern of boom and bust. It would be the bust that followed the boom. So that the important thing to do is to avoid the boom, not letting it go too far, and that again is really the reason why we are talking here about sound monetary and fiscal policies, because we want to avoid the boom which always carries the possibility of a bust. When you refer to 1955 levels, that would be a bust.

Senator WILLIAMS. Just one more question, in conclusion. I notice that in the banking field there seems to be a trend toward adopting a small-loan business in connection with banks?

Mr. BURGESS. Oh, yes.

Senator WILLIAMS. I am wondering if you would care to express an opinion on that trend and whether it should be checked or whether it is good for the economy. We are getting complaints from borrower's as to whether they should be under the 5 or 6 percent mortgage loan

or whether they should be transferred to the small loan which carries a higher rate?

Mr. BURGESS. Yes.

Senator WILLIAMS. Do you think there is—I would not say exactly a conflict of interest—but do you think there is a danger in that dual banking system structure?

Mr. BURGESS. Well, I am all for the small loan business. One of the things I took the greatest pride in, in my former institution, was that the City Bank was one of the first to establish a small loan business.

Senator WILLIAMS. I was speaking of the finance companies at the higher rate of interest.

Mr. BURGESS. The finance companies; well, the banks—

Senator WILLIAMS. I am not speaking of regular small loans being made by banks. I am speaking of the finance companies operated by the banks or the small loan departments which demand higher rates of interest.

Mr. BURGESS. Well, of course, I think a larger and larger part of that field is being handled by the banks, and I am all for that because I think they can do it economically and that they will be more restrained in their rates. The small loan company traditionally charges pretty high rates and they have been worked down in recent years by bank competition and other competition, so that they are now under pretty good control. But there are still some of them on a pretty high rate basis. They fill a definite field. Of course, if you look really back in this country, the small man can get credit better and cheaper in this country today than he has ever been able to, and do a great deal better, through his banks and through the mortgages. The mortgage business is very much better than it used to be, with the amortized mortgage; it is so much cheaper there is no comparison.

Senator WILLIAMS. You do not see any danger in the continued expansion of the banking industry into the field of small loans and financing departments?

Mr. BURGESS. I think it is a very good thing because it makes it more competitive and the borrower gets better rates and more efficiency of service.

Senator WILLIAMS. You think there is adequate control on it at this time?

Mr. BURGESS. Well, I do not know whether it is adequate. There is a lot of control. So far as I have seen, I think it is being handled pretty well on the whole.

Senator WILLIAMS. I have no further questions.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:55 p. m., the committee recessed, to reconvene at 10 a. m. August 7, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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WEDNESDAY, AUGUST 7, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Long, Anderson, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury; Paul Wren, Assistant to the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator Long is recognized.

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Senator LONG. Mr. Secretary, I see by the morning paper that the prime rate on loans has just gone up in New York from 4 to 4½ percent. I suppose you have seen that?

Mr. BURGESS. Yes.

Senator LONG. Did you have any knowledge that this was about to occur?

Mr. BURGESS. They have been talking about it. They have been restless about it. I know some of them have been bothered.

The problem is, as I understand it, that with the long-term market a little more difficult for financing, a lot of them have come to the banks wanting term loans, and the banks have been trying to hold them off a little bit because they do not want to make these longer term loans, and they find it difficult to set a rate which is an adequate rate. And the raise in the prime rate would enable them to keep from excessive lending to some of these people under the present situation.

Senator LONG. When this occurs, can we expect further increases in other interest rates?

Mr. BURGESS. Well, not necessarily, because I think that the market has been expecting this sort of thing for, oh, 6 weeks.

Senator LONG. Well, Congress just passed a bill which made it possible for the administration to advance interest rates on housing loans, which have now been advanced from 5 to 5¼ percent.

When the prime rate goes up from 4 to  $4\frac{1}{2}$ , does this indicate that we will have difficulty finding adequate funds available for housing?

Mr. BURGESS. Of course, there have been some problems about the available funds for housing for a long time. Those are two rather separate markets.

May I put a peg in? You indicated the Congress made it possible to raise that rate. Of course, that most recent legislation did not grant that permission. That had been in the law previously, FHA had the power to go up on the rate. And I do not think—since you raise that question of that rate, perhaps we ought to take a look at that so we understand what it is.

The Congress in the last legislation required the FHA and the VA to prescribe what were proper margins, what were proper discounts on mortgages, which is a very difficult thing to do because that is a market problem of what rates you can market a mortgage at.

When they came to fix these discounts, what would be a fair discount, what they found was, as they knew already, that a 5-percent FHA mortgage was selling around 97 or 96; that is, at a 3- or 4-point discount. And if they were going to fix a discount small enough so it could be absorbed in the operation, they would have to raise the rate on the mortgage.

Now, a  $5\frac{1}{4}$ -percent mortgage will sell at only a half a point, a point or a 2-point discount, whereas a 5-percent mortgage will sell at a larger discount.

The Congress has no power by legislation to enable a mortgage to sell at a lower rate than the market will take. You cannot, any more than King Canute could tell the waves to stand still.

The actual prices there are a matter of the market. And by putting a  $5\frac{1}{4}$  rate on it, they are able to reduce the discount.

The borrower on the mortgage does not pay a nickel more in reality, the man who gets the mortgage on his house, than he did before, but he does it nearer to par.

Senator LONG. Well, is this not just a matter similar to a dog chasing his tail, to keep trying to obtain mortgage money for housing and for Government financing and various other activities in the American economy by raising the rates, so long as there is not enough money and credit available to meet the demand?

Does it not just mean that as fast as you advance interest rates on one thing, then something else is going to have to be advanced? You were here a short time ago wanting us to advance interest on E-bonds, which we did. Now we see, having advanced the rate of interest on E-bonds one-quarter of 1 percent, that the prime rate has been increased from 4 to  $4\frac{1}{2}$  as of this morning.

Mr. BURGESS. Yes. You do not cure the situation by changing rates. You just effect a different distribution of where the credit goes. As long as there is more demand for money than there is savings and credit, there is pressure on rates.

Senator LONG. It seems to me that the prime thing in meeting inflationary problems is to bring supply in line with demand.

Mr. BURGESS. Or the reverse.

Senator LONG. It seems to me that the principal thing that is out of line at the present time is this big demand for adequate credit and the fact that the supply is too inadequate, too limited.

Mr. BURGESS. In other words, another way to put it is, the demand is in excess of supply. The American people are trying to use a little more money than they have got. And the answer is that if they are going to do that, they are going to pay higher interest rates.

Senator LONG. Well, this Government, through the Federal Reserve Board, can make enough money available for that purpose.

Mr. BURGESS. Yes; but—

Senator LONG. You contend that would be inflationary. But I am inclined to believe that the only instance where it would be inflationary would be in instances where people were trying to buy things where there were not adequate productive facilities to make them available; and I have not seen any such pressures in existence now or threatened, except with regard to industrial expansion investment.

Do you know of any particular consumer item in which that is the case?

Mr. BURGESS. No. I think it is true of very few consumer items.

But that is not the point. The point is, this is a capital boom. That is where the demand is.

Senator LONG. Let us just consider this matter of the capital boom for a moment.

Mr. BURGESS. Yes.

Senator LONG. Secretary Humphrey pointed out to Senator Kerr, when he was asked what items were in short supply, a long list of items; and it was further agreed, starting about page 190 and thereafter, 188—well, actually, starting at 185 and thereafter, of the printed hearings, that the items in short supply were a few industrial items relating to industry expansion.

If that is the case, I would take it the purpose of holding the money supply short was to try to discourage this rapid industrial expansion. Was that the purpose?

Mr. BURGESS. Well, it was to try to discourage two things: It was to try to discourage somewhat the aggregate demand; and, second, to encourage people to save so there would be a larger supply of funds available. And both things are happening a little.

Senator LONG. Let us just analyze that for a moment.

Mr. BURGESS. Yes.

Senator LONG. Do you know of any consumer items which are any considerable part of a family's expenditure, and which are in short supply as of this time?

Mr. BURGESS. It is a little bit hard to get good household workers down here.

Senator LONG. Good household services?

Mr. BURGESS. Yes.

Senator LONG. Good household services?

Mr. BURGESS. That is right; yes. It is awfully hard to get some of the things done that you want around the house.

You take a watch in for repairs, and they will say, "We will have this for you in 3 weeks." I took one in a while back, and they said, "We will have this for you in 3 weeks," and I have not gotten it yet.

Senator LONG. So far as the average consumer is concerned, is that a substantial part of their expenditures?

Mr. BURGESS. Well, it is, I think you will all agree, pretty substantial when you try to get something done. You have a hard time finding people to do it.

Senator LONG. Well, household help is probably a larger portion of my budget and yours than it is of the average consumer's; I am sure you realize that; and when you look at the overall problem of inflation as far as manufactured items are concerned, do you know of any item which is any considerable portion of a household budget which is in short supply as of now?

Mr. BURGESS. No; I do not think there are many.

Senator LONG. And quite the contrary. And with regard to a great number of things, it would be very well if we were producing more, I should imagine, responsive to a larger rather than a smaller demand for them.

Do you know how many automobiles we are producing this year, as compared to the number we produced a couple of years ago?

Mr. BURGESS. I do not have the figures on the tip of my tongue. We are producing around 6 million this year, something of that sort.

Senator LONG. I believe we have—

Mr. BURGESS. It was up half a million to a million more than that about 2 years ago.

Senator LONG. I have been told we actually have the capacity to produce about 8 million.

Mr. BURGESS. I think we could. What the situation would be as to supplies and as to labor, and so on, if you did, I do not know. That is another question.

Senator LONG. Well, the point I have in mind is that with regard to our productive facilities, for example, food, wearing apparel, housing, almost any particular item that we have, whether it be automobiles, washing machines, driers, we certainly have excess capacity, and we have current surplus production to meet current demand.

So I cannot see where there is any purpose whatever in discouraging people from buying those items. Do you?

Mr. BURGESS. The prices are going up, though. The cost of living is going up. That means there is more pressure than there is supply of something.

Senator LONG. The point is, Do we wish to undertake any measure to discourage people from buying those items? You say the price is going up. But there is plenty of supply there.

Mr. BURGESS. In those particular items. But I keep emphasizing that the problem here is in other specific areas.

Senator LONG. I can understand, as a device to fight inflation, that you would want to discourage people from buying scarce items and running up the price because the supply is not adequate for the demand.

Mr. BURGESS. Yes.

Senator LONG. But where you have excess supply, and where your productive facilities can almost immediately supply any increased demand that might be in prospect, is there any purpose whatsoever, as an anti-inflationary move, in discouraging people from buying those items?

Mr. BURGESS. The problem, Senator, is how you can channel your credit into those items, and not have it go into the places where they most want to use it, and where you are forcing prices up.

Senator LONG. Let us get to that next.

Mr. BURGESS. Yes.

Senator LONG. But first, let us get this question straight: Is there any purpose, in any campaign against inflation, in trying to discourage people from buying items which are in full supply or even excess supply?

Mr. BURGESS. No. I think that is right.

Senator LONG. The only purpose in combating inflation is to discourage people from buying items which are in short supply, where one can only bid more without increasing the supply.

Do you know of any other purpose, as anti-inflationary measures?

Mr. BURGESS. I think that is right. Of course, what you deal with is the aggregate.

Senator LONG. The same principle was illustrated during the war. In general theory, certain items were rationed because they were in short supply. Other items were in full supply, and they were not rational at all. You could buy all you wanted.

Mr. BURGESS. That is right.

Senator LONG. The few items that have been in short supply, looking back here at page 188 through page 197 of the printed hearings, as Secretary Humphrey pointed out repeatedly, are industrial items, and this inflation, according to Secretary Humphrey, was the excessive demand for these items for industrial expansion.

Yesterday you put in the record figures showing that, with regard to most of the major industries, less than 1 percent of their expenses are for interest.

Mr. BURGESS. That is right.

Senator LONG. Could you expand that list of industries which you gave us yesterday, to make it more complete?

Mr. BURGESS. That includes the major industries. We could make that more complete, yes. I would be very glad to.

Senator LONG. It seems to me as though it should be.

Mr. BURGESS. You will remember Secretary Humphrey put into the record large groups of items like utilities, some of the other nonmanufacturing things; also house building, and so on.

(The information referred to is as follows:)

*Interest paid in 1954 by principal groups of nonfinancial industrial corporations,  
as a percentage of deductions from gross receipts*

<i>Internal-revenue classification</i>	<i>Interest paid, percentage of total compiled deductions</i>
Farms and agricultural services.....	0.95
Metal mining.....	.63
Coal and lignite mining.....	.63
Crude-petroleum and natural-gas production.....	1.22
Nonmetallic mining and quarrying.....	.53
Construction.....	.29
<hr/>	
Beverages.....	.44
Food and kindred products.....	.29
Tobacco manufactures.....	.88
Textile-mill products.....	.43
Apparel and products made from fabrics.....	.81
Lumber and wood products, except furniture.....	.44
Furniture and fixtures.....	.33
Paper and allied products.....	.52
Printing, publishing, and allied industries.....	.35
Chemicals and allied products.....	.62
Petroleum and coal products.....	.48
Rubber products.....	.51
Leather and products.....	.37
Stone, clay, and glass products.....	.40
Primary metal industries.....	.75
Fabricated metal products, except ordnance, machinery, and transportation equipment.....	.36
Machinery, except transportation equipment and electrical.....	.50
Electrical machinery and equipment.....	.41
Transportation equipment, except motor vehicles.....	.32
Motor vehicles and equipment, except electrical.....	.22
Scientific instruments; photographic equipment; watches, clocks.....	.48
<hr/>	
Total manufacturing <sup>1</sup> .....	.44
<hr/>	
Transportation.....	2.35
Communication.....	2.45
Electric and gas utilities.....	6.60
<hr/>	
Total public utilities <sup>1</sup> .....	3.47
Total wholesale trade.....	.27
Total retail trade.....	.27
Total services.....	.93

<sup>1</sup> Other minor groups also included in total.

Source: Statistics of Income, 1954, preliminary.

Senator LONG. I always seem to get a lot of information from reading the newsletter of the National City Bank of New York. If you will just pick out the industries which they use for selective purposes, I think that would be adequate.

Mr. BURGESS. Some of those were lumped together in our tabulation. They could be broken down.

Senator LONG. I think it would be good that the list be as full as possible.

Mr. BURGESS. Yes.

Senator LONG. If the cost of interest is so small that it is not a considerable portion of the expense of those industries, why would you expect an increase in interest rates to discourage those industries from buying these various items in short supply?

Mr. BURGESS. You would not, particularly. The thing that affects it is not the rate, but the availability of the money. It is working with the supply of money that largely has the effect.

It is when money is less available, your lender is a little more selective and discourages the borrower a little, so it is not the interest rate so much as it is the matter of the supply of money.

Senator LONG. As long as they are willing to pay a higher rate, to pay whatever it takes to get it, and the major industries are the best of our industrial credit risks, is there any reason to assume they would not be able to obtain sufficient credit?

Mr. BURGESS. Yes. The marginal borrower is not going to get it as easily, and the terms, of course, of the loans are more difficult, so that they, while they can pay the rate, yes, they do not like, for example, to put out bonds that are not callable for 10 years, and so on.

They are reluctant to commit themselves that way.

Senator LONG. If they cannot obtain it on long term, they can obtain it on short-term credit, can they not?

Mr. BURGESS. Well, there again, the banks are very reluctant to make loans on building plants which go longer than 3 or 4 years.

Senator LONG. The point about it is that the interest rate they have to pay is a very minor factor with regard—

Mr. BURGESS. That is right.

Senator LONG (continuing). To industrial expansion for major industry.

Mr. BURGESS. That is right; yes. It is not the interest rate.

Senator LONG. Their interest costs, as you indicated, with regard to motor vehicles, was less than a quarter of 1 percent.

Mr. BURGESS. Yes.

Senator LONG. And textiles, one-half of 1 percent. Construction, one-third of 1 percent. Petroleum and coal, four-tenths of 1 percent. Fabricated metal, three-tenths of 1 percent.

So if those people foresee an advantage by expanding their plant, you would expect them to do it, and high-interest rates would not deter them from doing it.

Mr. BURGESS. No. It is a question of whether they can get the money on the kind of terms they want, apart from the rate. The rate is not the big thing here. People often overlook that.

Senator LONG. Do you know any of the major industries, those that are well known, which have not been able to get the money?

Mr. BURGESS. Well, there are some cases, yes.

Senator LONG. What cases do you have in mind?

Mr. BURGESS. Well, I have not anything I can cite immediately.

Senator LONG. Do you know of many?

Mr. BURGESS. No, I do not know of many at the moment.

Senator LONG. During the same period, while we were being told that high interest rates were going to help hold back inflation, we had policies which were causing people to buy these very same items, and I have particularly in mind the policies that relate to accelerated depreciation.

We were told when that bill was passed in 1954 that that section of the tax bill was going to lead to a great amount of purchase of durable equipment and to the expansion of plants. And that is what has happened, is it not?

Mr. BURGESS. It is a very good thing for the country, Senator. The problem is, we have a little bit too much of it right now.

Senator LONG. We are told this is what caused the inflation, and here is the evidence that these high interest rates do not keep these people from expanding their plant. And when you look at the additional interest costs which a major industry would have to pay by buying new equipment, and then look at the tremendous tax savings which that industry would have in the short run as a result of more rapid depreciation, the rapid depreciation actually offered many of them a chance to modernize their plants, looking to the Federal Government to pick up the check in the short run, did it not?

Mr. BURGESS. Now, wait a minute. Are you talking about the accelerated amortization in connection with defense plants, or are you talking about the option of using a curve instead of a straight-line depreciation?

Senator LONG. At the moment, I am talking about the option. That was available to all industry.

Mr. BURGESS. Well, that makes relatively little difference over a period of years. You pay a little heavier the first 2, 3, 4 years.

Senator LONG. During the first few years, it makes a lot of difference, does it not?

Mr. BURGESS. The first few years it makes a difference, but not one that would be of preponderant consideration.

Senator LONG. Well, a businessman told me he could buy a new Cadillac for his business, and by the time he got through paying for it and depreciating it on the curve line basis, and then proceeded to take a capital gain when he was able to sell it for more than he had depreciated it, that he could have a new Cadillac every year for less than \$200 difference.

Mr. BURGESS. I would like to check that one, Senator. It has to be a business expense, of course, and we will take a look at these Cadillacs that people drive around in as a business expense.

(The information referred to is as follows:)

The practice described by Senator Long could not occur under the usual circumstances. In general, a taxpayer can only depreciate the difference between the original value of an automobile and its expected trade-in value. If the expected life is less than 3 years, the accelerated depreciation methods cannot be used.

Senator LONG. I do not believe I would have been told that information if it were not correct.

We had some estimate of the tax savings to industry in the short run on this accelerated depreciation, and we were told that this was going to be tempting to industry to buy a lot of new equipment and to expand their plants, and they did just exactly what we were told they were going to do.

And it would seem to me that this is the principal cause of the inflation that you are talking about. Secretary Humphrey says those are the items in short supply; there is where your inflation started, and there is what has fanned the inflation more than any other one thing; and high interest rates will not do a thing to deter that, according to your testimony.

Mr. BURGESS. I indicated high interest rates is not what we are talking about. We are talking about credit restraints. It is an entirely different thing.

Now, let us get the figures. The conference arrangement on this in 1954 estimated that the change in the depreciation would cost us per annum, the first year, \$300 million for corporations, against a total corporate tax take of pretty close to \$20 billion. So it is a relatively small item in the whole tax picture.

(The following was later recorded for the record: )

The conference report on the Internal Revenue Code of 1954 gave as the estimated revenue loss in the fiscal year 1955:

Depreciation:	Million
Corporations.....	\$291
Individuals.....	73
Total.....	364

In a letter dated June 10, 1955, from Secretary Humphrey to the chairman of the Ways and Means Committee, he stated that our original total estimate of \$364 million, corporate and noncorporate, should be reduced one-half.

Senator LONG. You feel that that \$300 million involved in that one item—deferred tax; is that it?

Mr. BURGESS. That is right, yes.

Senator LONG. Do you believe that had the effect—

Mr. BURGESS. Of course, you pick that all up later. It is just a question of the timing of the thing. It is something that helped, but I do not think you can say that is a major factor in the capital boom.

Senator LONG. If you can turn back around and sell it, sell the same item after you have depreciated it, if you have taken more depreciation than you have used and you turn around and sell it, can you not take that sale as a capital gain if you have held for more than 6 months?

Mr. BURGESS. If that is the case, our internal revenue boys are doing a lousy job, because if they allow depreciation such that you can turn around and sell the item at above the depreciated cost after a year or two, then you do not have a fair depreciation.

Senator LONG. That is not the way I understand it. My understanding of the tax proposal—and I voted for it, let me say—as it was advocated, it sounded good to me, and I voted for it.

Mr. BURGESS. That was fair.

Senator LONG. Yes.

That proposal was made here that we should permit a person to deplete his plant and equipment more rapidly than he actually incurred the depletion.

Mr. BURGESS. Wait a minute. No, no.

Senator LONG. The depreciation.

Mr. BURGESS. No, no. The whole point of it is that a curve comes nearer to representing the actual change in the value, the actual depreciation of machinery, or what have you, than a straight line did.

There is no sense, particularly, in a straight line, because you know that you buy a machine, you use it for a year, and it is a secondhand machine, and does not—its depreciation is not on a straight line. It is on a curve. It depreciates more the first few years.

Senator LONG. The actual impact of the depreciation is what you can sell it for; is it not? If you buy a machine you can use for 10 years, and the actual value of it in the second year is what you can sell it for—if you want to get down to what the actual depreciation is, it is what you can get for it in the present market.

Mr. BURGESS. That is right. And if this thing is properly done, if the proper time period is fixed for each item, that will be just about what it is. It is just what you can sell it for.

If you sell it for a profit, then somebody has got a screw loose on it.

Senator LONG. It would seem to me that at some times you might incur a great portion of your depreciation in the first year, and at some times you might incur a lot of it later on.

But the whole purpose of the bill was, as I recall it—and that was my understanding when I voted for it—that you could take more depreciation in the first few years than you actually incurred.

Mr. BURGESS. That was not the principle, Senator. The principle was that you should take depreciation as it occurs instead of by a perfectly arbitrary straight line, which is not the way things work in this world.

Senator LONG. It was told to me as an accelerated depreciation, which meant that you take your depreciation more rapidly than you did to begin with.

Mr. BURGESS. Yes; that is right.

Senator LONG. It was also told to me that it was on the basis that it was going to encourage the expansion of equipment and plant throughout this country. That was the basis on which the Secretary of the Treasury advocated it. You were not the witness.

But is that your understanding of the argument for it?

Mr. BURGESS. Yes. I think we wanted to help people put in new machinery, and so on. That applies to small and large business, and everybody.

Senator LONG. Well, you wanted to encourage it, and it happened.

Mr. BURGESS. That is right.

Senator LONG. But here the record is, when we look to see what the inflationary pressures are, what items are in short supply, these very things we encouraged with that tax law are the very things that—

Mr. BURGESS. Senator—

Senator LONG (continuing). Are the largest contributors to the inflation we have experienced.

Mr. BURGESS. All right. It would be nice if one could know what was going to happen in this world all the way through.

In 1954, we were in a very mild business recession, and we all wanted to keep things going strong. We have been through plenty of periods of recession in this period, and we wanted fundamental, sound things that would keep on going.

Maybe if we were planning it this way, with a planned economy, and said, "Now, boys, in 1957, if we put this law into effect, they will try to build a few more plants than they ought to, so we will turn that that screw loose a little bit less"—I just submit nobody can anticipate, with these economic affairs, ahead like that. You cannot plan it that way.

You have got to adopt laws which in general will encourage the economy to go ahead.

Senator LONG. Well now, while it is oftentimes good to encourage the expansion of plant and equipment, is it possible to overdo it?

Mr. BURGESS. Why, sure.

Senator LONG. In other words, it is possible—

Mr. BURGESS. Sure.

Senator LONG. To expand plants and equipment more rapidly than we really should?

Mr. BURGESS. That is right.

Senator LONG. And it is possible to junk a lot of equipment that is good and useful, and to replace it with something new, on just the same principle as our wives might get tired of seeing that old icebox around. But it will last quite a while longer if you decide to have it last longer, and it will do a pretty good job.

Mr. BURGESS. That is right.

Senator LONG. If we later on wanted to discourage that particular type thing, would we not have done better, could we not have done it more effectively, to have gone back to the old tax law about depreciation, than to have had all these increases in interest rates?

Mr. BURGESS. Well, Senator, if you started adopting a tax law, it takes 6 months to get it adopted, and then it takes another few months to put it into effect, and by the time you have got it adopted, you would find the problem was quite different.

I do not think by tax laws you can deal with business movements up and down.

Senator LONG. That tax law was specifically adopted for a business movement when it was put into effect.

Mr. BURGESS. That is fine. I think as a long-term tax policy, that was excellent policy. It encouraged people. People are going ahead on some of these things, in my judgment, a little faster than is warranted. Some of the people going ahead on them are States and municipalities.

We did not assume, in 1954, necessarily that the States and municipalities would be increasing their debt by \$5 billion a year and going ahead with all their projects, or that the Federal Government would be spending as much as it is spending now.

So we cannot blame a businessman for all of of this. He has gone ahead with a great big program, but so has everybody else—individuals, and people who are not affected at all by this depreciation business.

So I do not think you can, by tax laws, attempt to guide the business cycle by turning the thumbscrews back and forth. Human nature is that you are going to have excesses, and you are going to have deficiencies, and the thing is going to run along.

You want a set of tax laws which in general will encourage people in economic growth.

Senator LONG. The point is, though, Mr. Burgess, that is just what we did do.

Mr. BURGESS. Yes.

Senator LONG. We passed a law which had the purpose of encouraging the expansion of plant and equipment. The law did that to such a degree that we are now told that that expansion of plant and equipment is where our inflation has occurred, and that this is responsible for these high interest rates that are costing the Government \$1.2 billion a year and making it difficult for people to buy things they need, and running up the costs of a great many things people have to buy.

Mr. BURGESS. Senator, I think that argument is just full of a thousand holes. In the first place, you cannot say this whole capital boom

is just due to this little tax law we passed. That is just not the way things work. There is a lot more back of it than that.

There is confidence in the situation. There is prosperity. People are looking ahead. They are a little bit afraid of price inflation; and all this talk about inflation, tremendous talk about it, is booming that up.

So that I do not think you can pin it on that.

That bill on depreciation has been advocated for years by accountants and by sound businessmen. They have said repeatedly that our laws on depreciation were wrong because we assumed that things were depreciated on a straight line.

Well, there is nothing in the world that depreciates on a straight line. They all have their different rates of curve. And the tax law, I think you people there very wisely tried to find out what the curve was that came nearest representing the actual facts of depreciation.

Senator LONG. Well, we were told that was what it was going to do, and I gathered from hearing the witnesses here that there was a very optimistic prediction, that we could expect a great expansion.

Mr. BURGESS. I think it helped, Senator. I think you were just right in passing the law. It was a very fine thing to do. Over the long period, we want this expansion in capital goods. It is a fine thing.

But as to the rate of it in any particular year, that is quite another problem.

Senator LONG. Could you give me some indication as to what percentage depreciation represents in these same industries on which you gave me the percentage of expenditures that interest represents?

Mr. BURGESS. Yes, I think we can do that. I think we can do that.

Senator LONG. Do you have any offhand impression as to that?

Mr. BURGESS. I do not have it on the tip of my tongue, but I would think it was much nearer 10 percent than it was these small things.

(The information referred to is as follows:)

*Depreciation deduction compared with total compiled deductions, by selected corporate groups, 1954*

	Total compiled deductions	Depreciation and amortization <sup>1</sup>	
		Total	Percent of deductions
	<i>Millions</i>	<i>Millions</i>	
Primary metal industries.....	\$18,315	\$1,056	5.77
Fabricated metal products <sup>2</sup> .....	12,913	265	2.06
Motor vehicles.....	18,349	453	2.47
Textile-mill products.....	11,687	255	2.21
Crude petroleum and natural gas.....	3,494	265	7.58
Petroleum and coal products.....	26,835	985	3.67
Construction.....	17,003	297	1.75

<sup>1</sup> Does not include depletion. Percentages are computed from unrounded figures.

<sup>2</sup> Except ordnance, machinery, and transportation equipment.

Source: Statistics of Income, 1954, Preliminary.

Senator LONG. So if depreciation represents about 10 percent, and interest expense represents about one-half of 1 percent, in these major industries, and if you give a person much more favorable depreciation treatment, that is going to encourage expansion much more than an

increase in his interest expense would discourage it, as a factor of 90 to 1.

Mr. BURGESS. I think depreciation is a bigger factor than interest in most production; but let me come back to it, it is not the interest rate. It is the availability of money that is affected by what you do in your credit policy.

Senator LONG. Mr. Secretary, to make an estimate of the price being paid for this tight money policy—

Mr. BURGESS. Yes.

Senator LONG (continuing). And so that the policy could be compared with the benefits, it seems to me we need precise and comprehensive information on this subject.

On pages 323 to 327 of the printed hearings, on Monday, July 1, I asked the Secretary of the Treasury the following questions, and the following responses from the Secretary were inserted in the record.

I asked for the changes in interest rates, year by year, since the beginning of 1950 and on into 1957, in the case of new borrowings on the part of homeowners, taking account of any discounts.

The response was that no satisfactory figures were available, and a table was furnished estimating only the average yield to effective maturity under section 203 of the National Housing Act.

The Treasury inserted a paragraph at the bottom of page 324 of the hearings, indicating why the usefulness of these figures is rather limited. At any rate, this information is not responsive to the question, because it shows only the indicated average yield to effective maturity.

It shows nothing on the changing interest rates, but only shows the varying yields on a fixed interest rate due to fluctuations in the market price of a \$100 mortgage.

Did this tabulation include the mortgages actually held by the Federal National Mortgage Association?

Mr. BURGESS. Well, the same thing would apply to them. They are an average cross section of the mortgages, Senator.

These, this particular one is FHA. They have been buying both FHA and VA's.

Senator LONG. With regard to home loans and the interest rates, would it not seem, to see the whole picture, that we would need to have more information than that?

Mr. BURGESS. I doubt if we have got it, Senator. I have not focused on this particular page before. I will be glad to review it with our people and see whether there is any way of giving you anything more.

Senator LONG. The point I have in mind is that while that is just one segment of the overall picture, it is a very significant segment, and it seems to me that we need broader information in order to carry out this investigation in a proper fashion.

This committee is not in position to get it, and I believe the Treasury is the agency best in position to obtain that information.

Mr. BURGESS. Senator, let me study that over.

As you know, we have worked at great speed here, and we had an enormous number of requests for information. I have not personally had a chance to go over all of it.

I will be glad to review this. We do have difficulty. Some of these figures do not exist, you know.

Senator LONG. Well, these things that I requested are matters which seem to me to be important to fill in the picture. I do not see how we can properly discharge our responsibilities in trying to investigate this entire fiscal and monetary problem, unless we have this information.

And the Treasury, I believe, is the only agency which can get it. It is not the kind of thing you can obtain before sundown tonight. It may take some time. But we have been requesting some of this information for some time already.

I also asked the same question with respect to new borrowings on the part of farmers. The Treasury furnished a table, shown on page 325 of the record, showing practically no change in interest rates since 1946 on non-real-estate loans.

At this point, I would like to know if that includes the Government loans which are at a fixed-interest rate?

Mr. BURGESS. These are loans by banks.

Senator LONG. Are these loans which are insured by the Government?

Mr. BURGESS. Not for non-real-estate loans. These are just non-real-estate loans by the banks, and real-estate loans by both banks and Government agencies. The source is the Department of Agriculture on that. They collect figures on that.

Of course, as you know, Senator, the country bank does not change its rates often. The rate is 6 or 7 percent, or whatever it is, and they do not change their rates much when conditions change.

The shifting-rate business is much more true of urban areas than of agricultural areas. When a farmer goes to borrow money at the bank, he does not say, "What is the interest rate, boys?" They just say, "The interest rate is 6 percent," and it is all written up that way in a great many banks.

Senator LONG. I would like to know if it is possible to get more information with regard to these farm loans. It seems that what is furnished is fragmentary, and there should be more we can obtain.

Mr. BURGESS. Yes. We will take a look, Senator, and we want to give you as much as we can and just as fully as we can. We do not want to give you things which are not accurate. But we will do our best. I will go over it personally.

The basic information required to properly answer these questions is not available.

Senator LONG. It seems to me some of the things which are very important will require a considerable amount of studying and digging to get them, but I think it is important that the Treasury know them, and I think it is important that we know them.

Mr. BURGESS. On this FHA and housing thing, of course there were extended hearings before both the House and the Senate Banking Committees before the adoption of the housing bill. Whether one of your assistants could find what they want there, I do not know.

Senator LONG. I will do my best to dig it out, but the Treasury has more people working for them than I have working for me.

Mr. BURGESS. Senator, if you have an administrative assistant or somebody who has worked on this, if you would like to have him come down to the Treasury and sit in with some of our boys, we would be glad to do it.

Senator LONG. Some of the things I have in mind would require more than that, because it would require your people actually seeking information which they do not presently have.

Mr. BURGESS. Yes.

Senator LONG. I think you need it, and I think we need it.

I asked the same question with respect to interest rates on loans to unincorporated business. The Treasury has furnished, on page 326 of the record, a Federal Reserve compilation of interest rates on short-term business loans, classified by size of loans, in 19 cities.

This table was limited to one type of loan, and covered 19 cities. It is not comprehensive. It indicates a severe rise in interest rates, which emphasizes the importance of similar information covering the other categories.

I asked for similar information about consumers obtaining installment and noninstallment credit. The Treasury reply, as shown on page 326 of the record, was:

We know of no compilation of interest rates on loans of this type.

The specific information furnished by the Treasury related only to a low-priced popular model passenger car, and this one example shows so large a rate of increase that it again stresses the need for more comprehensive information.

I asked, on the basis of specific information I had requested but which was not supplied, that the Treasury compute the current annual rate of interest charges, in dollars, on all outstanding indebtedness other than public borrowings, compared with the beginning of 1950 and 1953.

The answer, on page 326 of the hearings, was to the effect that—

We know of no compilation of data which would provide the basis for authoritative figures on total interest charges on outstanding private indebtedness.

I asked what this amount would now be, in dollars, if all outstanding indebtedness other than public borrowings were at current rates of interest, and I asked how many years it would take before refinancing would put such outstanding borrowing under the current rate, assuming no further increases in interest rates.

The Treasury answer to these questions, shown on page 327 of the printed hearings, is that—

We are unable to supply estimates in answer to these questions, since the necessary information is not available on the rates of interest paid on the outstanding indebtedness in the various categories, nor on what the current rates would be.

It would seem to me, if we are going to assess what the impact and the burden of these interest rates now are on the Government and on the people, and the implications for the future, we would have to have this information, and I realize it could not be supplied in complete detail, but estimates should be possible.

Mr. BURGESS. Well, sir, I started my career as a statistician, and I can assure you that getting some of these things, as you suggest, would cost many thousands of dollars, because they just do not exist.

If the committee wants to suggest an added appropriation for these purposes, we could consider that. But, frankly, these things are pretty hard to put together. We just have not got the basic information on a lot of them.

Senator LONG. If the Treasury is adopting these policies, and participating in these policies, without knowing what their impact and what their effect is and will be, it seems to me that this is an extremely serious matter, just flying blind, not knowing what the implications or results now are and may become.

Mr. BURGESS. Senator, I honestly do not think that having this information would put you in any better position to guide your policies than you are in now.

Senator LONG. Well, when you undertook the refinancing of the national debt and proceeded to pay these higher interest rates, did you ever compute what the cost would be if you continued that policy?

Mr. BURGESS. Well, sir, that would be very interesting, but we have not paid a nickel more than we had to pay to sell the bonds, and our job is to sell the bonds so that the Treasury does not go broke, and we are paying the money we have to pay on the market to sell our bonds.

Senator LONG. You certainly have been the principal advocate—if not the principal certainly one of the most outstanding and consistent advocates in this country—of discontinuing the policy of the Federal Reserve pegging bonds at any particular rate.

And when you put the policy that you have been advocating into effect, it would seem to me you would want to know what the cost of it is going to be.

Mr. BURGESS. Well, that is a short-circuiting reasoning, Senator, if I may say so.

Senator LONG. I am told that a rough estimate is that, if the public and private debt of this country were refinanced at current interest rates, it would increase the cost by 8 to 10 billion dollars, and that the cumulative increased costs over the several years of the tight money policy may be around \$20 billion.

I do not want to make that rough estimate myself. I would like you to make it.

Mr. BURGESS. Yes.

Senator LONG. And it seems to me you ought to find out.

And furthermore, just on the national debt part of it, the Federal debt, your own statement was that at current rates you would estimate that it would cost annually about \$4.5 billion above what it was at the time you came into office, if the whole national debt were refinanced.

Mr. BURGESS. Now, Senator, I was misquoted on the floor of the Senate on that. I did not say that I estimated in a few years the debt would cost that much more. I said it would not. I said it was a totally unrealistic assumption.

If you did assume that the whole debt was refunded at these rates, it would be about \$4 billion more, but I also said that was extremely unlikely to happen, and I was misquoted on the floor of the Senate, and I did not like it.

Senator LONG. But the way it is going, it costs more; it is going up all the time. Here at the time you speak it is now 4 percent. At that time you were paying 3¾, were you not?

Mr. BURGESS. Yes. But I wanted to clarify the statement. I never made such a prediction. I made a mathematical computation which I said was erroneous, because those things do not happen that way,

that the entire debt would be refunded at current rates, and they will not be. It is not going to happen.

Senator LONG. So far, they are being refunded at higher rates.

Mr. BURGESS. No.

Senator LONG. Is it not important that we—

Mr. BURGESS. The particular maturities at this particular time are being refunded at higher rates, but the great mass of the debt is not being refunded and will not be refunded for a great many years, so that to assume it is going to be refunded at present rates is just a meaningless assumption.

Senator LONG. Well now, you mentioned this interest cost was one-half of 1 percent of the cost of a private industry, that is, of certain industries.

Mr. BURGESS. Yes.

Senator LONG. It works out to about 10 percent or better of the cost of the Federal Government, does it not?

Mr. BURGESS. Not quite that much, if you allow, as I said the other day, for the amount we get back from the Federal Reserve System, and so on. We are putting an estimate in the record on that. I do not know as it is quite ready, but it will bring it down to below 10 percent.

Senator LONG. What percentage would you estimate, offhand?

Mr. BURGESS. Well, there might be \$2 billion that will come back to us, so that it brings it down under 10 percent of our total Government expenditures.

(The information referred to is on page 1663 of the record for July 31, 1957.)

Senator LONG. You think perhaps 8 or 9 percent?

Mr. BURGESS. More nearly that.

Senator LONG. If we refinanced at present rates, it would go up to about 15 percent; would it not?

Mr. BURGESS. Well now, again I hesitate to make that mathematical computation, because it does not mean anything. You are not going to refinance the whole debt at current rates.

Senator LONG. It seems to me we should have some understanding of the consequences of these policies, and of the consequences of continuing what we are doing.

If you were running a private business, for any particular group, whether it were a bank or anything else, and one segment of your costs continued to rise, would you not project that to see what the effect on your business would be if you continued it?

Mr. BURGESS. I just want to read again into the record what one of your colleagues, a very distinguished economist, said about the relative cost of interest in the cost of inflation.

Senator ANDERSON. Is that Douglas again?

Mr. BURGESS. "The cost of meeting this"—this is a speech he made in the Senate.

Senator ANDERSON. Is this Mr. Douglas again?

Mr. BURGESS. This is Mr. Douglas again.

Senator ANDERSON. Thank God for Mr. Douglas. [Laughter.]

Senator LONG. I believe you said that before Mr. Douglas did, did you not?

Mr. BURGESS. Well, if I did, I would be quite proud of it, because it is a very good statement, Senator. [Laughter.]

The cost of meeting the interest on the public debt is now roughly—

Senator LONG. Could I ask you this, Mr. Under Secretary?

Mr. BURGESS. Yes.

Senator LONG. Is that in response to the question I asked?

Mr. BURGESS. I think it is. We are talking about—you said you should, when you adopt a policy, count the cost. Now I am just saying one of the very distinguished members of this committee said that the cost of inflation, of the policies we have been following, of pegging the price of Government securities, was many times the increase in the interest cost involved to the Federal Government.

Senator LONG. And you just got through telling us that where all this inflation is occurring is with regard to this expansion boom, and that interest charges have had nothing to do with it, or practically nothing. You said very little, if any.

Mr. BURGESS. I do not quite see the connection between that and what we are talking about.

Senator LONG. It seems to me that is extremely important.

Mr. BURGESS. You are raising the question of whether this flexible policy really does check inflation or not.

Senator LONG. That is right.

Mr. BURGESS. I am saying that the interest cost is not the thing that does it, but it is the availability of credit, it is the restraint on credit that does it.

Senator LONG. Well, the restraint on the credit has not checked this boom, either, so far as I can see.

Mr. BURGESS. I think it has, Senator, as compared to what it would have been in letting it go so that the sky is the limit.

Senator LONG. You have not cited to us one single instance, and apparently you were not so concerned about it, where the current policies have succeeded in undoing anything which has contributed to this inflation spiral.

Mr. BURGESS. No. We have been all over that. We have reviewed that, Senator.

Senator LONG. Let me just ask this question again, which I think is a very simple question that can be easily answered:

If you were running any business——

Mr. BURGESS. Yes.

Senator LONG (continuing). And one important segment of your costs continued to rise rapidly, would you not project what that cost would be if you had to go forward with it on that basis?

Mr. BURGESS. Well, you would as well as you could, Senator. You would as well as you could. And we take a look at this.

Senator LONG. Do you not imagine the airlines, having to buy new airplanes which cost 8 to 10 times what their previous planes cost, have made some studies to see what it would cost them to replace their present fleet with new airliners?

Mr. BURGESS. Yes.

Senator LONG. Well then, would not the same thing be a responsible thing to do with regard to this Government——

Mr. BURGESS. Yes. We do, Senator.

Senator LONG (continuing). In managing our fiscal affairs?

Mr. BURGESS. We estimate our interest costs as far as we can. We estimate about a year or two ahead of time, which is as far as you can go, because these rates go up and down. Any assumption that interest rates are just going to keep going straight on up is just contrary to any economic experience, or they are going to stay level at some figure. There is no use trying to make an estimate on that basis.

Senator LONG. You have made the statement that they continue to go up until something happens, and the only way to have something happen of the kind to which you refer is a recession of some sort, and I do not want that to happen.

Mr. BURGESS. Where did I make that statement?

Senator LONG. That is what I understood you to be saying. I cannot find it in the record now.

Mr. BURGESS. I am not trying to be petty—

Senator LONG. I will be glad to find it. I do not have it at the moment, Mr. Secretary.

Mr. BURGESS. Yes.

Senator LONG. The information I have been requesting, and in my judgment this is the \$64 question, is what is this going to cost if we are going to continue this program?

Mr. BURGESS. Yes.

Senator LONG. I am not the only one who has asked for this. Here is Senator Kerr asking you this question on April 3, 4, and 5, I guess that was probably the first day, about April 3, during the hearings on these E bonds.

He said, and this is on page 18:

I am figuring what the increased cost of carrying this \$277 billion national debt will be when it has been refunded at the higher rates which are now in effect, which are being applied on the new obligations that are issued.

The CHAIRMAN. Would you permit the Chair to make a suggestion? I think that is very valuable information. I would like to see the same information that was given for corporations. Five years ago, the overall rate was 3 percent.

Then the chairman said, on page 19:

What I would like to see is a definite, concrete statement about the corporations, the State, the local indebtedness, the Federal indebtedness, and also the individual, such as obtainable. Of course, we know that some of it must be estimated.

Senator KERR. I thank the chairman. That is what I was driving at.

The CHAIRMAN. Along the lines of what you asked for about the corporations. I think it is a very interesting subject. I think it is extremely important.

Senator LONG. In that connection, the chairman of the committee suggested that this information should be obtained, and recognized that this would have to be an estimate, but he wanted to know what would happen if we had to carry this burden at current rates.

We received some tabulations on what has happened with regard to certain types of indebtedness, what the interest rate had been and what it is now, but we just do not have sufficient information, and it does seem to me we ought to have it.

Mr. BURGESS. Well, I just do not think there is any way of getting it, Senator. I do not think it is available.

I will review that again, as I indicated a minute ago, and see whether we can go any further than what we have. I have not had a chance to do that personally.

Senator LONG. I do not see how we can take the attitude that we can afford to pay 4 percent interest on some of our Government bonds,

without ever for a moment considering the question of whether we can afford to pay 4 percent on all of them. And it seems to me that we cannot very well consider whether we can afford to pay 4 percent on Government bonds, without saying what this does to the whole economy, to corporations and to private individuals, to farmers and people buying homes, and others.

I would hope you would recognize the importance of this, Mr. Burgess, and try to get that information for us.

You do have many statistics, a great amount of information, in the Treasury. You also have, through interdepartmental committees, contacts with other agencies, do you not?

Mr. BURGESS. We are in contact. We get anything that they have.

We, in compiling the figures we have made available, have been to the Housing Agency, the Department of Agriculture, the Department of Commerce, the Federal Reserve. We have scoured up everything we could find.

But there are limits, you know, as to the amount of statistics that are compiled. You could spend millions and millions of dollars around here compiling more statistics, particularly if you went into the business of estimating what might happen if something else happened, if something else happened, if something else happened.

You have got to make a series of assumptions. The amount of time that economists and statisticians could waste compiling suppositions on the basis of different events is very great, and the whole thing would be blown into a cocked hat because you are not able to make any estimates with assurance that any one of the consequences you have to assume will follow.

It just does not amount to anything, that is all, and how much money do you want the Federal Government to spend doing it? There are limits.

Senator LONG. Some of it you would have to estimate.

Mr. BURGESS. Yes.

Senator LONG. But it does seem to me that, when you estimated it, you could certainly get a good deal of information which you could apply.

Mr. BURGESS. Let me be practical, Senator. My brother is the Director of the Census, and he has a terrible time to get the money to collect even just the basic data, just the facts that are back of all these things.

And the Congress, quite rightly, is very critical of the expenditures for collecting statistics.

Now you are asking us for some statistics which we do not have available, which I do not think are worth the thousands of dollars we would have to spend to get it.

Senator LONG. Mr. Burgess, we are discussing the question of what it would cost to refinance the national debt at current rates, and what it would cost—

Mr. BURGESS. Which is a completely hypothetical assumption, and will never happen, Senator, so why waste time computing it?

Senator LONG. Refinancing is going to cost something, and it would be important to find out whether we should pay more or seek to pay less.

Mr. BURGESS. Well, wait a minute. The Treasury has got to pay the going market rate. Now, there may be some things you can do

to the economy which will change that, but I have not heard any suggestion that would do it.

Senator LONG. We could certainly go back to the policy the abandonment of which you advocated, which was pursued all during the war and pursued up until the accord in the year 1950.

Mr. BURGESS. Are you suggesting that you think we should again have the Federal Reserve support the price of Government securities?

I think that is something you ought to discuss with Mr. Martin. I did not think you were advocating it.

Senator LONG. I am certainly seriously considering it. I do not know what the cost would be, and I want to determine that. Can you get some estimate of these matters?

Mr. BURGESS. We will review all these figures and see whether there are any gaps in it. I have not myself personally reviewed it. I will do so, and we will get you anything within reason that we can get, Senator.

Senator LONG. It would seem to me anyone who——

Mr. BURGESS. But I think you are asking for something which really is not quite within reason.

Senator LONG. I think it is certainly within reason to ask how much it costs to refinance this debt at the existing rate.

With regard to the availability of the money supply, my understanding is that from 1933 to date, our money supply increased at the rate of about 7 percent a year. Of course, that included war years. It also included depression years.

From 1953 to date, the average annual increase in the money supply was about 3.2 percent; and at the present time the average annual increase has been about 2.5 percent, that is, during 1956 and 1957 to date.

Based on this, and particularly on the high interest rates we are paying at this present time, I would ask you if this does not indicate that there is a case for a greater increase in our money supply? And credit, I regard as being part of our money supply.

Mr. BURGESS. Of course, that is the \$64 question, Senator. That is always a debatable question as to whether the Federal Reserve is holding back too much on the supply of credit, and that is something that you want to discuss very fully with Mr. Martin. That is his responsibility.

I would remind you of our discussion yesterday with respect to the rate of turnover of money, that in considering the availability of money you have to consider not just the amount of money, but the rate at which it is utilized, that is, the velocity.

And if you do that, there is plenty of money, because the rate of velocity has gone up 10 percent in the past year.

Senator LONG. You made the comparison of the cost to industry, that is, the percentage of their cost that was actually interest?

Mr. BURGESS. Yes.

Senator LONG. Have you undertaken to determine what percentage of the cost of buying a house is interest?

Mr. BURGESS. You will remember that Secretary Humphrey, in his presentation, had those figures. It showed that——

Senator LONG. I think he compared it to the cost of labor, and that to me was not a very enlightening comparison because I did not think,

and I do not believe, that we are investigating here the cost of labor, except insofar as it explains some of the other costs.

Mr. BURGESS. Since you raised the question, I would like to give just the figures.

A \$10,000 house, in the spring of 1946, would now cost \$19,000 in the spring of 1957 because the cost of building has gone up that much, and he would pay a 5 percent interest rate. The monthly payments in the spring of 1946 with a 4 percent interest rate would be \$51.51. In the spring of 1957, the monthly payments would be \$106.58.

Now, most of that increase occurred before 1953. The 1953 figure is \$91 instead of \$51.

The increase in the monthly payment, therefore, is around \$55, and of that, \$8.71 is due to the interest cost, and \$46.36 is due to changes in other costs.

Senator LONG. You say \$8 and what?

Mr. BURGESS. And 71 cents is due to the change in interest costs.

Senator LONG. Out of?

Mr. BURGESS. \$106.58.

Senator LONG. \$106?

Mr. BURGESS. Yes. Out of the increase of \$55, \$8 is due to the interest costs; \$46.36 is due to the other costs.

The CHAIRMAN. Could I ask what are the two rates?

Mr. BURGESS. Four percent and 5 percent.

Senator ANDERSON. Does that include discounts?

Mr. BURGESS. That does not include discounts in either case. A 5-percent mortgage, we are recomputing it on a  $5\frac{1}{4}$  basis, and we will give you that.

(The information referred to is as follows:)

*Changes in cost of a house since the spring of 1946<sup>1</sup>*

	Spring of 1946	Spring of 1953	Spring of 1957	Summer of 1957
Estimated cost of house.....	\$10,000	\$17,300	\$19,000	\$19,000
Interest rate (FHA) (percent).....	4	4 $\frac{1}{4}$	5	5 $\frac{1}{4}$
Monthly payment (for 20 years).....	\$51.51	\$91.06	\$106.58	\$108.83
Increase in cost of house since 1946.....		\$7,300	\$9,000	\$9,000
Increase in monthly payment since 1946:				
Due to interest rate.....			\$8.71	\$10.96
Due to other costs.....			\$46.36	\$46.36

<sup>1</sup> Changes based on cost of standard 6-room, frame house in St. Louis as estimated by Roy Wenzlick & Co.

Senator LONG. I just made some study, just a brief calculation of what the difference of 1 percent interest makes on buying a house, and—

Mr. BURGESS. This is it.

Senator LONG (continuing). Here is just the monthly payment on a \$10,000 house at 4 percent on a 25-year mortgage. You would pay \$52.80.

Now suppose the same loan at 5 percent. You would pay \$58.50.

That would work out to a difference of \$5.70, which is just about 10 percent on a flat payment basis. So on that basis of an increase of 1 percent in interest rates, it would increase the cost of that house by 10 percent to the person who is buying it. That is insofar as the monthly payments are concerned.

Now, does that accord with your figures?

Mr. BURGESS. I think our figures, the ones I have just given, Senator, at a 5-percent rate, the difference in monthly payments is \$8.71. And the difference due to the other costs, due to inflation, is \$46.36.

So anything you can do to keep the inflation down, you can well afford to. The interest cost is of much less importance.

Senator LONG. I do not know what I can do about the labor costs, but I might be able to do something about this interest cost; I would hope maybe this committee could.

Mr. BURGESS. Well, the labor costs are in the overall costs. Of course, about a third of the cost of building a house is labor; and when you have an overloaded economy, that goes up.

Senator LONG. Can you see how these higher interest rates help reduce the cost of labor?

Mr. BURGESS. Yes, I think so.

Senator LONG. How?

Mr. BURGESS. It is not the higher interest rates, but the question of availability of credit. If you try to build more houses than there are carpenters to build them, the carpenters naturally will get higher and higher wages.

Senator LONG. At the present time, we are building 20 percent less houses than we were a year ago.

Mr. BURGESS. How much?

Senator LONG. 20 percent was my understanding; housing starts are about 20 percent—

Mr. BURGESS. It is running about 970,000 starts compared with—that may be about right.

(On a seasonably adjusted basis privately financed housing starts in June 1957 were 970,000 or 11 percent below June of last year.)

Senator LONG. That would not indicate, would it, that we ought to cut down on the number of housing starts we have, or that we are going to have inflation if we revert to our previous rate, or make up some of the slack?

Mr. BURGESS. Well, Senator, one has to remember that the total volume of construction—not just housing, but the total volume of construction—which uses materials and employs building labor, and so forth, is at a high for all time. That is, you are building more public buildings and factories and department stores, and so on, offices, so that the aggregate which use material and labor is a high for all time.

Senator LONG. You think it would be inflationary to build more houses than we are building at the present time?

Mr. BURGESS. Somewhat, yes.

Senator LONG. What is that?

Mr. BURGESS. Somewhat, yes.

Senator LONG. It is undesirable and should be discouraged?

Mr. BURGESS. No, I did not say that. I would like to see more houses built, but I think that we are building—there is a difference of opinion as to how much; whether we are building enough to take care of the need or not. The formation of families is less than the number of houses we are building; so that something under a million is not too far off the beam as to what the country needs.

Senator LONG. You think we should discourage the building of more houses, and adopt policies calculated to discourage the building of more houses?

Mr. BURGESS. No, on the contrary. On the contrary, I think we ought to do what we have done just a few days ago. We have reduced the downpayments on the less expensive houses, so that people may have, the ordinary man may have somewhat freer access to buying a small house, and I think that is just fair, just simple justice, to give him as good a shot with the available money as the larger fellow, and that is the meaning of this last change.

Senator LONG. If we could adopt policies to hold down this interest rate, that would help him get the house at a more reasonable price; would it not?

Mr. BURGESS. That is another problem. That is a problem of the supply and demand for credit; and I have yet to hear just a suggestion that you would advocate for doing that. The much more important thing is to keep the costs from going up.

Senator LONG. I would hope this committee would have some suggestions before we get through with this. I would like to have yours first.

Mr. BURGESS. It is the inflation; what I am most worried about on housing is the way costs are going up. Even with the present volume of construction, the cost of building a house showed a little increase this past month, even with the present amount of building. And these figures showing that since from the spring of 1946 to the spring of 1957 the cost of a \$10,000 house has gone up from \$10,000 to \$19,000, that is a serious thing. It is not the change in the interest. It is the change in other costs. Anything we can do to check inflation, we ought to do.

Senator LONG. Are you here advocating that one ought to reduce the wages of the people who work on houses?

Mr. BURGESS. No.

Senator LONG. Well, if you are not advocating that, and you state that is a principal increase, I do not see what we can do about it. Perhaps we can do something about interest. That is what I am asking about.

Mr. BURGESS. Well, you are picking out one of the smaller elements in the whole thing, instead of the total. I am interested in the total rise in prices, and wages go right along with that. It is the whole picture you want to deal with, it seems to me. And the way, as I said yesterday just as clearly as I could, the way it has worked over the years in this country and over in other countries, if you adopt sound budgetary policies and sound fiscal policies, that will tend to hold back these inflations, these increases in prices. And I have not heard any other suggestion for dealing with the situation that sounds effective.

Senator LONG. Yet you have testified that in the area where the inflation has been occurring the change in policies is not making any substantial difference?

Mr. BURGESS. No. On the contrary, I think it is. I think we are holding this thing in check to some degree. I think there are other things we can do—

Senator LONG. Well, your testimony was that it would not make any difference, the interest rates these people would pay if they were borrowing more money.

Mr. BURGESS. No. I keep saying, Senator—

Senator LONG. That is where our available credit has been drained out.

Mr. BURGESS. But I keep saying it is not the interest rates; it is the availability of money. It is the total pressure the Government is putting on the economy through its fiscal expenditures. Those are the things that are affecting this thing.

Senator LONG. And could it not also be the effect of the laws we passed, encouraging people to expand plant and equipment?

Mr. BURGESS. That is a minor thing.

Senator LONG. You can stand by your answer if you want to.

I would like to ask about another question, then. If you would look at page 7 of your Economic Indicators, there is a factor there that does somewhat alarm and concern me.

Mr. BURGESS. Yes, we had a look at this before.

Senator LONG. Looking at the lower section—pardon me, I should address your attention to page 6.

Mr. BURGESS. Yes.

Senator LONG. There is per capita disposable income for the second quarter, the last figure for the second quarter in 1956 prices which is constant dollars?

Mr. BURGESS. Yes.

Senator LONG. Per capita disposable income for this year, 1957, second quarter, \$1,705, as against \$1,713 for the same period in 1956?

Mr. BURGESS. That is right.

Senator LONG. In other words, when you make adjustments for differences in population and for the inflation which has occurred, on a per capita basis the actual disposable income of people is less now than it was at this time a year ago. Have you given any thought to that?

Mr. BURGESS. Yes, a great deal.

In the first place, we agreed that these figures, a fluctuation of a few percentage of them is within the range of error. But the important point that I want to make is that it is a very good demonstration of the importance of keeping prices from rising, to fight inflation in every recognized way that you can do it. Because with inflation you may appear to be going forward, but you really go one step backward with every step you go forward. I think it is a very good demonstration.

Senator LONG. Whether you have inflation or do not have inflation, it is also important that we keep increasing our standard of living if we can, and that we try to have more money available to the people after they get through paying their taxes than they had before.

When you make that calculation, you find that the average person, that is, on a per capita basis, is worse off this year than last year. Have you considered that phase of it?

Mr. BURGESS. Yes. I think that is one of the best arguments for doing the things that have been tried and proved as ways of fighting inflation.

Senator LONG. Do you believe—

Mr. BURGESS. Because while you appear to make progress, you keep pouring out more dollars. It is no good if it brings the cost of living up so that you really are cheating your people.

Senator LONG. Well, now, what you have had this past year is exactly that, is it not, if you compare the second quarter of 1956 with the second quarter of 1957?

Mr. BURGESS. Well, we were not wholly successful in holding the inflation in check. If you go back to 1952, we made substantial progress there, very substantial progress.

Senator LONG. In view of the fact that that column allows for the inflation of prices?

Mr. BURGESS. Yes.

Senator LONG. To what do you attribute the decline in per capita income?

Mr. BURGESS. In the first place, I do not call it a decline. I think you are making a level, a level area there. I think it is due to the rise in prices, obviously. And that is something—

Senator LONG. Now, just a minute. Look at the heading of the column, 1956 prices. That means that those prices are adjusted?

Mr. BURGESS. That is right. Well, the reason you have the decline is that although dollar income has been rising the prices have been going up a bit faster. Ergo what ought you to do? You ought to do your best to fight inflation, take the regular methods of doing it.

For example, if we, the Federal Government, were not spending quite so much, those prices would not have gone up quite so fast.

Senator LONG. We had—

Mr. BURGESS. States and municipalities, if they had not been spending quite so much, we would have resisted that inflation a little.

Senator LONG. Just looking over the other figures given there in that column, there are only two other years among those shown where there was actually a reduction in per capita disposable income. One was the year 1949, which was a slight recessionary year after World War II. The other was the year 1951, in which there was a very slight reduction of \$2 in disposable income, and that was at the time when the Korean war was going on, and when we had major tax increases.

To what do you attribute this most recent falloff in disposable income?

The CHAIRMAN. Senator Long, if you will just yield for a moment. (Discussion off the record.)

The CHAIRMAN. You may resume.

Senator LONG. Looking at page 28 of my economic indicators, I see that consumer debt has increased from \$31,243 billion in 1953 to \$41,707 billion during May of this year. That would indicate that these high interest rates and this so-called tight money have not kept consumers from going into debt \$10 billion more than they were in the beginning, would it not?

Mr. BURGESS. What period did you start from, Senator?

Senator LONG. 1953, total consumer credit outstanding.

Mr. BURGESS. Of course, that is a period that is not all tight money. 1954 was not a period of tight money at all. Early 1955, second half of 1953, we were not trying to hold it back then, and I think it is fair to say that—

Senator LONG. Well, these high interest rates started going into effect in 1953, did they not?

Mr. BURGESS. Well, again, Senator, I say—no, not these rates; they were up in 1953, it was down in 1954, it has been a flexible rate. It was up early in 1953. In 1954 we did our financing at somewhat lower rates than in 1953, some of it. I keep insisting this is a flexible policy. This is just not a policy of putting rates up and up.

Senator LONG. Well, notwithstanding, the consumer debt continued to increase?

Mr. BURGESS. Yes, that is right. And the population has increased, Senator, and the standard of living has increased.

Now, whether consumer credit has increased too much, I do not know. You can argue that both ways. The Federal Reserve has made a very extended study of the question of whether there should be controls over consumer credit, and I hope you gentlemen, in the course of your hearings, will examine it carefully. I confess I am not expert at it. If it were possible to put some little restraint on that, there is a lot of argument for doing it, but after a very extended survey of all the problems and difficulties, they came to the conclusion that to control that consumer debt as a separate thing by direct controls would involve a lot of difficulties and it is directly interfering with what the American citizen decides he thinks he wants to do, and when you do that, why, you run into problems.

Senator LONG. Do you believe we could have maintained the rate of prosperity we had been enjoying if consumer credit had not been constantly increased during those years?

Mr. BURGESS. I think it has been a very important and helpful factor in our economy, Senator. I think you and I bought some things that way that we would not have been able to get otherwise.

Senator LONG. Would it not have been more desirable if we could have had some tax reduction, affecting those in the lower brackets particularly. Widespread tax reduction would have benefited most consumers, in that they would have been buying more of these items out of cash rather than credit?

Mr. BURGESS. Well, there is quite an argument for that. I do not know the answer to that exactly. But I hope we get to a position before too long when we can reduce taxes. But we are not there now. We just have not got the money.

Senator LONG. You made the statement on page 1447, volume 15 of the transcript:

The money used to pay the interest is collected from many people in taxes, and the money is paid out again partly to the same people and partly to others. I think it is fair to say that about as many people will benefit directly or indirectly from these interest payments as are hurt by them.

It seems to me that we should attempt to determine who is hurt and who is helped. According to the 1957 consumer finances survey by the Federal Reserve Board, 25 percent of all consumers in the United States had no savings, 55 percent had less than \$500 in savings, and 77 percent had less than \$2,000 in savings.

Would you contend that rising interest rates would flow to those 77 percent of families, even relative to the size of their income, in the same way that rising interest rates would benefit families who have large savings?

Mr. BURGESS. Well, how many of them had life insurance, Senator? Did they include that in it?

Senator LONG. I assume that would be in savings.

Mr. BURGESS. Because the life-insurance holder in a mutual company, which most of them are, is going to benefit in the long run from higher money rates.

Senator LONG. Out of those who do not have life-insurance policies—and I would imagine life-insurance policies would be regarded partly as savings——

Mr. BURGESS. I do not think they are listed there.

Senator LONG. Would you see any considerable benefit to those people? Would it compare at all with what their share of the cost of the program is, or what their share of income is, insofar as distribution is concerned?

Mr. BURGESS. I think it would, Senator. Anybody who has a deposit in a savings bank, anybody who has a share, or shares, in a savings and loan association—those people have all benefited from increased rates that they pay.

Senator LONG. Well, let us just take a person who has no savings at all. According to the Federal Reserve Board survey, that is 25 percent. Now, would you feel that this 25 percent are benefited by the higher interest rates?

Mr. BURGESS. That is a little hard to prove directly. The only benefit they get is—and everybody gets benefit from this—if you have a stable economy without inflation, they benefit greatly.

Senator LONG. Well, now, I am not talking about inflation here.

Mr. BURGESS. All right.

Senator LONG. And whether you are curing inflation I do not know. I doubt myself, for it seems to me that the facts do not support that conclusion.

But you made the statement here that there is apparently a fair distribution of income effect as a result of increasing these interest rates, and that where you increase interest rates it does a man about as much good as it does harm.

Mr. BURGESS. That is my opinion, Senator.

Senator LONG. Well, in the case of a man who has no savings, you feel that rising interest rates are an equitable or fair way to distribute income?

Mr. BURGESS. I do not believe they included in that savings—liquid savings, is it not, they are talking about? That did not include life-insurance policies on it. Forty million people have our savings bonds, and I do not believe that 27 percent who have no savings at all.

Senator LONG. Twenty-five percent.

Mr. BURGESS. If you include life insurance——

Senator LONG. I do not know whether it includes life insurance in that or not.

Mr. BURGESS. I do not, either.

(The following was later received for the record:)

The major types of liquid assets held by consumers include currency, checking accounts, savings, deposits, savings and loan and credit union shares, and United States Government savings bonds. These are the principal assets that serve as means of payment or that can be converted into means of payment with little delay or risk of loss. The survey of consumer finances collects data on holdings of all major types of liquid assets except currency and does not cover life-insurance holdings of individuals.

Senator LONG. Now, assuming a man does not have any life-insurance policy, and he is among that 25 percent?

Mr. BURGESS. Well, he does not benefit directly then.

Senator LONG. And he would certainly pay some of the costs, would he not?

Mr. BURGESS. Well, I do not know. He might pay a little.

Senator LONG. In terms of rent, would it not be reflected in his rent?

Mr. BURGESS. Well, there you get to the indirect. There you get a little separate question, and there I would say the question is whether he benefits from stable prices. If he can avoid inflation, he is going to benefit a great deal.

Senator LONG. But you have indicated that you regard this, though, quite aside from your anti-inflation argument—you regard the rising interest rate as something that helps as well as hurts, and I take your statement to indicate that you believe that this is a more or less desirable way to distribute income; that it certainly is not undesirable.

Mr. BURGESS. I did not say that, Senator. I just say in counting the costs, you cannot just say this is all net costs. This is a flow back and forth from debtor and creditor and creditor and debtor. And in our great economy, thank heaven, a great many of our people, a very large percentage, are creditors as well as debtors.

Senator LONG. If a person had \$2,000 in savings, and if he were in a home and had to pay an additional 1 percent more interest on his house, he would still be paying out more than five times as much more in interest than he would be receiving more in interest, would he not?

Mr. BURGESS. Yes; he would have to get the benefits indirectly of it.

Senator LONG. Now, while he might get some slight benefit from the savings, he would not get much?

Mr. BURGESS. Yes.

Senator LONG. That would be the case with regard to 77 percent of the families, according to the survey by the Federal Reserve Board, even assuming that those \$2,000 in savings were drawing interest, which a lot of them are not.

Mr. BURGESS. Of course, the other two benefits that he gets are, first, reducing the amount of inflation, and, second, improving the availability of credit, because, if more people are paid adequately for saving, you will have more savings. That means more money available for people who want to borrow. So that there are the two ways he benefits.

Senator LONG. Of course, insofar as that requires a man to go deeper into debt, it hurts the man who is paying it, does it not?

Mr. BURGESS. Well, if he can avoid inflation, he does not, that is, the serious thing about this, is the way these prices of these houses have been going up, Senator. That is really scandalous.

Senator LONG. Of course, the portion of it that I object to is the increase in interest. I do not know what I can do about labor costs. If someone would bring a proposal to lower labor costs, I would be glad to consider it.

Well, those are all the questions I have to ask, Mr. Chairman.

Senator WILLIAMS. If you will yield for a moment, I mention that we are going to have that question before us in the next couple of days.

Senator JENNER. I did not hear you.

Senator WILLIAMS. Whether we increase Government salaries or not. [Laughter.]

Mr. BURGESS. That will have an effect on everybody.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Mr. Burgess, I am going to ask you some questions, for the most part, that deal with your experience in banking, but it will touch on Federal Reserve problems to a little extent.

Now, yesterday, you mentioned that old formula of Dr. Fisher's,  $MV=PT$ .

Mr. BURGESS. Yes.

Senator FLANDERS. That formula, of course, is just a truism, but it is a good thing, I think, to look at once in a while, and I want to talk first about the M part, the money.

Now, this I am asking is all elementary. What I want to get into the record is what our money is and how much there is of it, what it consists of and how it is generated and how it is distributed.

So we will ask some elementary questions—

Mr. BURGESS. All right.

Senator FLANDERS. To which I do not know the answer, very likely.

Now, what is the amount of our hard currency outstanding and how is it issued?

Mr. BURGESS. Well, we have standard silver dollars, \$253 million; and subsidiary silver of \$1.815 billion; and minor coins, that is, nickels and pennies, of \$474 million. And those are issued, of course, as they are required by the public, the public goes to their banks and they draw from the Federal Reserve the amount of these coins.

Senator FLANDERS. That is, when the bank draws from the Federal Reserve, they specify—

Mr. BURGESS. What they want.

Senator FLANDERS. In what form it shall come?

Mr. BURGESS. That is right. They put in an order for so much currency or money just as you would write out an order for groceries.

Senator FLANDERS. How does the bank get a right to demand that money of the Federal Reserve?

Mr. BURGESS. Well, because they have deposits with the Federal Reserve bank and they draw on their deposits to pay for it.

Senator FLANDERS. Yes. All right. Now, is our silver currency worth more or less as metal than as money?

Mr. BURGESS. Well, it is worth less. The silver is valued at \$1.29 a fine ounce for the purposes of our silver dollars, and at \$1.38 a fine ounce for our subsidiary coins; so the monetary value of the silver is less than the face value of the coin.

Senator FLANDERS. No sense then in melting the silver down for bullion?

Mr. BURGESS. No. That is a very interesting thing. Of course, in a country where the value of the metal goes above the value of the coin, the coin tends to disappear, it will be melted up and sold as bullion.

Senator FLANDERS. But our silver money is safe?

Mr. BURGESS. We are pretty safe, yes.

Senator FLANDERS. All right. Now, there is a silver reserve carried for silver certificates?

Mr. BURGESS. Yes. There were on June 30 last, there were \$2.410 million in round figures of silver certificates outstanding, and \$28 million in the general fund of the Treasury, and that is backed by silver bullion, in silver bars, that is 1,708,000,000 ounces of silver bullion

which is valued at \$2.209 million, and then there are \$230 million worth of silver dollars.

Senator FLANDERS. Now, is the silver reserve for the certificates valued at its rate if coined or valued at its market?

Mr. BURGESS. At its rate if coined, that is, \$1.29 an ounce.

Senator FLANDERS. At its rate as coined?

Mr. BURGESS. Yes.

Senator FLANDERS. How many Federal Reserve notes are outstanding, how are they issued, and what is meant by the promise to pay to the bearer on demand \$20? What kind of dollars?

Mr. BURGESS. There is twenty-six-billion-odd dollars of the Federal Reserve notes in circulation; that is, the great bulk of the circulation is in that form, the \$5 and up, as you know. All the larger bills are Federal Reserve. And the promise to pay, of course, originally was a promise to pay gold.

Senator FLANDERS. Yes.

Mr. BURGESS. But when we went off gold payments in 1933 that ceased to be the case; so then the payment is simply in lawful money.

Senator FLANDERS. That is, another certificate?

Mr. BURGESS. Yes; it is another piece of paper.

Senator FLANDERS. The really significant thing, I take it, is the fact that it is acceptable to the United States Government for payment of taxes?

Mr. BURGESS. That is right. They are receivable——

Senator FLANDERS. For legal tender?

Mr. BURGESS. For all taxes, legal tender, yes.

Senator FLANDERS. But still it is a bit amusing to say that the Government promises to pay the bearer on demand \$20.

Mr. BURGESS. Every once in a while one of our jovial friends came up to us at the Federal Reserve System and said, "Please redeem it." It embarrassed us. They took great delight in it.

Senator FLANDERS. All right. Now, are there other types of currency?

Senator BENNETT. If the Senator will yield, you can give him silver.

Mr. BURGESS. Yes, you can. He does not have the right to demand silver unless he has the silver certificate.

Senator FLANDERS. There is a Federal Reserve note.

Senator BENNETT. You can give him a silver certificate for his Federal Reserve note and make it legal.

Mr. BURGESS. Yes.

There are other types of currency in smaller amounts. There are the United States notes, those are the old greenbacks, there is still a relic of those outstanding. And there is still a little of the national bank notes, just a fragment, outstanding, and the Federal Reserve bank notes, just these fragmentary amounts that are not being issued currently.

We put out at the end of each month a circulation statement of the amount of money that is outstanding, where it is, and what it is.

Senator FLANDERS. All right, thank you.

Is credit a part of the money system, and if so, is debt necessary for providing credit and therefore for providing money?

Mr. BURGESS. The answer is, yes, that we do business in this country on promises. You do not have to have the hard money. That is a

difference between the advanced country and one that is in the earlier stages. Where you had to rely on the actual exchange of currency in transactions, you would slow the whole thing down and would have less to deal with.

Senator FLANDERS. I suppose the Indians' wampum is hard money?

Mr. BURGESS. That is right. But very soon probably they got to saying, "I will give you some wampum after 6 days in payment." The minute you do that, you have the element of credit that comes into the system.

Senator FLANDERS. Now, how is the money supply increased by the expansion of indebtedness? When I go to the bank and borrow \$1,000, if possible, does that increase the money supply?

Mr. BURGESS. Well, if that is a net increase in bank loans and deposits, it is. That is, you borrow the \$1,000, they put a credit for \$1,000 on the books, they will have to put a fraction of that into the Federal Reserve System as added reserves. If somebody else has not paid off at the same time, that means there is that much more demand deposits in the country and that much more money that you can buy and sell things with.

Senator FLANDERS. The whole credit structure with which most of our business is done is, then, generated by debt?

Mr. BURGESS. Yes. I think that is fair to say.

Senator FLANDERS. I will tell you a question I have asked George Humphrey twice over a period of 2 years. What would happen if all the indebtedness of the country were paid up? His answer was, "We would be in a hell of a mess."

Mr. BURGESS. Well—

Senator FLANDERS. This is the third time that goes into the record, that is, provided you agree with it.

Mr. BURGESS. I agree with it.

Senator FLANDERS. All right. [Laughter.]

The CHAIRMAN. You would not object to paying a part of it, though, would you?

Senator FLANDERS. No. [Laughter.]

Now, it is clear how, I think how, the supply of credit money is increased by an increase in indebtedness; and that increase gives you a credit which you can employ in business or any way you please, provided you have satisfied the banker what you want it for is desirable and you are a "good risk"; and he in turn has on his books a note which goes into his assets.

Now, it is not quite so clear to me how the supply is decreased if I pay up that note.

I take \$1,000 in cash and go to the bank and turn it in and get my note back.

Mr. BURGESS. Yes.

Senator FLANDERS. I may not turn in \$1,000. I probably will do it in the form of a check, which represents somebody else's credit based on somebody else's indebtedness.

Mr. BURGESS. That is right.

Senator FLANDERS. But that does decrease the total volume of credit?

Mr. BURGESS. If nobody else at the same time is increasing it by borrowing some more.

Senator FLANDERS. I am thinking of a net operation of some sort.

Mr. BURGESS. Yes, that is right. It does. And some of our great depressions in this country are caused by too many people paying off their debts. You know the old saying.

Senator FLANDERS. I think our chairman should begin to get interested along about here. [Laughter.]

Mr. BURGESS. "People pay in depression the debts they created in prosperity" is the old saying.

Senator FLANDERS. Which is cause and which is result? Does the depression come from paying up of the debts?

Mr. BURGESS. Well, that is always the problem: which is the hen and which is the egg. I think it mostly goes back to an attitude. If the people of the country are in an attitude of confidence and moving ahead, then they will create the money that they need to do it by borrowing from their banks and using their credit.

If they get overextended so they get afraid, and other people get afraid of them, then you get a depression. That is short circuiting.

Senator FLANDERS. Yes. Now, if the money with which we do business is created by debt, how much debt is enough?

Mr. BURGESS. Well, that is a very interesting question and one that is very hard to answer dogmatically. The nearest answer I think comes in terms of rate of increase. This growing country needs an increase in its amount of credit, in its amount of money to do business with. The amount of increase you need depends on the rapidity with which you use the money, so that it is MV again, a growing country needs a growing MV, the amount of money revolving at a certain speed.

Somehow or other, if you try to increase it at a faster speed than that, you get into trouble. We cannot absorb it, and that rate of increase, I think, is affected partly by the amount of money we save, as well as by the amount of money we borrow. You have to have a rate of increase in savings, and your rate of increase in money or credit has to go along about *pari passu*.

Senator FLANDERS. In what respect does government borrowing affect the money supply? Is it any different than its effects from private borrowing?

Mr. BURGESS. Not very much. Except that money of the Government is—of course, Government credit is usable to create more credit at the Federal Reserve banks. To that extent, a Government certificate, a Government bill, can be taken around to the Federal Reserve and you can borrow against it. But the banks always have plenty of that for their borrowing purposes, so that the fluctuations in Government borrowing do not necessarily affect that. It is partly that Government money is tied up with taxes, with spending. It is an added factor, so that it is always somewhat more important than the individual transactions.

The CHAIRMAN. Can the banks borrow 100 percent from the Federal Reserve on that, the Government bond?

Mr. BURGESS. Yes.

Senator FLANDERS. If, however, the Government borrowing instruments, the bond or the notes or what have you, go into private hands rather than into the bank hands; does that increase the money supply?

Mr. BURGESS. Well, much less than if it goes into the bank hands, where it tends to increase the money supply; whereas if it goes into the hands of individuals who are saving for that purpose, who do

not borrow the money to do it, why, it has no influence on the money supply.

The same thing is true of your individual loan. If your individual loan is made from savings by an insurance company, or what have you, it does not affect the money supply; whereas if you borrow from a bank, it does.

Senator FLANDERS. Well, supposing that our MV equals PT, that is right?

Mr. BURGESS. That is right.

Senator FLANDERS. During a period of inflation, the endeavor is to keep what borrowing you have to do out of banks?

Mr. BURGESS. That is right.

Senator FLANDERS. And into private hands so far as possible—

Mr. BURGESS. That is right.

Senator FLANDERS. I take it?

Mr. BURGESS. That is why we have this tremendous drive to sell people savings bonds. It is a noninflationary way of borrowing.

Senator FLANDERS. Now, what about the independent agencies and their borrowing? Does borrowing by FNMA or by the Commodity Credit Corporation have exactly the same effect as the Government financing through the Treasury?

Mr. BURGESS. Yes; they are the same.

Senator FLANDERS. So we have to have a total?

Mr. BURGESS. For purposes of this consideration; yes.

Senator FLANDERS. Now, at the moment can you state roughly how much of the Government's debt is in the hands of private holders and institutions and how much is in the hands of banks?

Mr. BURGESS. Yes. I have a table here that shows that Federal Reserve banks and Government investment accounts have \$78.6 billion and commercial banks have \$56.2 billion. Then of private nonbank investors, corporations have \$15.5 billion, and individuals have \$67.7 billion, which is very good. State and local governments, \$16.2 billion. That is an interesting figure. It is partly pension funds. It is partly their current operating funds they put into Treasury bills or short-term securities.

Then institutions, that is, life insurance, mutual-savings banks, and so forth, \$23.5 billions; and then all others, \$12.9 billion. So the total private nonbank is \$135.8 billion.

Senator FLANDERS. Do you keep a running account quarter by quarter of a tabulation like this?

Mr. BURGESS. Oh, yes; every month.

Senator FLANDERS. Do you think that such a series, going back for one of the periods under discussion, back to 1952 or back to what have you, do you think that that would give significant information with regard to the causes and processes and progresses of inflation?

Mr. BURGESS. I think it does, Senator. You may remember in the charts we presented in both my statement and in Mr. Mayo's presentation, we did just that; and we publish each month in our Treasury Bulletin, it shows that.

Senator FLANDERS. Is it this one?

Mr. BURGESS. It is this green job, the Treasury Bulletin, we publish those figures in a running table. I think it might be interesting if you would like to put that into the record.

Senator FLANDERS. Do you have that in any form?

Mr. BURGESS. We have some of it. We do not go back, of course, as far as this does. This goes back as far as 1939, the ownership of Federal securities.

Senator FLANDERS. You have a public-debt ownership picture?

Mr. BURGESS. That gives it.

Senator FLANDERS. Right there.

Mr. Chairman, I would like to have a series in the record at this point.

The CHAIRMAN. Without objection, that insertion will be made.

(The table, Estimated Ownership of Federal Securities, is as follows:)

## OWNERSHIP OF FEDERAL SECURITIES

TABLE 3.—Estimated ownership of Federal securities

[Par value <sup>1</sup> in billions of dollars]

End of month	Total Federal securities outstanding <sup>2</sup>	Held by banks			U. S. Government investment accounts <sup>4</sup>	Held by private nonbank investors								
		Total	Commercial banks <sup>3</sup>	Federal Reserve banks		Total	Individuals <sup>5</sup>			Insurance companies	Mutual savings banks	Corporations <sup>6</sup>	State and local governments <sup>7</sup>	Miscellaneous investors <sup>8</sup>
							Total	Savings bonds	Other					
1939—December	47.6	18.4	15.9	2.5	6.5	22.7	10.1	1.9	8.2	6.3	3.1	2.2	0.4	0.7
1940—June	48.5	18.6	16.1	2.5	7.1	22.8	10.1	2.6	7.5	6.5	3.1	2.1	.4	.7
December	50.9	19.5	17.3	2.2	7.6	23.9	10.6	2.8	7.8	6.9	3.2	2.0	.5	.7
1941—June	55.3	21.8	19.7	2.2	8.5	25.0	11.2	3.6	7.6	7.1	3.4	2.0	.6	.7
December	64.3	23.7	21.4	2.3	9.5	31.0	13.6	5.4	8.2	8.2	3.7	4.0	.7	.9
1942—June	77.0	28.7	26.0	2.6	10.6	37.7	17.8	9.1	8.7	9.2	3.9	4.9	.9	1.1
December	112.5	47.3	41.1	6.2	12.2	53.0	23.7	13.4	10.3	11.3	4.5	10.1	1.0	2.3
1943—June	140.8	59.4	52.2	7.2	14.3	67.0	30.9	19.2	11.7	13.1	5.3	12.9	1.5	3.4
December	170.1	71.5	59.9	11.5	16.9	81.7	37.6	24.7	12.9	15.1	6.1	16.4	2.1	4.4
1944—June	202.6	83.3	68.4	14.9	19.1	100.2	46.1	31.2	14.9	17.3	7.3	20.2	3.2	6.1
December	232.1	96.5	77.7	18.8	21.7	114.0	53.3	36.2	17.1	19.6	8.3	21.4	4.3	7.9
1945—June	259.1	106.0	84.2	21.8	24.9	128.2	59.1	40.7	18.5	22.7	9.6	23.3	5.3	8.3
December	278.7	115.0	90.8	24.3	27.0	136.6	64.1	42.9	21.2	24.0	10.7	22.2	6.5	9.1
1946—February <sup>1</sup>	279.8	116.7	93.8	22.9	28.0	135.1	64.1	43.3	20.8	24.4	11.1	19.9	6.7	8.9
June	269.9	108.2	84.4	23.8	29.1	132.6	63.3	43.5	19.9	24.9	11.5	17.8	6.5	8.6
December	259.5	97.9	74.5	23.3	30.9	130.7	64.2	44.2	20.1	24.9	11.8	15.3	6.3	8.1
1947—June	253.4	91.9	70.0	21.9	32.8	133.7	66.6	45.5	21.1	24.6	12.1	13.7	.1	9.6
December	257.0	91.3	68.7	22.6	34.4	131.3	65.7	46.2	19.4	23.9	12.0	14.1	7.3	8.4
1948—June	252.4	85.9	64.6	21.4	35.8	130.7	65.8	47.1	18.6	22.8	12.0	13.6	7.8	8.7
December	252.0	85.8	62.5	23.3	37.3	129.7	65.5	47.8	17.6	21.2	11.5	14.8	7.9	8.9
1949—June	252.8	82.4	63.0	19.3	38.3	132.2	66.6	48.8	17.8	20.5	11.6	15.8	8.0	9.6
December	257.2	85.7	66.8	18.9	39.4	132.1	66.3	49.3	17.0	20.1	11.4	16.8	8.1	9.4
1950—June	257.4	83.9	65.6	18.3	37.8	135.6	67.4	49.9	17.6	19.8	11.6	18.4	8.7	9.7
December	256.7	82.6	61.8	20.8	39.2	134.9	66.3	49.6	16.7	18.7	10.9	19.7	8.8	10.5
1951—June	255.3	81.4	59.4	23.0	41.0	132.9	65.4	49.1	16.3	17.1	10.2	20.1	9.4	10.7
December	259.5	85.3	61.6	23.8	42.3	131.8	64.6	49.1	15.5	16.5	9.8	20.7	9.6	10.6
1952—June	259.2	81.0	61.1	22.9	44.3	130.8	64.8	49.0	15.7	15.7	9.6	18.8	10.4	11.6
December	267.4	88.1	63.4	24.7	45.9	133.4	65.1	49.2	16.0	16.1	9.5	19.9	11.1	11.7
1953—June	266.1	83.6	58.8	24.7	47.6	135.0	66.0	49.3	16.8	16.0	9.5	18.7	12.0	12.8
December	275.2	89.6	63.7	25.9	48.3	137.3	64.8	49.4	15.4	15.8	9.2	21.6	12.7	13.2
1954—June	271.3	88.7	63.6	25.0	49.3	133.3	64.5	49.5	15.0	15.3	9.1	16.9	13.9	13.7
December	278.8	94.1	69.2	24.9	49.6	135.1	63.0	50.0	13.1	15.0	8.8	19.8	14.4	13.9

1944-March	274.1	87.8	64.2	23.6	49.4	136.9	64.8	50.2	14.7	15.0	8.8	19.5	14.6	14.2
June	274.4	87.1	63.5	23.6	50.5	136.7	64.8	50.2	14.6	14.8	8.7	19.3	14.7	14.4
September	277.5	85.9	62.1	23.8	51.2	140.4	65.5	50.2	15.3	15.0	8.7	21.2	14.9	15.1
December	280.8	86.8	62.0	24.8	51.7	142.3	64.9	50.2	14.7	14.3	8.5	24.0	15.1	15.6
1956-January	280.1	84.0	60.5	23.5	51.7	144.5	65.9	50.3	15.6	14.2	8.5	24.3	15.4	16.0
February	280.2	83.0	59.5	23.5	51.8	145.3	66.5	50.4	16.2	13.9	8.5	24.4	15.6	16.4
March	276.4	81.9	58.3	23.6	51.9	142.6	67.2	50.4	16.8	13.6	8.5	21.1	15.7	16.5
April	275.8	81.8	58.5	23.3	51.6	142.5	67.1	50.4	16.6	13.6	8.5	21.1	15.7	16.5
May	276.8	81.3	57.8	23.5	52.5	143.0	67.1	50.4	16.7	13.5	8.4	21.5	15.8	16.6
June	272.8	80.8	57.1	23.8	53.5	138.5	66.9	50.3	16.6	13.3	8.4	18.0	15.7	16.2
July	272.7	79.9	56.5	23.4	53.8	139.9	67.0	50.3	16.8	13.3	8.4	18.3	15.8	16.2
August	275.6	81.5	57.6	23.9	54.4	139.7	67.2	50.3	16.9	13.1	8.3	19.1	15.8	16.3
September	274.3	81.3	57.6	23.7	54.2	138.9	67.4	50.2	17.1	13.1	8.3	18.0	15.8	16.3
October	275.4	81.8	58.0	23.8	53.9	139.7	67.2	50.2	17.0	13.2	8.1	19.0	15.8	16.3
November	277.1	83.1	58.7	24.4	54.2	139.9	67.0	50.1	16.9	13.1	8.1	19.8	15.8	16.2
December	276.7	84.3	59.4	24.9	54.0	138.4	66.6	50.1	16.5	12.8	8.0	19.2	15.7	16.0
1957-January	276.3	81.9	58.5	23.4	53.9	140.6								
February	276.4	80.7	57.8	22.9	54.1	141.6								
March	275.1	81.3	58.2	23.1	54.2	139.6								
April <sup>10</sup>	274.1	81.3	58.1	23.2	53.7	139.2								
May	275.3	80.9	57.8	23.1	54.9	139.6								
June	270.6	79.2	56.2	23.0	55.6	135.8	67.7	49.1	18.6	12.3	8.0	15.5	16.2	16.1

<sup>1</sup> United States savings bonds, series A-F and J, are included at current redemption value.

<sup>2</sup> Securities issued or guaranteed by the U. S. Government, excluding guaranteed securities held by the Treasury. For amounts subject to statutory debt limitation, see p. 1.

<sup>3</sup> Consists of commercial banks, trust companies, and stock savings banks in the United States and in Territories and island possessions. Figures exclude securities held in trust departments.

<sup>4</sup> Holdings by Federal land banks are included under "Miscellaneous investors" instead of "U. S. Government investment accounts" after June 26, 1947, when the proprietary interest of the United States in these banks ended.

<sup>5</sup> Includes partnerships and personal trust accounts. Nonprofit institutions and corporate pension trust funds are included under "Miscellaneous investors."

<sup>6</sup> Exclusive of banks and insurance companies.

<sup>7</sup> Consists of trust, sinking, and investment funds of State and local governments and their agencies, and Territories and island possessions.

<sup>8</sup> Includes savings and loan associations, nonprofit institutions, corporate pension trust funds, dealers and brokers, and investments of foreign balances and international accounts in this country. Beginning December 1946, includes investments by the International Bank for Reconstruction and Development and the International Monetary Fund in special noninterest-bearing notes issued by the U. S. Government.

<sup>9</sup> Immediate postwar debt peak.

<sup>10</sup> Preliminary.

Source: Office of the Secretary, Analysis Staff, Debt Division.

Senator FLANDERS. What is the effect on the available money supply of the purchases of bonds for the trust funds?

Mr. BURGESS. Well, that is——

Senator FLANDERS. That is always a mysterious subject.

Mr. BURGESS. Yes. Of course, you collect from the people the money that goes into the trust, part of it, not all of it, part of it is the Government itself paying it. In that case, it has to collect it in taxes.

Senator FLANDERS. Yes.

Mr. BURGESS. That is, in a sense, a form of saving. It is out of the regular stream of money; so it is the savings either for or by somebody or for his account, for example, Federal employees.

Senator FLANDERS. Yes.

Mr. BURGESS. Put in a certain amount, 6½ percent of their pay into that pension fund.

Senator FLANDERS. So at that point it seems to be withdrawn from circulation?

Mr. BURGESS. That is right.

Senator FLANDERS. And decreases the money supply?

Mr. BURGESS. And the same in social security.

So that we bracket that outside of the normal budgetary operation.

Senator FLANDERS. What happens when the trust fund buys a Government bond or the type provided for that trust fund?

Mr. BURGESS. Of course, they may buy it in the market or may buy it simply from the Treasury. It means that we are, in effect, borrowing from the trust fund, from savings, borrowing from a savings source.

Senator FLANDERS. Does that kind of borrowing increase the money supply?

Mr. BURGESS. No, I do not think it does.

Senator FLANDERS. So that that is, in effect, a type of borrowing that you do when you sell an E bond?

Mr. BURGESS. It is somewhat similar to it, yes.

Senator FLANDERS. And it does reduce the necessity for your selling bonds in the open market?

Mr. BURGESS. That is right.

Senator FLANDERS. To that extent it reduces the necessity?

Mr. BURGESS. That is right.

Senator FLANDERS. Provided your Treasury funds are increasing?

Mr. BURGESS. That is the point.

Senator FLANDERS. Yes.

Mr. BURGESS. And they are increasing now, although at a less rapid rate than they were a few years ago.

Senator FLANDERS. How much State and local government borrowing is there, and does this affect the money supply in the same way that Federal borrowing does?

Mr. BURGESS. The total outstanding State and local debt is \$50 billion, as I have indicated here earlier; and that is increasing at a rapid rate, the indebtedness is increasing \$5 billion a year. That has much the same effect as borrowing by the Federal Government.

Now, if they sell those bonds to savers, it is not inflationary. If they sell it to banks, it tends to increase bank credit just the same as though the Federal Government were doing it. Of course, the instruments cannot be used as collateral for Federal Reserve borrowing

in the same way. But as I say, that is not an important factor normally.

Senator FLANDERS. I think we have roughly covered the money supply, the way it is generated, and the effects of the different kinds of borrowing on the money supply.

Let us move over to  $V$  velocity. And on that I want to introduce a little history. I have in my hands a book of which I was 1 of the 4 authors, published in 1938. The title is "Toward Full Employment." The authors were Henry Dennison, Lincoln Filene, Ralph Flanders, and Morris Leeds. I was responsible in that book for section 2, or part 2, entitled, "The Requirements for Financial Stability, Fiscal Policy, and the Business Cycle."

Now, I have not the slightest idea whether this book is any good or not, because I have not read it or looked into it since 1940, I am sure. That is 17 years ago. But I did build the analysis around that old formula of Dr. Fisher's,  $MV$  equals  $PT$ , and had two charts in here on velocity which seemed to me to be significant.

Now, just going on in history for a minute or two longer, as—what was the name of the head chopper in *The Mikado*—by a set of curious chances, I became president of the Federal Reserve Bank of Boston. I was still interested in velocity. I tried to get the Federal Reserve Board to pay attention to velocity, and they waved it off. They said it is a resultant figure of no particular significance in itself.

I am glad to see now that they have come around to recording velocity, and I am interested to see the significance that you have given to it in your testimony to date, since I am a velocity fan. [Laughter.]

It seems to me that to little attention has been given to the question as to what makes money move fast at some times and move slowly at others. And it is the element of the  $MV$  side of the equation that is more or less mysterious. We find it, but so far as I have been able to observe, we do not endeavor to predict it or know what to do about it or whether we want to do anything about it, as we do about the  $M$ , we focus on the amount of money and then watch the  $V$ . Talk about watching  $V$ —this is just a digression—I think it can go onto the record, but there is a story that at the time it was decided to devalue the dollar—and it was done in a series of steps, you will remember, the gold content of the dollar was decreased—

The story is that the then Secretary of the Treasury and his advisers would devalue the dollar by a step and then go and look at the commodity ticker, and nothing happened. They went back and devalued it some more and went and looked at the commodity ticker, and still nothing happened. And they kept on doing it and still nothing happened, and finally they stopped. I do not know whether that is a true story or not. But it is an interesting one, whether it was true or not.

Mr. BURGESS. They had not heard about velocity. [Laughter.]

Senator FLANDERS. Well, now, as I say, I believe we ought to know more about velocity, see if there is some way of predicting it, see if there is some way of affecting it. Maybe it is simply a resultant that we have to look at and wonder, but I do not know.

Now, so far as I have listened to these hearings thus far, Mr. Chairman, I have not noted or guessed at any other alternative proposals offered or apparently thought of beside that of returning to

the process of pegging bonds by Federal Reserve purchases and sales.

I want to say that is a beautiful thing. When I was in the Federal Reserve bank, we were practically required to buy, if they got low, and to sell if they got high, so it was a sure thing profitwise. There was no risk in it. You were required to buy them when they were low, required to sell them when they were high, and it was a beautiful situation.

The only trouble was, of course, that it did—well, tell me what it did, Mr. Secretary, how you did it, what did it do to the money supply, tell us?

Mr. BURGESS. It increased  $M$  and the result  $MV$  had a result on  $TP$ , and the thing it affected was  $P$ , which is prices, and it pushed prices up. In other words, it was inflationary, to put it into plain English.

Senator FLANDERS. Now, just tell us how that pegging of the price so that we can have this in the record, how did it increase the money supply?

Mr. BURGESS. Well—

Senator FLANDERS (continuing). Beyond what is—as distinct from what is being done now?

Mr. BURGESS. Yes; it put reserves in the hands of the banks. That is, when the Federal Reserve buys Government securities in the market, it puts its check there, that check is deposited in some bank, the bank brings it to the Federal Reserve bank and it has an increase in its reserves, in its deposits in the Federal Reserve bank.

It can then go out and lend that money to its customers, and there is a ratio of expansion.

Senator FLANDERS. That accounts for low interest rates if it has got plenty of money?

Mr. BURGESS. That is right. It tended to keep interest rates down, that process, and it gave the banks money they could invest with, buy Government bonds or other bonds or municipal bonds or lend money to their customers. So the bank loans and investments went up more sharply and bank deposits went up with them. That means money, and that money was spendable, and that process accounted for the fact, in part, that commodity prices rose from 1946 up through until 1951, when the accord was reached where they discontinued that process.

I say partly accounts. There were other factors, of course. There was the pent-up war demand and Korea.

The CHAIRMAN. What accord do you mean? You spoke of some accord being reached; what was it?

Mr. BURGESS. Yes; in 1951, the spring of 1951, the Treasury and the Federal Reserve agreed that they would cease supporting the prices in the market.

Senator FLANDERS. Would you say that the interest rate being determined by the amount of funds available for borrowing, was any different then than it is now? We had lots of funds, and it resulted in a low interest rate.

Mr. BURGESS. That is right.

Senator FLANDERS. So that the law still holds that the supply of money determined the interest rate?

Mr. BURGESS. That is right.

Senator FLANDERS. Then as now?

Mr. BURGESS. That is right.

Senator FLANDERS. And the low interest rate was due to the great volume of money provided?

Mr. BURGESS. That is correct.

Senator FLANDERS. Well, I think I ought to give a glance at  $TP$ . Let us leave  $P$  out for the moment, and look at  $T$ .

I judge that you were reckoning the velocity by reference to the money supply and the gross national product representing  $T$ .

Mr. BURGESS. Well, no, I think that was—it is one thing that affects the velocity. If there is a great deal of money compared with the amount of work to be done, it does not have to turn over as fast, obviously.

Senator FLANDERS. Well, does not, however, gross national product take  $P$  into account?

Mr. BURGESS. Yes; it is at a given price level.

Senator FLANDERS. I wonder then whether  $V$  calculated in that way, did not take  $P$  into account twice, if you simply make that

$$\frac{MV}{T} = P?$$

Mr. BURGESS. Yes, you are simply using the gross national product just as a measure of  $T$  but it is  $PT$ .

Senator FLANDERS. But if you say  $\frac{MV}{T} = P$ , you have got  $P$  on the other side of the equation as well, gross national product.

Mr. BURGESS. That is right; it is not meaningful carried to an extreme.

Senator FLANDERS. So I am a little algebraically critical of arriving at  $P$ ?

Mr. BURGESS. Yes; if that were the way of arriving at  $P$ , we would not use it that way.

Senator FLANDERS. All right.

Now, the other methods relate to the volume of bank money and the rate at which it is drawn upon?

Mr. BURGESS. That is right.

Senator FLANDERS. That would seem to be independent—

Mr. BURGESS. That is really the way to compute your  $V$ .

Senator FLANDERS. Well, now, can you think of any other possible way that those who are interested in keeping interest rates down can effect that purpose other than by pegging bonds?

Mr. BURGESS. If they can supply additional amounts of money, of course, it does. If the Federal Reserve, quite regardless of the support of the bonds, reduces reserve requirements.

Senator FLANDERS. Yes.

Mr. BURGESS. That makes more money available. If more gold comes into the country, that does it. Or if they reduce their discount rate. So that they encourage banks to come in and borrow from them. Of course, it has a psychological effect, also, a reduction in the discount rate. It tends to make money easier. So there are several different instruments the Federal Reserve could use.

Senator FLANDERS. So that if the objective is low interest rates, there are these various things we can do?

Mr. BURGESS. That is right.

Senator FLANDERS. We can peg bonds or we can ask the Federal Reserve to alter its reserve requirements or we can ask it to alter its rediscount rate, if low interest rates are the objective.

Now, so far as inflation or prices are concerned, as reflected in the money supply element in the equation, do these two alternative methods you have mentioned, by altering bank reserves or by decreasing the rediscount rate—what effect do they have on the money supply?

Mr. BURGESS. Much the same thing. They are a little different in their impact. Of course, the change in reserve requirements is much more violent. You suddenly, let's say, release \$500 million of money, and that is a much more vigorous thing. Or if you take in \$500 million of money, it is more violent.

Of course, the Federal Reserve does not want to do that very often because it is sort of changing the rules of the game. If a man is operating a bank and is carefully planning out his operations and then suddenly somebody says, "You have to have \$10 million more reserve tomorrow," that makes it a little difficult to operate. He has to scurry around and dig up the money, sell some securities, and so on.

Senator FLANDERS. Mr. Chairman, I may say that I probably have half or three-quarters of an hour more. Should we continue until I am through?

Mr. BURGESS. I am willing to.

The CHAIRMAN. I think that would be all right.

Senator FLANDERS. If the Secretary is willing.

Mr. BURGESS. Yes.

The CHAIRMAN. I think that would be advisable.

When we finish today, we will recess until 10 o'clock tomorrow morning.

Senator FLANDERS. Now, we have this self-evident formula in a way, but let us cease gazing at that and instead take some such simple question as this: How does the money supply, forgetting velocity for the moment, affect the price level?

We are getting now into the territory that is difficult for me to follow.

Mr. BURGESS. Yes.

Senator FLANDERS. Because there are so many anomalies in the present situation.

Mr. BURGESS. Yes. Well, if there is a larger available supply of money, more people borrow money, either through the market or from the banks. They undertake more activities. They buy more material, they hire more labor, and that means pressure of demand against the available supply of material and labor, and that tends to push the prices up.

Senator FLANDERS. Well, now, let me ask this: Is it a reasonable way of describing a situation to say that monetary policy sets some sort of a ceiling and that the machinery of inflation works beneath that ceiling, buyer against seller, bidding up of labor, bidding up of materials, bidding up of the price of the product; but that if the restrictions in the way of money supply, through the discount rate, or the other means we have just been describing are not altered, that eventually that bidding up will hit the ceiling, and tend to slow up?

Mr. BURGESS. It is an elastic ceiling.

Senator FLANDERS. Yes.

Mr. BURGESS. It is an elastic ceiling because nobody says to a bank, "Now, you must not make any more loans. You just have to cut it off here." The Federal Reserve does not say, "We are going to stop lending money." They create conditions under which the borrower

is slowed down a little bit. He is a little less apt to borrow. So it is elastic and that is what the Federal Reserve did.

In the old days you just ran out of money at a certain point. The money supply was not elastic.

Senator FLANDERS. Now you do not?

Mr. BURGESS. That had some advantages.

Senator FLANDERS. Yes.

Mr. BURGESS. Some advantages, because it was tough and it brought the thing to an end.

Senator FLANDERS. The end was liable to be catastrophic.

Mr. BURGESS. It might be catastrophic, but it might be less catastrophic than if you went on and on and expanded to a further point and then had to have it drop.

Senator FLANDERS. Yes.

Mr. BURGESS. So that looking back at it, what we call the panic of 1907-08 was really—

Senator FLANDERS. Which produced the Federal Reserve System.

Mr. BURGESS. Was really a mild panic. It did not compare in violence with what happened in 1921 and in 1933, partly because, it seems to me, the elasticity of the system was used in 1919 and 1920, to a point where it carried the expansion so high that when the adjustment did come, there were more things to be corrected and it had a big drop.

The same thing was true of 1929 and 1930.

Senator FLANDERS. Supposing that present Federal Reserve policy and present Treasury fiscal policy has set this rubber ceiling.

Mr. BURGESS. Yes.

Senator FLANDERS. Do you see any evidences that this inflationary machinery of the people in business and labor and consumers bidding against each other, is anywhere near being restrained by this rubber ceiling as yet?

Mr. BURGESS. Well, it is very hard to see these things. For example, in 1923, in the spring of 1923, we were obviously near the ceiling, because things turned around in about the midsummer, and instead of increasing their inventory still further, businessmen began to restrict their inventories, and borrowers and consumers, who had been borrowing tremendously, they began to ease off. You could not see that at all in April when it should have been obvious.

When we put out, for example, the  $3\frac{1}{4}$  bond in 1953, it was an inflationary period and you could not see the end of it, but 2 months later the thing had turned around.

So that today while people generally say this thing is going just on and on, having had experience in a number of these situations, I am very skeptical whether we know that it is just going on and on, and whether there are not some signs of change we do not quite detect.

Now, there are right today some things that are a little different, that make you suspicious. There were even more things a year ago, perhaps, so we just do not know. But it is interesting that the figures that Secretary Humphrey put into the record of shortages shows that 2 years ago there were a great many things in short supply. A year ago it was less. Today the number of commodities in short supply is very few.

Now, that is a very interesting thing. I think it is also interesting that the amount of overtime that is being worked in factories is less.

Now, it may be that a lot of this industrial capacity that we have been building is able to produce a large amount of goods and meet needs to produce goods with fewer people. Senator Kerr was pointing out that unemployment has increased just a little bit. Well, why? We are increasing the labor supply steadily, but our factories perforce have become more and more efficient, and able to turn out more goods with fewer people. That is what happens when you have a combination of science applied to these practical problems, plus very high wages, so that there is an incentive for people to do work with less labor.

Now, I think that is one of the trends that is very interesting to watch.

Senator FLANDERS. One of the minor mysteries, so far as I am concerned, is as to why this generally increasing price level has not brought out an increasing supply and, therefore, corrected itself.

Mr. BURGESS. Yes.

Senator FLANDERS. Have you any thoughts on that?

Mr. BURGESS. Well, I think you may be doing it, in part.

Of course, there is certainly no shortage of agricultural products, and there is a large supply of manufactured articles available. You can get your orders filled more rapidly, and so on.

So that the price, plus scientific methods, and so on, is producing a larger supply of goods.

Of course, the shortages are not there, as has been brought out very clearly. The reason that this thing goes on is that we need more utility plants and more tankers, and apparently more office buildings, and so on.

That is the thing to watch now, to see whether there is any sign of a change.

Senator FLANDERS. Well, I had expected to see this thing self-terminating on just that basis of the higher prices bringing out a higher supply, but is there any evidence—well, that, I suppose, is shown in the gross national product figures.

Mr. BURGESS. Yes; and I think in these figures about shortages.

Senator FLANDERS. Shortages?

Mr. BURGESS. You have to look a long time to find shortages of commodities.

Senator FLANDERS. I am just wondering what I am going to do so far as getting an orderly picture of this thing is concerned, if prices do not turn down. I will not know where to go or whom to ask.

Mr. BURGESS. I think we would all like to have that answered.

Senator FLANDERS. I am wondering as to the adequacy of the ceiling, and whether there is anything that can or should be done about this mechanism of bidding against each other which brings the prices up to the ceiling, or must we depend entirely on the ceiling, or are there ways of getting at the machinery that works under the ceiling?

That, of course, is not necessarily in your line, but as an intelligent American citizen, I would be glad if you would tell me any thoughts you may have on it.

Mr. BURGESS. Senator, I think there are certain parts of the demand where we do have some other control besides this monetary control. Of course, an enormous factor in this whole business is our Federal budget.

Senator FLANDERS. Yes.

Mr. BURGESS. And a great big factor in that is this defense expenditure.

If anybody could find the answer to a substantial reduction in defense expenditures, it would make a great difference in what supply and demand are doing under the surface, because directly and indirectly a lot of this construction of plant and utility companies, and so on, is connected with that great defense program.

And, of course, we have other elements of expenditure in the Federal budget that have a strong influence on this, and the State and local budgets. I would like to see somebody make a careful examination of where they are going. Their spending is very important here.

Another area where we have a certain measure of control is in the housing area, and I think we, the Government, did something about that. It was perfectly clear in 1955 that this inflation in the price of houses was getting out of hand, and people were borrowing too freely, and so forth, and we did get the housing people together and tightened up the terms of building a little.

The Home Loan Bank tightened up its lending operations, the Federal Reserve got after the banks on the warehousing of mortgages, and that was brought down to a better, sounder basis.

The inflation would be worse if these steps had not been taken.

Senator FLANDERS. I would like to see, Mr. Chairman, if I can sum up some of these things in a couple of thoughts, and then I am through.

The money that we do business with, in general the credit money, which is the major part of our money, is generated by debt, and our whole economy is to that extent and in that way based on borrowing.

Of course, you hate to say that. You do not nod your head strongly. You nod your head so it is just barely visible.

Mr. BURGESS. You show very good perception, I must say. [Laughter.]

Senator FLANDERS. But it is quite evident that that borrowing can be overdone.

Mr. BURGESS. Yes.

Senator FLANDERS. Now can we put any simple statement as to the symptoms or method of determining when it is being overdone, when we have gone further than we should? Would you look to the effect on prices as the criterion for judging?

Mr. BURGESS. It certainly is a very good one.

Senator FLANDERS. What other criteria can we have to indicate that we have gone too far and too fast in borrowing?

Mr. BURGESS. Well, I think the relation between the borrowing and the supply of funds, for example. We see pretty clearly the amount of the savings that are available in such institutions as life-insurance companies and savings banks, and so forth, and we see whether the amount of borrowing is beyond their resources, is forcing their resources unduly; and it is perfectly clear as you watch those operations that it has been, that is, the life-insurance companies have made commitments way ahead, and were continuing to increase their commitments.

Savings banks had a demand on them for mortgages more than they could supply, and you could see it by watching specific situations of that sort, as well as by the overall picture of the borrowing demand.

For example, you are suspicious when you see that the amount of

money that people are trying to borrow in the new securities market, the market for new issues, is more than \$2 billion larger than last year, and that was larger than the year before, and you find difficulty in absorbing it, perfectly obviously.

And rates going up directly as a result of the supply and demand in that market for new issues.

So I say there are a number of different specific situations that you would follow.

Senator FLANDERS. Yes.

Well, Mr. Chairman, I think I am through.

It seems to me that what we are facing here is really the choice between the kind of controls that are now in action—well, we have three things we can do: We can keep on as we are under the present Reserve and Treasury policies, and we will have a chance to examine the Reserve policies when Mr. Martin come in.

Now, depending on our criterion, if our criterion is interest rates, Mr. Martin can change his policies without being asked to peg the bond market. He can change them by the means that were just described.

That would, however, as has been described to us, increase the money supply and raise the ceiling still higher, under which this process of bidding up can take place.

So we have to balance the criterion of interest rate against the criterion of inflation, and see which is the most important. And if you think, as I do, the inflation is the thing to be avoided, then perhaps we will be careful about bringing down the interest rate at the expense of bringing up prices.

And the third alternative is that we have tried—no; strictly speaking there can be only two alternatives. The third possibility, which we have just described, is that of pegging the bond market, which does the same thing even more drastically.

And the result of the testimony that we have had, Mr. Chairman, makes me feel that we had better keep on as we are and hope for the best.

I certainly am worried by this rubber ceiling. I wish it were a little stiffer. But there it is, and I do not want the money supply increased for the sake of a lower interest rate.

That is all I have.

The CHAIRMAN. Senator Flanders, thank you.

The committee will recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:45 p. m., the committee recessed, to reconvene at 10 a. m. Thursday, August 8, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

THURSDAY, AUGUST 8, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Anderson, Martin, Williams, Flanders, Carlson, and Bennett.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury; Paul Wren, Assistant to the Secretary of the Treasury.

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.  
Senator Flanders?

Senator FLANDERS. Mr. Chairman, I asked permission, very kindly given by Senator Anderson, if I might bring up one more topic this morning which I neglected to touch on yesterday when I was talking with the Secretary, and that is this:

I would like to inquire, Mr. Secretary, whether, in your judgment, the expansion of credit by deficit Government financing involves a peculiar contribution to inflation.

The thing that has been in my mind is this: If we have large Government expenditures without corresponding Government income, so that we have to increase our indebtedness, that, by the means we discussed yesterday, tends to increase the available supply of money.

Now, is it not true that that kind of an expenditure which does not go into the production of goods and services for people to buy, is it not true that that is a particularly vicious kind of credit production from the standpoint of inflation?

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Mr. BURGESS. Yes; that is entirely true, and that is a point we always try to make, that when the Government spends money, it does not produce goods which the people can buy.

On the other hand, if we have an increase in commercial loans of banks, the mechanical effect at the borrowing window may be just as

inflationary as with the Government, but the people who borrow use the money normally to produce goods or services which meet human needs, so it tends to balance off the additional creation of money.

May I add this, Senator: That historically the great inflations of history have been based on the deficit financing of governments.

Senator FLANDERS. Yes. I think it is important to get that into the record. And I also am anxious that the chairman shall contemplate this phase of the inflation problem, so we will just bring it up again when he is free. [Laughter.]

Mr. Chairman, I felt at times yesterday that we might have thought we were somewhat off on the sidelines when we were trying to demonstrate the fact that the money we use is generated by debt.

And when I asked such a question as how much debt we need, and so on, knowing your aversion, personal and otherwise, to debt, I had neglected to ask this one question which I have just asked.

The CHAIRMAN. I would like to hear that, because I got the impression yesterday that you and Mr. Burgess thought debt was a good thing; if we did not have any debt, we would be in a terrible fix. [Laughter.]

Senator FLANDERS. It was just that point which, after reviewing, in the small hours, what we had said yesterday, made me feel it was necessary to ask Senator Anderson's indulgence for these very few minutes.

The CHAIRMAN. I am sorry. Had you already asked the question?

Senator FLANDERS. I will ask it again. It is a simple question.

Mr. BURGESS. I hope I can give the same answer.

Senator FLANDERS. I asked the Secretary whether the Government financing—whether, when Government expenditures exceeded income and the operations were therefore done by deficit financing and the Government debt was increased, I asked the question as to whether that kind of an increase in credit money for governmental purposes rather than for things, goods and services that people purchase, whether it was not a particularly vicious thing from the standpoint of inflation; that Government borrowing has perhaps a quality to it that business borrowing does not have.

Let us see if you can give the same answer, Mr. Secretary.

Mr. BURGESS. I said "Yes," because Government borrowing, and the expenditure that causes the borrowing, does not ordinarily produce goods that people can consume.

On the other hand, commercial borrowing tends to produce goods and services which people can use, so that tends to offset the creation of credit.

May I put it another way: that we ought to draw a distinction between productive debt and nonproductive debt. One comfort that I take out of the present inflation, which is a capital goods inflation, is that it is producing this great expenditure of capital for machinery to produce goods which will meet the demands of the people, so it contains within itself, I think, some of the seeds of its correction.

The CHAIRMAN. Government debt is certainly not productive debt; is it?

Mr. BURGESS. Government debt is not productive; therefore, it is the worst kind of debt.

And I added in my first answer that, as you study the history of prices and economic movements, the great inflations have been caused

by Government deficits which were financed out of bank money, and particularly when they were financed out of Federal Reserve money. That is the most dangerous, central bank money.

The CHAIRMAN. It was clearly indicated in the period from 1941 to the end—to 1950.

Mr. BURGESS. Right.

The CHAIRMAN. Because in 2 years, I think it was, the dollar lost 9 cents; was it not?

Mr. BURGESS. That is right.

The CHAIRMAN. Each year.

Senator FLANDERS. I hope the chairman feels we are back on the rails again.

The CHAIRMAN. To be frank about it, I was so worried I could not sleep last night. [Laughter.]

Senator Flanders is a distinguished Senator in whom I have great confidence, and when the Under Secretary seemed to agree with him—I think debt is an evil, and it may be a necessary evil, but in my opinion it is an evil.

I have certainly found that the case in my personal affairs.

Senator FLANDERS. Mr. Chairman, I am through with my questions I wished to ask.

The CHAIRMAN. I wish to thank the Senator for making that clear. I do not want to lose confidence in my admiration for his many fine abilities.

Senator Anderson?

Senator ANDERSON. Mr. Secretary, the first question I asked Secretary Humphrey was with reference to the price of steel, and whether he thought the increase in the price of steel was inflationary.

I notice now that just before you came on, the aluminum companies decided to hike the price of aluminum. Would you think that, again, was evidence of inflationary forces still at work?

Mr. BURGESS. I think it is, sir; yes.

Senator ANDERSON. Has the Aluminum Co. or have the aluminum companies had a policy of priding themselves on spreading their markets by retaining low prices?

Mr. BURGESS. That is my recollection, that they have, and tried to make their product competitive with copper and with other materials.

Senator ANDERSON. This price rise comes at a time of the first substantial extended oversupply of aluminum we have had in the history of the aluminum industry; does it not?

Mr. BURGESS. Yes; that is correct.

Senator ANDERSON. Therefore, it cannot be explained on the basis the market is tight.

Mr. BURGESS. No.

Senator ANDERSON. This is not a substance in short supply.

Mr. BURGESS. I think that is certainly true.

Senator ANDERSON. And the only explanation of it that can be made is inflationary forces.

Mr. BURGESS. I think so; yes.

Senator ANDERSON. It comes also at a time when aluminum profits have dropped a little bit because of the soft market in spots.

Yesterday, I wondered if I had stopped you when you were about to quote Senator Douglas. If I did, I wanted to remove any inhibi-

tions about your quoting him and allow you to quote him at such length as you may want.

Mr. BURGESS. Well, I was quoting the passage that I think is already in the record, so we do not need to quote it in full, in which he points out that inflation is far more expensive a movement to the economy than interest payments; that additional interest payments are a very cheap price to pay if they are in connection with movements that check inflation.

Senator ANDERSON. As you were about to do it, I kept thinking of that passage in Exodus where it tells how the Lord went before them by day in the pillar of a cloud and by night in a pillar of fire to show them the way. We all realize that Senator Douglas has joined up with Mr. Knowland as a pillar of a cloud by day in the civil-rights fight, and now we have a witness from the Treasury is using him as a pillar of fire by night to prove his theories. I do not understand how Republicans tried so hard to defeat him in 1954. I should think they would have kept such a fine apostle.

Mr. BURGESS. If he confined his energies to this particular field. [Laughter.]

Senator ANDERSON. He would have had a better time in the election.

Mr. BURGESS. Speaking of biblical quotations, Senator, I keep thinking of the quotation in which the maidens, I believe, were supposed to have sung when David came back from killing Goliath and they said Saul hath slain his thousands but David his ten thousands. Inflation is ten thousands and interest rates only slay the thousands. The characters are reversed. It ought to be the other way, of course. Saul should be the wicked one. [Laughter.]

Senator ANDERSON. Now, you have had a colloquy with Senator Long with reference to what this tight-money policy eventually was going to cost.

Mr. BURGESS. Yes.

Senator ANDERSON. And I do not have the transcript of yesterday, but I have jotted down at the time you said—and I hope if I have incorrectly quoted you, you will revise it—that you could not calculate the cost because not all the debt would be financed at these higher rates.

Mr. BURGESS. Yes.

Senator ANDERSON. Is that substantially what you said, or would you rephrase it.

Mr. BURGESS. Of course, some of the debt is in 3-percent bonds that are of 40 years maturity. Now with familiarity of economic movements, one must realize that in that 40 years there will be many ups and downs of interest rates; so that it is an interesting illustration of where money rates might lead one to compute what the whole debt would be if computed at 4 percent. But I think it is totally unrealistic as far as any real likelihood is concerned.

Senator ANDERSON. What part of that \$270 billion debt do you think will not feel the effect of these higher rates? Do you want to go through the list? I have a list of issues and I would like to go through it piece by piece, not like the Senator from Oklahoma did it, but having watched that master operate, maybe I can pick up some crumbs from the master's table and go with you through some of these things.

Mr. BURGESS. Well, of course, the Treasury bills feel the effect within the 90 days.

Senator ANDERSON. Let us look at those bills.

Mr. BURGESS. And they also feel the downward effect. That is, I am thinking of some parallel between this period.

Senator ANDERSON. As of June 30, we had about \$21.919 billion in Treasury bills?

Mr. BURGESS. That is exclusive of—

Senator ANDERSON. What was the rate on Treasury bills at the end of 1952?

Mr. BURGESS. It was around 2 percent.

Senator ANDERSON. Oh, no; it was not.

Mr. BURGESS. At the end of 1952; yes, sir.

Senator ANDERSON. Really?

Mr. BURGESS. Yes.

Senator ANDERSON. What was it at the end of 1954?

Mr. BURGESS. It was under that.

Senator ANDERSON. 0.94.

Mr. BURGESS. That is, the bills went up very sharply in the second half of 1952 and the first half of 1953. Then they went down again very sharply, so we actually borrowed during the course of 1954 at lower rates than prevailed in 1952.

Senator ANDERSON. I do not have the 1952 figure, but I do have the 1954, and at the end of 1954, the rate was 0.94; is that correct, as I have it?

Mr. BURGESS. I have got the whole thing now week by week running right back. At the end of 1952, the December 31 issue of bills was 2.23. And then it went up to a high point in 1953, about the 1st of May, of 2.35.

Senator ANDERSON. Well, that was when we had that extra issue of  $3\frac{1}{4}$  percent bonds. But what was it at the end of 1954 by your record? My figure is 0.94.

Mr. BURGESS. It was 1.175. And in the middle of 1954 it got down under 1 percent.

In 1955 it started at 1 percent, and before the end of the year was 2.7.

Senator ANDERSON. It was 1.73 for an average through 1955?

Mr. BURGESS. 1.73; that is about right; yes.

(The average rate in 1955 was 1.753 percent.)

Senator ANDERSON. What is it now?

Mr. BURGESS. It is, the last bills were sold at 3.30.

Senator ANDERSON. That was this last Monday?

Mr. BURGESS. I do not think this last one was on here. That was last Monday, yes, let me just check that; 3.308.

Senator ANDERSON. So that the first item of \$21.919 billion of \$22 billion will feel the effect of the higher interest rates?

Mr. BURGESS. That is right. The present outstandings were sold, they have been sold at, around  $3\frac{1}{8}$ ,  $3\frac{1}{4}$ , so you got an extra—

Senator ANDERSON. Two percent rise in there since 1954?

Mr. BURGESS. Well, since 1954, but from the present level only up a quarter of 1 percent.

Senator ANDERSON. A part of 1 percent?

Mr. BURGESS. Well, that is the bills outstanding here sold. The bills have not sold under 3 percent for 6 months.

Senator ANDERSON. No; we were talking about effect. You told Senator Long that you could not calculate the cost of this tight money policy, because not all the indebtedness would be financed at the higher rates.

Mr. BURGESS. That is right; yes.

Senator ANDERSON. I start in with these short-term notes which I thought averaged 0.94 in 1954. You say now at the end of 1954 they were 1.13 or something of that nature?

Mr. BURGESS. That is about right; 1.175.

Senator ANDERSON. I know for 1955 they averaged 1.73. Now they are 3.30?

Mr. BURGESS. That is right.

Senator ANDERSON. That is a rise of at least  $1\frac{1}{2}$  percent, so we could calculate the cost on \$22 billion of the debt; could we not?

Mr. BURGESS. What should we take as our base? We start with this year's, this past year's interest, say, which was \$7.249 million?

Senator ANDERSON. I am not going to try here, Mr. Secretary, to calculate it all.

Mr. BURGESS. I see.

Senator ANDERSON. I was only trying to get to what Senator Long asked and what I thought was not an unreasonable question. He said, is it not possible to make some sort of calculation of higher interest costs, and if we started at the beginning of 1954 or even started in 1952, we would find a substantial rise in that particular category; would we not?

Mr. BURGESS. I thought he was asking a broader question, Senator, than simply the Federal debt. I thought he was asking about the whole thing.

Senator ANDERSON. He was; and I will try to come to that subsequently.

Mr. BURGESS. All right; yes.

Senator ANDERSON. But he then narrowed it down to the Federal debt and asked, cannot we calculate that?

Mr. BURGESS. Well, we can calculate that, of course, what it would cost to turn the whole debt over at current rates; but we would have to remember that would not happen for some time because you have all these maturities spread over a long period of time. It would only happen as they mature. They will be refunded at the then current rate.

Senator ANDERSON. Yes.

Mr. BURGESS. What that will be, we do not know.

Senator ANDERSON. Now, then, we have finished with Treasury bills that are of the regular series.

Mr. BURGESS. That is right.

Senator ANDERSON. In this next item in the summary of the public debt, which I assume we are working from, is \$1.5 billion, that is, tax anticipation series. Will that feel the effect of this policy?

Mr. BURGESS. Yes. That falls due in September, we pay those off.

Senator ANDERSON. Yes. Then the certificates of indebtedness, regular service, ran \$20.472 billion on June 30. Will that feel the effect of this policy?

Mr. BURGESS. That is right. And they are around 3,  $3\frac{3}{8}$ ,  $3\frac{1}{2}$ .

Senator ANDERSON. And they used to be what?

Mr. BURGESS. Beginning in 1953, they were around  $2\frac{1}{4}$ .

Senator ANDERSON. Yes. Then the next one is Treasury notes.

Mr. BURGESS. Yes.

Senator ANDERSON. \$30 billion?

Mr. BURGESS. That is about right.

Senator ANDERSON. Will that class feel the effects of this?

Mr. BURGESS. Yes, that is right; and many of those are at lower coupons because they were floated some time ago.

Senator ANDERSON. And then Treasury bonds, \$80.789 billion?

Mr. BURGESS. Yes. That will feel it more slowly, of course.

Senator ANDERSON. More slowly. Well, if new issues are coming out at 4 percent, it feels it right away almost, does it not?

Mr. BURGESS. Well, it feels it when they mature and are refunded.

Senator ANDERSON. Yes. Well, is not 80 percent of the Federal debt coming due in 5 years, or was it not coming due 5 years from 1955? Is there not some testimony to that effect?

Mr. BURGESS. Of the marketable debt it is 70 or 80 percent, yes. There is a certain amount—

(On June 30, 1957, 76 percent of the marketable debt was due or callable within 5 years.)

Senator ANDERSON. Well, the rest of it is all due and payable at once if they really wanted to press for it?

Mr. BURGESS. Only part of it and that part the holders do not in fact demand in any substantial amount.

Senator ANDERSON. I know that.

Mr. BURGESS. Yes.

Senator ANDERSON. But you say 80 percent of the marketable debt is to come due and all the rest of it is also due actually. I have a note at the bank. I hope they do not make me pay it. But they could if they wanted to.

Mr. BURGESS. That is right. Then they would charge you a higher rate undoubtedly. Well, I do not know whether they would or not.

Senator ANDERSON. I am coming to that, since you mentioned the higher rate. I noticed yesterday some banks changed the rate on prime paper from 4 percent to 4½.

Mr. BURGESS. That is right.

Senator ANDERSON. How much was the underlying raise that started them to do that? Was it a fourth of a percent? Did they not use the excuse that something had gone up a fourth of a percent?

Mr. BURGESS. I do not remember seeing that.

Senator ANDERSON. I do not remember, either. I read it because I anticipated when I got my newest batch of notes, they would be marked up to 4½ percent. I was happy to find out that I was under the prime paper rate.

Mr. BURGESS. I congratulate you, sir. You have triple A credit.

Senator ANDERSON. Probably due to the fact that I am a stock holder. [Laughter.]

Well, in any event, is there anything in this list, Mr. Secretary, except a small proportion of the extreme long-term debt that is not going to feel the effects of this within the next 5 years?

Mr. BURGESS. Well, there is quite a little more than 5 years, Senator. As you say about 80 percent of the marketable mature within 5 years, but there is 20 percent beyond that, and also a large part of the non-marketable.

Of course, the other question is what will the rate be when these roll around, and my——

Senator ANDERSON. Is it not going steadily upward? I mean I look at this list I have here that was made out as carefully as we could, and the list was United States Government bonds, 3- to 5-year maturities in 1954, the average rate was 1.82. In 1955—and you will correct these figures if I am wrong on them—the average was 2.50. In 1956, at the end of that, the average was 3.12. And now everything that is being issued is at the 4-percent level, is it not, for that range, 3 to 5 years?

Mr. BURGESS. The question that you raise is whether this is an upward trend that keeps right on going up or whether this is a wave——

Senator ANDERSON. No; I am just going to look at the last marketing.

Mr. BURGESS. Yes.

Senator ANDERSON. Was not the last marketing on a 4 percent basis for a 4-year bond?

Mr. BURGESS. That is right, Senator.

Senator ANDERSON. And the Government bonds that are 9 to 12 months' maturities averaged 0.92 at the end of 1954, averaged 1.89 at 1955, and averaged 2.83 at 1956. Are not those all at a 4-percent level, the 1-year bond?

Mr. BURGESS. If you refund them, yes.

Senator ANDERSON. No. Are not all the marketings now that you refund now at the 4-point level?

Mr. BURGESS. Excuse me?

Senator ANDERSON. I am merely trying to say this last refunding that ran some \$24 billion——

The 1-year maturities were 4 percent, were they not?

Mr. BURGESS. That is right.

Senator ANDERSON. And the 4-year maturities were 4 percent?

Mr. BURGESS. That is right.

Senator ANDERSON. So we could begin to calculate this cost if we wanted to break it down, could we not?

Mr. BURGESS. We have to make some assumptions, that is all I am saying. When these maturities come along, they will be at an interest rate——

Senator ANDERSON. Well, put it on a last-in first-out basis, if you will come to——

Mr. BURGESS. You can always make a figure.

Senator ANDERSON. And it would run into billions of dollars?

Mr. BURGESS. That is right.

Senator ANDERSON. Yes.

Mr. BURGESS. But what that means is another question. These things change. In 1953, when we were accused that all we wanted to do was put money rates up—money rates did go up, but they went down again in 1954, so they were lower than they were in 1952, because the economic movement changed and the supply and demand factor changed. I think it will change again in the course of the next few years. Just how, nobody knows.

Senator ANDERSON. Well, the FHA mortgage rate has been raised again now; has it not?

Mr. BURGESS. That was not an effective raise, Senator, because the discounts were reduced at the same time. The amount of money that it cost in interest—

Senator ANDERSON. Discounts were reduced?

Mr. BURGESS. Yes.

Senator ANDERSON. Would you be interested in knowing where they were able previously to market paper in my area at discounts of only 6 points, making it 94; I understand now the best possible offer is 88 to 90?

Mr. BURGESS. That is  $4\frac{1}{2}$  GI's—

Senator ANDERSON. Yes.

Mr. BURGESS. Which are becoming extinct.

Senator ANDERSON. Are there any discounts that are being put on this  $5\frac{1}{4}$  paper?

Mr. BURGESS. Yes. You see this bill, this housing bill, provided that the Housing Administrator had to fix a discount which he regarded as a reasonable discount. Now, if he had left the rate at 5, he would have had to say that a reasonable discount is 4 or 5 points.

On the other hand, if you raise the interest rate on the mortgage to  $5\frac{1}{4}$ , the discount can be 2 points, though it varies in different parts of the country. That is, it is the same interest cost, but you divide it differently between what is discount and what is interest. So that at  $5\frac{1}{4}$ , the person who borrows money with a 2-percent discount is getting it just as cheap as he did a few days before at a 5-percent rate and a 4-point discount.

Senator ANDERSON. But it will only be a matter of a short time before that discount gets fixed back up again? This is a temporary instability in discount rate?

Mr. BURGESS. That remains to be seen, Senator.

Senator ANDERSON. What I am trying to get at, after we put the  $3\frac{1}{4}$  bond issue in operation in 1953, it was followed by a substantial rate raise in the prime money rate costs?

Mr. BURGESS. I would like to verify that. I am not sure the prime rates went up after or before, but we will put that in the record.

On April 8, 1953, the Treasury announced the cash offering of the  $3\frac{1}{4}$  percent of 1973-83. On April 27, 1953, between the date of the announcement and the delivery date on May 1, a number of large commercial banks raised the prime rate from 3 percent to  $3\frac{1}{4}$  percent.

Senator ANDERSON. Well, it was almost coincidental to it. Yes, I would have it, if you could.

Mr. BURGESS. Yes, but it went down again within 2 months; the interest rates went down again. That is, whatever happened in the spring of 1953, it was a turn in the situation.

Senator ANDERSON. In the spring of 1953?

Mr. BURGESS. 1953, it was a turn in the situation, and the rolling adjustments took place, the thing leveled off and interest rates went down again.

Now, if the monetary policies of the Federal are effective, they would succeed in stopping this inflationary boom, leveling things off, and then interest rates could return to more normal levels.

Senator ANDERSON. I have gone through some of the marketable obligations. On the nonmarketable obligations, the first item is depository bonds, \$195 million. I notice the average interest rate on that is 2 percent. That will go up; will it not?

Mr. BURGESS. Well, most of them—no, we do not change that, but most of them are turning them in and they are buying their bonds in the market.

Senator ANDERSON. When they buy a new bond, they are going to buy a 4 percent bond? You are going to have to refinance on a 4 percent basis, so you are going to double the rate there?

Mr. BURGESS. That is the effect.

Senator ANDERSON. Treasury bond investment series, \$11 billion at the average rate 2.73. Will those take a higher rate?

Mr. BURGESS. Well, they would remain outstanding unless the holders take advantage of the operation I described yesterday or the day before—took advantage of this 5-year  $1\frac{1}{2}$  percent note. If they do that, then within 5 years we will have to refund it.

Senator ANDERSON. Yes.

Mr. BURGESS. So it will be able—

Senator ANDERSON. The last division, United States savings bonds, \$54.224 billion. What is going to happen to those?

Mr. BURGESS. Well, all I can say is what is happening.

Senator ANDERSON. People are cashing them, are they not—cashing their old ones?

Mr. BURGESS. Well, it has held up surprisingly well, Senator, since you people gave us a little leeway. It is holding its own pretty well.

Senator WILLIAMS. Just in connection with these 5-year conversion notes, if the holders of those  $2\frac{1}{2}$  or  $2\frac{3}{4}$  percent bonds now elected to convert them today into a 5-year note, would they convert them into a 5-year  $1\frac{7}{8}$ ?

Mr. BURGESS. Five-year  $1\frac{1}{2}$ s.

Senator WILLIAMS. They could still convert them into 5-year  $1\frac{1}{2}$ s?

Mr. BURGESS. Because that is the only facility they have. It makes it puzzling to answer that question you asked.

Senator ANDERSON. Well, the savings bonds are going to have pretty hard going in view of the market situation, are they not?

Mr. BURGESS. If this thing keeps up, they are going to have hard going. Now, they are not like an ordinary market bond, as you know, Senator. The people who buy them are—the alternatives that they have to buying these bonds are taking a time deposit in a bank, savings deposit, or going to a savings and loan association and buying shares, or one or another form of savings. There are not people normally who buy bonds in the market. So as long as they are competitive with those things, we hold our position fairly well, and a lot of them—

Senator ANDERSON. I only want to say to you, just looking at it personally, I will tell you how one person will react to it. I had something that came due in July while I happened to be at home.

Mr. BURGESS. Yes.

Senator ANDERSON. I could take my savings bonds, transfer them into Treasury  $2\frac{1}{2}$ s of 1961, which were selling below 94 and yielding 4.06 that particular day.

Mr. BURGESS. Yes.

Senator ANDERSON. And I got  $2\frac{1}{2}$  percent in place of 3 percent in normal income, and I got the remainder of a 4 percent yield in capital gain; that was extremely attractive, because that tax rate is substantially lower.

Mr. BURGESS. I am grateful to you for giving that illustration. I tried to give it the other day so people would understand it as one of the factors—

Senator ANDERSON. It works this way?

Mr. BURGESS. Sure; I know it exactly.

Senator ANDERSON. Without going into brackets, you know income need not be high to make a capital gain more attractive than regular income.

Mr. BURGESS. Well, the offering sheets of the dealers quote that value, and that is one reason why this new issue had to be a 4-percent rate.

Senator ANDERSON. Precisely. And that is why I say to you that I wonder if we cannot calculate the cost of this, because if you have a  $2\frac{1}{2}$  of 1961, and I believe there is a  $2\frac{3}{4}$  of 1961, is there not?

Mr. BURGESS. Yes.

Senator ANDERSON. Which was priced to yield about 3.94. Maybe it still is in that neighborhood.

Mr. BURGESS. Yes.

Senator ANDERSON. We know that we are going to be able to take capital gains when most of that comes to us, that income, and therefore an individual buying a bond is going to worry, I would think, about buying these savings bonds very substantially. It means the rate on that is going to have to go up very substantially if we hold it, because this is a 4-year bond.

Actually, that is why you had to sell your 4-year bond at 4 percent, because a man could go on the open market and buy a Treasury  $2\frac{1}{2}$  of 1961 at around 94 which was in reality a 4-year bond that would pay him 4 percent.

Mr. BURGESS. Right.

Senator ANDERSON. You had to meet that competition, is that not correct?

Mr. BURGESS. That substantiates what I have been trying to say, that the Treasury in its financing does not pay a nickel more than it has to, to sell its securities. We are not—what we do with that is not something to push rates up. It is just to sell our securities.

Senator ANDERSON. Well, I do not now want to go through all the special interests, except we have 1 item of \$19 billion, which I judge is Federal Housing Administration funds, in the summary of the public debt.

Mr. BURGESS. \$14 billion. No, that is Federal old-age—

Senator ANDERSON. No, \$19.462 billion.

Mr. BURGESS. That must be Federal old-age and survivors.

Senator ANDERSON. I will take that line and run across it, and I can tell.

Mr. BURGESS. It is the three items, Federal old-age and survivors insurance trust fund, it is made up of 3 items of \$15 billion or \$14.9 billion which matures June 30, 1958, of \$2 billion which matures June 30, 1959, to 1962, and \$2.5 billion which matures 1963 to 1967.

We are gradually, by arrangement with them and following the law, giving that a staggered maturity rather than having it all come due at once.

Senator ANDERSON. But you can feel the effect of higher interest rates there, too.

Mr. BURGESS. We will, over a period.

Senator ANDERSON. All I am trying to say, Mr. Secretary, is, I wonder if the answer to Senator Long might not be that we can calculate—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). That there is a very, very substantial increase in costs to the Federal Government.

Mr. BURGESS. That is right. And we can give you, we will put in the kind of an annual increase it means now. This means \$300 million or \$400 million over last year, and it goes gradually along like that.

Senator ANDERSON. Fine. I would like to have your response on that.

Mr. BURGESS. The thing I was reacting against, Senator, was that I had been quoted as saying that the cost of the debt would be \$4 billion higher, and I never said that at all.

Senator ANDERSON. I do not believe I said that, did I?

Mr. BURGESS. No, you did not.

Senator ANDERSON. Thank you.

(The data requested is as follows:)

Literally refunding the public debt at 4 percent as issues mature, the computed interest cost on June 30 of each year through 1961 would be as shown in the table below. Interest expenditures as a component of the budget would lag behind the computed cost—for example the expenditure figure for the fiscal year 1958 would be about \$7.6 billion rather than the \$8.1 billion shown for June 30, 1958.

The computations shown below are unrealistic in many ways: (1) A static 4-percent rate over a period of 4 years is unlikely, (2) the present composition of the debt will be changed considerably over this period of time, (3) the size of the public debt is unlikely to remain the same, and (4) changes in legislation would be necessary to use a 4-percent rate on some of the special issues and on savings bonds.

*Estimated computed interest cost on the public debt if all interest-bearing securities are refunded into 4 percent issues as they mature<sup>1</sup>*

As of June 30	Computed interest charge		Computed interest rate
	Amount	Increase during year	
	Billions	Billions	
1957.....	\$7.3		2.73
1958.....	8.1	\$0.8	3.03
1959.....	8.4	.3	3.15
1960.....	8.6	.2	3.21
1961.....	8.8	.2	3.27

<sup>1</sup> Assumes (1) constant \$270.5 billion debt with present composition by type of issue (\$268.5 billion interest-bearing debt), (2) all public issues now outstanding are refunded as they mature with no allowance for prior redemption of savings and investment bonds), and (3) special issues are also refunded into 4-percent issues as they mature (assuming necessary legislation) except for those tied to a statutory formula (average computed rate on Treasury bonds in the case of old-age and survivors insurance trust fund and civil-service retirement fund, and average computed rate on all public debt in the case of unemployment trust fund).

Senator ANDERSON. The National Association of Manufacturers is not one of my favorite institutions, but Keith Funston, the president of the New York Stock Exchange, spoke before that organization last December, and he said that America had to build up its gross national product and expand substantially, then said:

Like all things of value, this feature has a price tag. It reads \$360 billion. This is the amount of capital American corporations will have to raise, the

financing they must generate, to provide just the plant capacity needed to meet 1965 goals.

Do you not believe every dollar's worth of that \$360 billion that American industry is going to have to raise, will be tougher to raise because of these very high interest rates?

Mr. BURGESS. They will, certainly. I do not know where he got that figure. That sounds on the high side. But whatever it is, it costs more.

Senator ANDERSON. I only say that Keith Funston, president of the New York Stock Exchange, before the 65th Congress of American Industry at the Waldorf Astoria, Thursday, December 6, 1956—

Mr. BURGESS. Yes.

Senator ANDERSON. I do not know where he got the figures, either, and I do not think I would go back to try to find it for him, but he has taken what the national product is. He quoted Arthur Burns, Dr. Arthur Burns, who I am sure you feel is a reputable witness, at least, he sets the national product by 1965 as \$600 billion, Dr. Burns did. Is he not an adviser in—

Mr. BURGESS. He was.

Senator ANDERSON (continuing). In the Government?

Mr. BURGESS. Yes.

Senator ANDERSON. Then Mr. Funston took the fact that we had to absorb this additional amount of goods, and he figured out that we would need \$360 billion of financing by 1965, if we are going to have the plant ready by 1965.

And as I read the speech at that time, I said if the Government cannot finance except hand to mouth on 90-day bills or 1- to 3-year bills, what chance does industry have? I wrote that down in December.

But do you not still think if the United States Government has trouble getting any long-range financing, that industry is going to have trouble putting this \$360 billion it is going to need on any long-range basis?

Mr. BURGESS. Yes.

Of course, the problem is whether we are saving enough money to provide those funds.

Senator ANDERSON. The estimate of Mr. Funston—now, as I say, I am trying to keep this from being my own estimate, and therefore quote the President of the New York Stock Exchange—he said, of this \$360 billion that industry is going to need, some \$60 billion should be raised through the sale of new stock.

Do we save money that fast, to take care of that easily?

Mr. BURGESS. We have not been.

Senator ANDERSON. So there will be competition, will there not, between that money for expansion and the regular programs of savings?

Mr. BURGESS. If he is right, there will, yes.

Senator ANDERSON. If he is right.

I am willing to start on that hypothesis, because I agree with you, we do not know whether it will work out that way. But if American industry is going to meet its obligations for expansion so we will not have artificial scarcities or actual scarcities, we are going to have to get something like \$360 billion; and \$60 billion of that is going to have to be raised through the sale of new stock.

When I can walk out and buy a 4-year bond of the United States Government which gives me 4 percent, and a third of that on a capital gains basis, do you not believe it is going to be hard to sell me a stock unless it looks extremely attractive?

Mr. BURGESS. I think that is right.

Of course, it somewhat depends on your presumption about inflation. If you think inflation is going on at the present rate, you might say, well, no matter what interest rate I get, I am better off to buy the equity. I do not agree with that, but one could say that.

Senator ANDERSON. Well, I will just read you Mr. Funston's last remarks. I am sorry I do not have an extra copy so you could follow it. I will be glad to hand it to you if you wish. He said:

Where will this kind of money come from? Well, institutional investors can be expected to supply about half of it, but the remaining \$30 billion, year by year, should come directly from us, the American people, and this represents a hitherto unknown scale of direct individual investments in equity securities, that is, in common stocks. It is fully three times the rate of recent years.

I am asking you if this high-money policy is not going to make still more difficult the raising of this venture capital?

Mr. BURGESS. Of course, you are talking Bill Martin's business. We do not have a high-money policy. That is in his field. And the question is how long it lasts. If it lasts long, there is no doubt about it, it is a handicap.

Senator ANDERSON. I am going to come back to whether you do have that policy, or not, in another minute.

Mr. BURGESS. All right.

Senator ANDERSON. Let me go on now to a question that I raised with the Secretary that I would like to have your comments on. I asked him a good deal about intermediaries, and whether or not intermediaries do not have a very substantial influence on this general situation. And I asked this question of him:

Do you control the amount of lending done by the financial intermediaries, including savings banks, insurance companies, Government credit agencies, pension funds, and the like?

In previous testimony before this committee, you admitted that the increase of assets of commercial banks—this was in this April hearing—from 1952 to 1956 was only 13 percent as compared to 30 percent for life-insurance companies, 27 percent for mutual savings banks, and 90 percent for savings and loan associations.

Mr. BURGESS. That is about right.

Senator ANDERSON. Until the monetary system or the monetary authorities, it seems to me, start to deal with these financial intermediaries, the restraining influence of the commercial banks is not going to be very great, is it?

Mr. BURGESS. Well, they are a little different kind of animal. Their money revolves more slowly.

Usually, it has been believed, and I think with a good deal of support by the facts, that if the money supply, that is, demand deposits and currency, is under restraint, that that permeates throughout these intermediaries.

Senator ANDERSON. Yes; that is the theory. But I am just showing you, by the facts, it did not work out that way at all.

While you were having this restraint between 1952 and 1956, the assets of these commercial banks only increased 13 percent; but the savings and loan associations' assets increased 90 percent.

Mr. BURGESS. Of course, that is all to the good, because they are dealing with savings money, that is, they are taking the money from the saver and putting it to work. Now, there is nothing inflationary about that.

That is the dollar they put to work is paralleled by the dollar they take away from the man who saves it. That is what we want. That is the way America is going to grow. By one man saving a dollar and lending it to another man to work with, one man postpones his use of that money. He waits.

Senator ANDERSON. I wonder if it meant that, or if it meant that people were changing from other savings programs that they had, such as the purchase of savings bonds.

Mr. BURGESS. Well, over this period we have been in, they have increased their E and H savings bonds by \$6 billion.

Now, savings bonds have increased less than these other forms of savings, and that is something we cannot feel badly about. It is in accordance with private enterprise that the great increases should be in the channels that are apart from Government.

But I think this process of rapid increase of savings is very encouraging, Senator, for the future of the country.

Senator ANDERSON. Well, when, in these years from 1953 through 1956, while I think both the Treasury and the Federal Reserve, but you think probably just the Federal Reserve, was trying to force this somewhat tight money policy on us—

Mr. BURGESS. Yes.

Senator ANDERSON. These credit agencies were increasing the total supply of credit, were they not?

Mr. BURGESS. I would not say they were increasing the credit. They were increasing the amount of savings.

Senator ANDERSON. I said they were increasing the total supply of credit.

Mr. BURGESS. It is credit in a certain sense, but if the credit is derived from savings, it has an entirely different effect than if you created it out of the air.

Senator ANDERSON. It is not just all savings, is it? Has there not been a steady rise in the total amount of credit by these agencies through their guaranties?

In fiscal year 1956, the loans and investments—this is in the 1958 budget, page 1106, if you want to refer to it there—what is the \$17 billion figure that is in there for fiscal year 1956 under "loans and investments"? Is that not these various credit agencies?

The figure for fiscal 1956 is \$17.1 billion. For 1957, it is \$18.4 billion. For 1958, it is \$19.6 billion.

Mr. BURGESS. Yes.

Senator ANDERSON. An average of a 15-percent rise in the amount of loans and investments in these Government credit agencies.

Mr. BURGESS. I am a little off the beam, Senator. I did not realize you were talking about Government agencies. I thought you were talking about insurance companies and savings banks, and so on.

Senator ANDERSON. I am trying to get to that by a piecemeal method.

Mr. BURGESS. Yes.

Senator ANDERSON. So far as the Government is concerned, that is correct; they only grew 15 percent?

Mr. BURGESS. Yes.

Senator ANDERSON. But their guaranties and insurance were \$51 billion in 1956, \$57 billion in 1957, \$65 billion in 1958—an increase of 26 percent.

Mr. BURGESS. But that did not increase credit. FHA mortgages are purchased by people out of savings, they are purchased by life-insurance companies and savings banks out of that. So to that extent, it is savings, it is not new credit.

The Government, under this plan, gives its guaranty, and that has worked very well.

Senator ANDERSON. Is there any effort to coordinate the policies of these 20 or so Government agencies?

Mr. BURGESS. Well, that is a very important question, and I am glad you have asked it, and it is one we are concerned about, have been concerned about right along.

Senator ANDERSON. The answer is "No"; is it not?

Mr. BURGESS. No, I would not answer it that way, Senator. I would like to take a minute to spell that out.

Senator ANDERSON. Go right ahead, because I want an answer to it. The answer is "Almost no"?

Mr. BURGESS. We are concerned about it, and I am glad you are, and I think it is something which ought to be very carefully looked into.

But in the first place, the legislation does give the Treasury a certain measure of control about the new security issues of these organizations which sell their own obligations to the public.

The Government Corporation Control Act of December 6, 1945, provides about these Government corporations (a) the budget programs are submitted to the Bureau of the Budget for review and inclusion in the President's budget for transmission to the Congress; (b) the financial transactions are subject to audit by GAO, General Accounting Office, and a report of each audit is made to the Congress.

(c) Checking accounts have to be kept with the Treasury or, with the approval of the Treasury, with the Federal Reserve bank or with a designated depository.

Now, (d), and most important, when they issue securities for sale to the public, I quote here, they—

shall be in such forms and denominations, shall have such maturities, shall bear such rates of interest, shall be subject to such terms and conditions, shall be issued in such manner and at such times and sold at such prices as have been or as may be approved by the Secretary of the Treasury.

So that all of these agencies, when they sell their obligations in the market, the housing organizations, FNMA, and so forth, have to come to us and get our approval. So that one of our jobs is to follow that along and space that, hold them back if they are going too fast, and so on.

That is not applicable to the Federal intermediate credit banks, the production credit corporations, banks for cooperatives, or Federal land banks.

One of the reasons, of course, is that those are now privately owned in whole or in part. The Government stock is either completely or partially paid off.

Senator ANDERSON. Do I understand the Treasury has ever stopped FNMA from the issuance of mortgages under that section you read there?

Mr. BURGESS. Well, FNMA buys mortgages. Do you mean FHA or FNMA?

Senator ANDERSON. FHA.

Mr. BURGESS. No. It would only be if FHA—they do not have any borrowing authority, so we have no direct control of the amount of their issuing of guaranties.

Now let me go on to another step. This is the matter of these corporations operations, and their borrowing, and so forth. Even that there is only a limited control, because a great deal of them—many of them do not have to go into the market to borrow. They borrow money from us.

Then you get into the whole question of the use—the question that was raised here yesterday by Senator Williams—the whole question of the use of the public debt operations instead of an appropriation by the Congress.

And so, you get the problem of how these people operate, the terms they operate under, and so on.

We have faced that. There is no legislation, other than what I have cited, which gives you control.

We picked it up particularly with housing in 1955, where we saw that the various Government agencies dealing with housing were running a little at cross-purposes, where there was an inflationary tendency, and they were using bank credit.

We found, for example, that the Federal home-loan banks were borrowing heavily in the market, and relending to their member associations, so that these people were not just lending mortgage money that came in from savings, from their shareholders, but they were in effect lending bank money by selling their debentures in the market.

We had a look at that. We saw it was going too fast.

Similarly, we found that there was a lot of warehousing of mortgages by insurance companies and savings banks. By "warehousing," I mean they were borrowing against their mortgages from commercial banks. And we saw that with that inflationary push, the amount of mortgages was increasing at an annual rate of about \$15 billion, the amount of housing starts was 1.3 million, and the prices were rising.

So we got together—I say "we"—Arthur Burns, of the Council of Economic Advisers and what we call ABEGS, the Advisory Board on Economic Growth and Stability, where we had a representative of the Federal Reserve Board, the Budget Bureau, Agriculture, Commerce—we got these housing agencies together and worked out programs for keeping this thing in check.

I am sorry I have taken so much time to describe that, but what it indicates to you is that we are conscious of the problem of coordinating the efforts of these agencies, and we are using machinery which is at our hands.

I agree with you that it is not wholly adequate. The difficulty is that the legislation which governs the operation of these agencies gives them obligations under the law to fulfill, which in many cases may run at cross-purposes with the credit policies of the Federal Reserve System.

Senator ANDERSON. I asked the Secretary what he thought about the possibility of having some sort of a national economic council—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). Which might function somewhat as the National Security Council does in respect to defense.

Mr. BURGESS. Yes.

Senator ANDERSON. Do you think there is any advantage in having some sort of organization which takes a look at the monetary problems the same way as the National Security Council does with respect to defense?

Mr. BURGESS. I think this Council of Economic Advisers, with this Board they have set up, this ABEGS, is a pretty good mechanism for the purpose. Whether it is going to be necessary to give that more vigorous legal status, I think remains to be seen. I am not ready to make, and the Treasury is not ready to make, any specific recommendations on it.

The one thing that I would ask your thought about is the problem that arises in all these laws, going through with these different agencies, which in many cases do not have any regard for this problem of coordinating it.

We have just had a bill before the Congress on the TVA which would give them the power to go out in the market and borrow, what was it, \$750 million, and we made recommendations on that legislation which would tend to keep that thing in line with other policies.

The present bill does not embody fully the recommendations we made, and we feel that the present bill, in its present form, would run exactly the risk which you point out, of having an agency running off by itself and doing things without coordination with the other agencies of the Government and with the general credit policy.

Senator ANDERSON. Mr. Secretary, in your testimony you referred—and I was just trying to find the word now—to “inherited deficit.”

Mr. BURGESS. Yes.

Senator ANDERSON. What do you mean by “inherited deficit” in 1952?

Mr. BURGESS. I mean these budgetary appropriations and authorizations run over a period of time. It is not something that you can deal with just all of a sudden. You have to start planning now, for example—well, we started long ago planning on the 1959 budget. And if you do not do these things well ahead of time, you cannot just rush in and change it.

This Government's operation is a delicate mechanism. It involves a great many people, people with rights to their positions. You cannot suddenly change it.

So that when we came in and found the Government operating with a very large deficit, it was only over a period of months, some months, that you could do anything about it.

As you know, we did cut the expenditures, beginning in 1953 but running into 1954, by a substantial amount. But you could not, coming in in January 1953, do very much about what turned out to be a \$9 billion deficit in 1953, fiscal 1953.

Senator ANDERSON. You also explained this “inherited deficit” by the heavy defense expenditures, but is that rise in debt really justified in view of the fact that expenditures of a military nature dropped

from \$10 billion to \$15 billion when we had a rise in the gross national product of \$45 billion, and ought we not have been able to take care of it, do you not think?

Mr. BURGESS. Of course, we did go at it, and it is true that a part of this increased expenditure is nondefense, that is, defense is still below what it was in fiscal 1953. But there have been other increases, partly due to recommendations by the administration, partly due to congressional action.

Senator ANDERSON. In the chart you have on page 3 of your statement, you make clear that the per capita debt has been falling.

Mr. BURGESS. Yes.

Senator ANDERSON. Is not the record a little better from 1946 to 1952 than it is from 1952 to 1956?

Mr. BURGESS. That is true, and there you have to take into account the inherited deficit. That is, we cannot be held responsible for all of the expenditures in fiscal 1953 and 1954. We have it in balance now.

The surplus there was in 1948, partly due to cashing in on surplus material, partly due to some vigorous cuts, vigorous cuts in the defense budget, perhaps too much, it did give us a surplus which accounts partly for the change in the debt between 1946 and 1952.

Senator ANDERSON. The chart shows that the decline was \$142, or 8 percent, from 1946 to 1952; and was only \$61, or less than 4 percent, from 1952 to 1956.

Mr. BURGESS. That is right.

Senator ANDERSON. In the chart on page 5, you point out that the interest charge has fallen in relation to national income.

Should it not be pointed out that this fall was from 2.8 percent in 1946 to 2.1 percent in 1952, and that there was no further improvement by 1956?

Mr. BURGESS. That is quite right.

Senator ANDERSON. Well then, does the administration realize there is an important relationship between Government charges and the national income?

Mr. BURGESS. Oh, certainly.

Senator ANDERSON. I am glad to have that statement, because it did not seem to be clear to some Members on the Republican side in the Congress between 1946 and 1952.

Some of us there felt that was true, even in the Democratic administration.

Mr. BURGESS. Well, Senator, I have been on the professional side of this more than I have on the political side, and there were some Democrats who did some very good jobs in between there, and there were some very good cooperative jobs done by the Democrats and Republicans.

Senator ANDERSON. Thank you.

Mr. BURGESS. The sun did not rise in December 1952 for any of us.

Senator ANDERSON. On page 6, at the top of that page, Mr. Secretary, you make much of the point that these debt payments are transferred and, therefore, are not burdensome.

If they are not such a burden, then why does not the administration apply this argument as to all payments under the social-security programs, which many parts of the people in that administration opposed steadily since 1935?

Mr. BURGESS. I did not oppose it.

Senator ANDERSON. I did not say you did. I am glad you did not.

Mr. BURGESS. I think it has been a very good thing for the American people.

Senator ANDERSON. On page 6, and we will take the fourth paragraph—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). You comment that a computed rate of interest of 2.8 percent results; but is a computed rate of interest so important if the current rate of borrowing is 4 percent?

Mr. BURGESS. Well, of course, there again there is a problem of lags. What you pay now reflects what happened in your funding and in your refunding in the period of the past. And, of course, if you refund at current rates, it is going to go up.

Senator ANDERSON. The sentence reads this way:

The rate as of June 1957 was 2.7 percent, and even after the current refunding operation is completed the rate will be 2.8 percent.

Mr. BURGESS. Yes.

Senator ANDERSON. It will look as if people will say, "Well, nothing really happened. It managed to go up only a tenth of 1 percent.

But you try to go to the bank and borrow money and pay a tenth of 1 percent more than you paid a short while ago, and see what happens to you.

Mr. BURGESS. Those are statistics.

Senator ANDERSON. From 4 to 4½ today is a pretty good-sized jump.

Mr. BURGESS. That is right. We are not trying to make an argument, Senator; just trying to record it.

Senator ANDERSON. I was afraid it was going to be heralded that interest rates have gone up only one-tenth of 1 percent as a result of all this recent financing.

Mr. BURGESS. What we were trying to illustrate was that on this mass of debt, issued at different times and carrying different rates, the effect of a change in the market takes some time to become effective.

Senator ANDERSON. Again, this goes into a question that Senator Long was raising. Maybe we ought to try to compute in actual dollars what this apparent 4 percent rate is going to mean. That is a plateau we are now on, and indications are we are likely to stay there, or higher.

And did I not understand the Secretary to say he could not get these marketed at 4¼, or whatever the maximum is; that he would have to ask the Congress to increase that?

Mr. BURGESS. I think Senator Kerr asked me as to what you could sell a long bond.

Senator KERR. Would the Senator yield at that point?

Senator ANDERSON. Yes, I would be happy to yield.

Senator KERR. At that time, which I believe was on Friday or Saturday, the Secretary told us he thought it would require a minimum of 4½ percent to enable him to sell a long-term bond.

Mr. BURGESS. I think I said 4½, 4¼, and you said I could not sell it at 4½ because of the law, which is quite right.

Senator KERR. Since that time, the prime rate has been increased to 4½.

Mr. BURGESS. Yes.

Senator KERR. I wonder what the Secretary would think would be the long-term rate he would have to pay now if he sold long-term bonds, or if intervening events since last week would mean that they would have to be offered at a higher rate than they would have been even last week.

Mr. BURGESS. I would wait around and see what the effect of these things was going to be. So far, it appears to be true that the rates in the Government market had already anticipated some of these things, the discount, in advance; that is, the securities we put out 2 weeks ago are still selling at a slight premium.

Senator KERR. They were not selling as much at a premium yesterday as they were the day before.

Mr. BURGESS. They dropped an eighth of a point.

That was not very much change. It held pretty well.

Senator ANDERSON. Way back when they pegged this rate, in 1942, at  $2\frac{1}{2}$  percent, you recommended then a higher rate, or felt there should be a higher rate.

Mr. BURGESS. Yes; I thought it would have been better for two reasons: One is, I thought you got better distribution of the debt among the people. In a war, you want to have as little increase in bank credit as you can. You want to raise just as much of your money as you can from taxes and from the savings of the people.

Now, I thought a rate a little higher than  $2\frac{1}{2}$  would have drawn more of the savings of the people into Government securities.

The other question is the stability of the rate. A  $2\frac{1}{2}$ -percent rate was low relative to what insurance companies, and so forth, have to earn, and it is an unstable bond. That is, you sell people a bond at less than what they think they have to earn for their business, and they are going to dump at the first opportunity, and they did.

Senator ANDERSON. I just want to say to you that in 1941 or 1942, I think probably in 1942, I came up with an amendment to a revenue bill, trying to increase very substantially the level of taxes, on the theory that would help to take care of more costs on a current basis, and also thereby siphon off dollars that were going to be inflationary dollars. I want to tell you that was not the most popular thing I ever recommended.

Mr. BURGESS. Senator, none of those things are very popular.

Senator ANDERSON. It took a long time to live that down among the people.

Mr. BURGESS. We even find that high money rates are not popular. It is hard to believe, but it is true. But you were right.

Senator ANDERSON. I thought so. But I had many people point out to me what they regarded as the error of my ways in the next few elections. You have agreed the rate of interest is not very high now if you go back to the early part of the 20th century.

Mr. BURGESS. Yes.

Senator ANDERSON. But do you not leave out the long-time trends toward lower rates of interest which are the result partly of new institutions and increased amounts of savings?

Is not the relevant thing the comparison, in more recent years, these rates have gotten down as a result of these savings?

Mr. BURGESS. I do not think the rates from 1930—they did not go down much until 1935—the rates of the last 20 years I do not think are quite a fair guide.

Senator ANDERSON. The language, Mr. Secretary, that I take exception to, or question, is this:

Looking back, we note that the current average interest charge—  
this is from page 6, toward the bottom of the page—

Looking back, we note that the current average interest charge on the debt is not much higher than it was in 1916, just prior to our entry into World War I; it is well below the average rates in the twenties; and it is very close to what it was in 1939 at the outbreak of World War II, despite the fact that the earlier rates were partially tax exempt.

Mr. BURGESS. Yes.

Senator ANDERSON. A lot of things happened between 1916 and 1956. We did not know what a national debt was in 1916, did we?

Mr. BURGESS. We thought we did; but we did not.

Senator ANDERSON. I was in the House of Representatives in 1941 when a New York banker of some stature came down and assured the Congress solemnly that if the national debt ever went above \$50 billion, there would not be a bank or life-insurance company stay open, they would go broke. We could not stand \$50 billion, and he knew it to be a fact. I am not trying to point out he was wrong, because a great many of us were wrong.

The first time before the House Appropriations Committee that I got a budget calling for \$109 billion in 1 year, I thought everybody was crazy. But we learned that we had a change in circumstances, and I am just asking you if the change in circumstances has not had something to do with this lower interest rate that we acquired, and we ought to compare our current interest rates against the level that we got down to in the thirties and forties as against what happened in 1916.

Mr. BURGESS. Well, Senator, that is something which gets into the area of economic prediction. I am inclined to think that the comparison with the rates of the twenties is a better, more meaningful comparison than with the rates of the thirties. In the thirties, we still had tremendous unemployment. You did not have a big demand for money.

We are back now to where we are doing what we ought to do in this country: We are doing a tremendous amount of building for the future, our business concerns are going ahead and using money, and the demand for money is larger than the savings. Well, that is the kind of thing that happened in the twenties. In the meantime, we are a bigger country. We are a richer country.

One might say that rates ought to be lower, but it is the supply and demand equation that is a factor, and if you compare our rates with the rates abroad, we are the lowest money-rate country in the world except for Switzerland.

Senator ANDERSON. If you do not like the thirties, how about the forties?

Mr. BURGESS. No; I think the forties, we were still working up from the wartime low rates. There was a pegged rate there.

Senator ANDERSON. The table in chart 18 that you submitted, of interest rates on long-term Governments, shows that the United States bonds were about 2.2 average interest in 1946, and stayed that way until, I judge, 1947, 1948, 1949, then moved up a little bit, and then made a very sharp turn after 1952 to a very high level in 1953, and now up to 3.4. So that—

Mr. BURGESS. I think the Canadian and United Kingdom rates are interesting there.

Senator ANDERSON. Yes, they are very interesting, but if you think they are interesting, you would be surprised the part of them that interests me.

If you look at that chart, the part which interests me is, if I take 1952 and 1953, then toward 1954, that little pocket in there, at a time when the American rates were moving up, the Canadian and the United Kingdom rates were moving down.

Mr. BURGESS. That was in about 1955. We began—

Senator ANDERSON. No; 1954. In 1955 the United Kingdom rates started moving up again, the Canadian and United Kingdom rates were moving up.

Mr. BURGESS. I do not think our rates started moving up much before 1955.

Senator ANDERSON. You do not have actual lines there, but if you drew them through the line at about 1952½, or June of 1953 would hit the point where our rates started up, would it not? Would not June of 1953 be about the upturn there in rates on the chart, No. 18, in the first column?

Mr. BURGESS. No. I think that June 1954 was the low point.

Senator ANDERSON. Now, Mr. Secretary, is not the big line that goes on up, December of 1952, maybe, or was it January of 1952?

Mr. BURGESS. That is December of 1952.

Senator ANDERSON. December 1952.

Mr. BURGESS. December 1952 is the point of the line where the 2.7 is interrupted.

Senator ANDERSON. It was going up since June of 1953.

Mr. BURGESS. June 1953 is the up point.

Senator ANDERSON. That is when it started up.

Mr. BURGESS. No. That is the up point, that is the high point.

Mr. MAYO. Each little spur is 6 months.

Senator ANDERSON. We must not be looking at the same chart.

Mr. BURGESS. Each little nick is 6 months.

Senator ANDERSON. You are right. June of 1954 is the low. But that is the point at least where you said it was interesting because the Canadian rate moves downward.

Mr. BURGESS. Yes.

Senator ANDERSON. For a solid year, as our rate moves upward, the United Kingdom rate moved upward as our rate moved downward.

How do you explain that?

Mr. BURGESS. I think our business recovery got started a little quicker than theirs, probably.

Senator ANDERSON. Could that have been the rather high rate of interest on those 1953 bonds?

Mr. BURGESS. Oh, no. That was all washed out. That was finished.

I mean the effect of that was immediately, in 1953, and they were selling at a premium in 1954.

Senator ANDERSON. Now we go to page 7, Mr. Secretary.

Mr. BURGESS. Yes.

Senator ANDERSON. You have a comment with reference to the national debt:

We should, of course, continue vigorously our policy of seeking to reduce the debt. Debt reduction helps to combat inflation; it releases funds for the use—

Would you reduce debt regardless of economic conditions?

Mr. BURGESS. No, I would not, Senator.

Senator ANDERSON. You would not reduce debt in a period of declining demand and rising unemployment?

Mr. BURGESS. If we were in a period of depression or recession, I think I would not advocate certainly a large debt reduction. We would not have much—I do not think we would have very much choice.

Senator ANDERSON. Would you reduce it in time of rising unemployment?

Mr. BURGESS. Not of serious rising unemployment, no, I think. You would not have very much choice probably because at such a time your revenues would be declining faster than your expenses, so you would be trapped anyway.

Senator ANDERSON. Would you plan to reduce it even if it meant a reduction in the supply of money?

Mr. BURGESS. Well, it might be a time when it was desirable to have some pressure on it. Of course, it would not be a big factor on the supply of money. There are other things that affect that more.

Senator ANDERSON. How significant is the increase in the supply of money as to this rise of debt? Is the rise of debt in the last 4 years, without a large increase in the supply of money, the significant factor? You comment on the rise of money about \$10 billion and the rise of all debt of \$146 billion.

Mr. BURGESS. Yes.

Senator ANDERSON. Why not take into account the rise in total amount of spending, which means greater activity of money and also the increased tendency of the financial intermediaries to increase their lendings?

Mr. BURGESS. That is just why you cannot just look at that supply of money and take that as your complete guide to what is going on. You have to take the whole picture into account.

Senator ANDERSON. Has the Treasury ever made a recommendation to deal with this problem of intermediaries?

Mr. BURGESS. No. I do not think we have in general. We have made specific recommendations like the one on TVA. Every bill that comes up, we have our recommendation to deal with that specific thing.

Senator ANDERSON. Well, the TVA got mixed up a little bit with this public versus private power question.

Mr. BURGESS. That is right.

Senator ANDERSON. The financing proposal at first was a slow form of suicide.

Mr. BURGESS. All these corporations have a political as well as an economic side.

Senator ANDERSON. Yes.

Mr. BURGESS. That is the problem.

Senator ANDERSON. The effort was not made to control TVA because of the intermediary problem.

Mr. BURGESS. Yes.

Senator ANDERSON. It was made because the private power companies wanted its expansion stopped. I am asking you, completely outside of the public and private power problem, which we are not going to get into—I have got my hands full with the atomic energy matters on that.

Mr. BURGESS. Yes.

Senator ANDERSON. But completely outside of TVA and public versus private power, Secretary Humphrey said, in response to my question on that:

This is a subject that has bothered me a great deal ever since I was on the administrative side of the Government.

He said he thought it was a crucial problem. You agree it certainly is a problem. Why does not the Treasury recommend something about it?

Mr. BURGESS. Well, maybe we should. We simply have not had a conviction of a method of legislation that would help it. We have tried up to now to be, to deal with it through administrative means, through conferences within the administration.

Senator ANDERSON. But that does not get the job done, does it, Mr. Secretary?

Mr. BURGESS. I do not think it does all together. And the other problem really is the basic legislation in each agency.

You know the agricultural agencies and you know that under the law they have to do a specific job, like Commodity Credit Corporation, and it is pretty hard to pass a general control law for intermediaries that would take care of that situation.

Senator ANDERSON. You said they have to follow the law. I just want you to know that we got into the cotton business when the war ended in the Department of Agriculture, and we had 7 million bales of surplus cotton, rag tag, very poor cotton.

Mr. BURGESS. Yes.

Senator ANDERSON. And I had been taught that part of your job in this world was to try to make a dollar once in a while, so I tried to market that cotton and the Department of Agriculture made \$225 million. I got a terrible bawling out because people said that under the agricultural law the Secretary of Agriculture is supposed to lose money at the right time for the benefit of the right people. He is not supposed to make money. And I think that may be some part of the farm problem. You are not supposed to make money.

Mr. BURGESS. That is right.

Senator ANDERSON. Do you not think there might be—I am only interested because I think there ought to be some effort to try to hold the whole line, if you are going to try to hold the line and you raise interest rates in an attempt to slow down things and then another agency turns money loose through another spigot, doesn't that neutralize everything you do and only succeed in raising interest rates? I am worried if that is not going on now.

Mr. BURGESS. Well, I certainly agree with you in principle. Some of that goes on and it breaks your heart when you are trying to deal with this whole situation in a sensible way, and one thing after another comes where you have a specific piece of legislation in a Government agency; and to fulfill the purposes of the legislation, you find yourself pouring money out at one bunghole where you are trying to stop it at the other.

Senator ANDERSON. I say to you again, I read you what the president of the New York Stock Exchange said about the fact we were going to need \$380 billion in 6 years to expand our plant.

Mr. BURGESS. Yes.

Senator ANDERSON. Now, if we should get that whole \$380 billion in a 6-year period, to expand our plant somewhere, even though the interest rates were going up and the Treasury was saying take it easy, we would experience something approximating inflation; would we not? We could not do it otherwise?

Mr. BURGESS. I think those figures are too big to handle with the savings the country is generating.

Senator ANDERSON. It is three times the rate at least to which it is going on; I am saying that to you.

Mr. BURGESS. Yes.

Senator ANDERSON. Here is the president of the New York Stock Exchange advising inflation while the Federal Reserve Bank is advising something else. How does the average small-business man out in the country decide what to do?

Mr. BURGESS. Well, he has got a difficult problem. I think we ought to have a talk with him.

Senator ANDERSON. Do you not think in that period of neither light nor darkness that maybe somebody might give him some help out of the Treasury?

Mr. BURGESS. We have tried to talk about this thing, this balance between investment and savings. We have certainly publicized our views at some risk.

But you know, we have a tradition in this country, and it is a fine thing that we have in many ways, that we have to have tremendous growth. Investment, we encourage investment. Every boy who goes into business is encouraged to make his business bigger and better; and that is an invaluable tradition. But it tends to make us a little bit blind to going ahead too fast sometimes, and that has proved itself. It has proved itself on a good many occasions. It proved itself in 1929. We thought we had found the new era, everything was all right because it was going up. Well, that is not necessarily so, and it has been the hardest thing in dealing with a lot of these other countries in the world when we deal with them through our various agencies, technical assistance, and the monetary fund. They say they have a development program that is dear to their hearts. It is wonderful, but in many cases it is a bigger development program than they can finance. It is just like a fellow who has a business corporation and he just overexpands it and then gets into trouble. And nations are doing that.

Senator ANDERSON. I will just go one more step in this speech which I read over and over very carefully at the time I got it. One of his headings is: "Enough people have enough dollars to supply needed equity funds. They require a healthy investment climate that encourages them to venture."

Do you think we have a healthy investment climate now?

Mr. BURGESS. Well, compared with every other country in the world, we do.

Senator ANDERSON. But compared with our own history. This is what we have got to do, we have got to exceed our own previous record. Do you think we have got it now?

Mr. BURGESS. Yes. Well, I think on the whole we have.

Senator ANDERSON. One of the final interesting recommendations in his speech was his illustration of free Germany. He said that West Germany was in a great industrial boom today; and he said:

It is more than a coincidence, I think, that the visitor to Germany now finds a maximum income tax at 55 percent compared to a maximum surtax of 91 percent in America; the capital-gains tax has been abolished for all practical purposes, and the double tax on dividends has been eased so that corporations are encouraged to pay out a greater share of their earnings.

What would be the Treasury's position, do you think, on those three suggestions that we drop the maximum income tax down to something in the neighborhood of 60 percent; that we abolish the capital-gains tax for all practical purposes; and remove completely the double tax on dividends?

Mr. BURGESS. Well, I think that is a little one-sided as a tax recommendation. I think we have got to deal with all the people and not just single out these specific kinds of people. I think our taxes—

Senator ANDERSON. The thing that attracted my attention was that I wrote down a memorandum if anybody on the committee ever asked me what I thought about on taxes, which I do not expect anybody will ever do, sitting where I sit on the committee, that I might have something to suggest along that very line. I think if we could drop the upper bracket from 91 percent to 70 percent—6 percent maybe the first year, 5 percent for 3 years—we would not lose any taxes by it and we might help to create this healthful atmosphere they are talking about. That might be one of several steps.

We do not take in any money for a 91 percent tax—you and I do not know anybody who pays on the 91 percent basis. You find some way to give it away, throw it away, or conceal it, and yet we have got it there just trying to frighten people steadily. That, however, is not the subject of the controversy this morning. I got it out of my system.

Who holds the Government debt, Mr. Secretary?

Mr. BURGESS. Well—

Senator ANDERSON. With respect to this \$54 billion held by Government investment accounts—and most of the increase in the debt since 1952 has been thus absorbed; has it not?

Mr. BURGESS. Two things. The Government investment account and individuals. Well, also, some nonbank people like State and local government funds and corporations, but the Government—

Senator ANDERSON. Really to get back to the question now on public ownership debt trend, I do not know which one of your charts shows it.

Mr. BURGESS. Well, here it is on page 10.

Senator ANDERSON. Page 10 of the small charts or of your—

Mr. BURGESS. I am looking at page 10 of the "bible."

Senator ANDERSON. That is the one I am talking about.

Who owns this Government debt?

Mr. BURGESS. Well, you are quite right that the increase—

Senator ANDERSON. Is in Government investment accounts; is it not? As I look at it from 1946, the privately owned portion has gone down a little bit; has it not?

Mr. BURGESS. Since 1946, yes.

Senator ANDERSON. And the Federal banks' share has gone maybe down or up a little bit, but not enough to notice?

Mr. BURGESS. Just up a little.

Senator ANDERSON. Yes; I guess 23½ to 25. Should we use the actual figures? Is the privately owned debt down from \$205 billion since 1946 to \$198 billion in 1956?

Mr. BURGESS. That is right.

Senator ANDERSON. And is the Federal banks' share up from 23½ to 25½?

Mr. BURGESS. That is correct.

Senator ANDERSON. Now, there was a \$7 billion drop in one and \$1.5 increase in the other; so \$5.5 billion has been taken care of some place; has it not?

Mr. BURGESS. That is right.

Senator ANDERSON. And that \$5.5 billion plus the increase in the national debt is in the Government investment accounts; is it not?

Mr. BURGESS. That is right. Well, almost, not quite.

Senator ANDERSON. What are those Government investment accounts? Are they the unemployment insurance funds, the old-age insurance fund?

Mr. BURGESS. That is the biggest item. Then you have unemployment, you have the civil-service retirement fund, you have the railroad retirement fund. Then you have the Government life insurance, the two funds.

Senator ANDERSON. But they are small compared with the others; are they not?

Mr. BURGESS. Except for NSLI, that is right.

Senator ANDERSON. Can you give me some indication of how much of it is in social-security agencies?

Mr. BURGESS. Here is a chart, chart 7 of Mr. Mayo's presentation, this little job, which gives it.

Senator ANDERSON. From 1946 on, if you will just put a rough line up there, there has been a little bit of lift in the railroad retirement, Government employees, and all those. But old age is the one that has done the growing; has it not?

Mr. BURGESS. That is the big one.

Senator ANDERSON. Yes. Now, all these funds were products of Democratic policy—unemployment insurance, old-age, and all the rest of them. What would the Government have done to finance this increase in the national debt if it had not had that handy money coming in to it?

Mr. BURGESS. Well, if it had to go out and raise the money somewhere else, presumably there would have been some savings made of the money that people have paid in on old-age insurance. But it has been a very useful item, there is no doubt about that.

Senator ANDERSON. These are all savings, are they not, of one kind or another; all these funds on your charts have them?

Mr. BURGESS. They are savings either by or for people.

Senator ANDERSON. Yes. I mean the Government puts money into a railroad retirement fund, Government employees' fund, and so forth, but they are also savings by the individuals?

Mr. BURGESS. That is right.

Senator ANDERSON. They put away their money?

Mr. BURGESS. That is right.

Senator ANDERSON. So that these various funds have had a very useful purpose in combating inflation; have they not?

Mr. BURGESS. That is right.

Senator ANDERSON. They have been an anti-inflationary factor; have they not?

Mr. BURGESS. I think they have.

Senator ANDERSON. Of considerable importance.

Mr. BURGESS. That is right.

Senator ANDERSON. If you will turn now to the relationship of public securities held by the commercial banks and their earning assets. You say in 1946 the banks held 65 percent of their earning assets in Government securities, 45 percent in 1952, and 36 percent now. Was it not desirable that they hold the earnings in Government securities?

Mr. BURGESS. No. I think this period, that has been a long period of inflationary tendencies; it also has been a period when heavy demands were placed on the banks to take care of their customers, who came out of the war with lots of things to do and needed money to do it; so that I think it has been a very wholesome trend. It has provided the funds for business picking up activity after the war, and it has also tended to hold down the expansion of bank credit during this period when bank loans were expanding very rapidly.

Senator ANDERSON. Held down some bank loans but the loans came from other agencies, as I tried to point out a minute ago.

Mr. BURGESS. Well, somewhat, although the loans from other agencies are not a very big item in this whole thing.

Senator ANDERSON. I do not want to go over the ground Senator Kerr went over so carefully the other day, but you did refer in your statement to the reduction in the maturity of the debt.

Mr. BURGESS. Yes.

Senator ANDERSON. If reduction in the maturity of the debt was one of the objectives, we would both concede this objective had failed, would we not?

Mr. BURGESS. Lengthen the maturity?

Senator ANDERSON. If lengthening the maturity was the purpose.

Mr. BURGESS. I do not think we failed, Senator.

Senator ANDERSON. We have not achieved it.

Mr. BURGESS. We have not gone as far as we like.

Senator ANDERSON. Well, has not the maturity of the debt shortened actually?

Mr. BURGESS. No. I have insisted with Senator Kerr—we had a quite a bitter time over it—that in the debt——

Senator ANDERSON. I do not want to have nearly as big a time as he had, but just a little time over it. [Laughter.] Do you not think actually that the maturity of the debt has shortened since 1952, instead of lengthened?

Mr. BURGESS. The average maturity of the marketable debt is 2 or 3 months shorter than it was.

Senator ANDERSON. That is right. Therefore, there has been a failure in the objective, has there not?

Mr. BURGESS. Now, wait. Before you can make that latter statement, which takes in more ground, you do have to include the demand obligations. In 1952 we found we had outstanding \$6 billion of tax notes. You know what I mean, those 2- and 3-year notes that business corporations could redeem on demand. We had tremendous amounts of F and G bonds that were held by larger holders. So if you take into account the demand debt as well as the marketable debt, we have made some headway.

I will say this, Senator: I think we do have to take credit that while we have not made as rapid headway in this as we would like, we have done a lot more with it than was done between 1946 and 1952.

Senator ANDERSON. I thought, as I listened to Secretary Humphrey, that he admitted failure in it. Senator Kerr pressed him pretty hard.

Mr. BURGESS. I think he meant—

Senator ANDERSON. I do not want to reopen these things, but it seems to me, as I remember it, that Senator Kerr referred to a statement about inheriting a mess from John Snyder and asked him frankly, would not his successor inherit a worse mess from him, and I thought Secretary Humphrey, with pleasant frankness, said, yes, he will.

Now, What do you think about it?

Mr. BURGESS. Well, I think two things. I think first he was directing those remarks on the one point that Senator Kerr was boring in on, which was the amount of debt maturing over 5 years, as I remember.

Senator ANDERSON. I admit an oil driller can bore better than the rest of us because he is in practice.

Mr. BURGESS. Nobody ever found him deficient in that regard.

Senator ANDERSON. You keep sending these drills down into the earth regularly and you understand how to bore. But, regardless of the boring in, we were talking about the extension of the debt, and you say it is 15 months, maturities of it are 15 months shorter now than they were?

Mr. BURGESS. No, no; 3 months.

Senator ANDERSON. The average?

Mr. BURGESS. Three months.

Senator ANDERSON. Three months.

Mr. BURGESS. Three months shorter. Three months shorter, and it dropped 2 years while the previous administration was in. We have leveled it off, using that measure, that particular measure.

Now, I would also say, I am making a double answer to this, your suggestion about Mr. Humphrey—in the first place, he was directing his remarks specifically to replying to Senator Kerr's remarks about that one measure, that he was using.

Second, I think he was too modest. I think we have done a little better than he wanted to claim.

Senator ANDERSON. I am happy to hear you say that because, as I read through that campaign document of this, I do not think he was too modest.

Mr. BURGESS. Well, on most points I do not think he was, but on this particular one he was.

Senator ANDERSON. I do not mean as to his personal reaction, but the accomplishments of the administration.

Senator KERR. Would the Senator yield?

Senator ANDERSON. Yes; I would be happy to yield.

Senator KERR. You referred to the reduction of demand debt?

Mr. BURGESS. Yes.

Senator KERR. Have you reduced it or transferred the creditor?

Mr. BURGESS. Part of it we have reduced. A part of it we have transferred from the F- and G-bonds to the E- and H-bonds.

Senator KERR. And did you not acknowledge the other day that there were over \$15 billion of 1 year or less maturities in the captive accounts as of June 30 of this year?

Mr. BURGESS. What was this?

Senator KERR. Excess of \$15 billion of securities in the captive accounts or in the trust accounts.

Mr. BURGESS. You mean the trust accounts.

Senator KERR. That mature in less than 12 months?

Mr. BURGESS. Yes; but I do not call that demand debt, Senator; not in any real sense. Your associate was pointing out that represents savings. I defined my position, I think, pretty carefully. I am saying from the point of view of the debt manager, what is it that is going to hit you in the solar plexis.

Senator ANDERSON. The mere fact you take them out of a public investor's hand and put them in a trust fund does not change the maturity of it, does it?

Mr. BURGESS. I think it changes it a great deal in terms of its demand quality. The real obligation on these funds are the payments they must make over a long period of years to the beneficiaries. That is the real maturity of that debt. The particular form of obligation that we stick in there is immaterial.

Senator ANDERSON. Let me go to page 17, on the structure of the public debt.

Mr. BURGESS. Yes.

Senator ANDERSON. I have some doubts about that table. You defined floating debt as—do you think your definition is the one that is usually used or is not used by economists as the floating debt?

Mr. BURGESS. I do not think there is any common agreement among economists. This is the definition from the point of view of the fellow who has to manage it and what is going to hit him.

Senator ANDERSON. Well, you reclassify it in such a fashion that it gives the impression of a reduction in floating debt. Let us take a look at it.

The most crucial issues in size of 1 year or less marketable debt which rose from \$42.9 billion in 1952 to \$50.6 billion in 1956. That is real floating debt, is it not?

Mr. BURGESS. That is floating debt.

Senator ANDERSON. And only by including these G, J, and K savings bonds in the floating debt, which you have down a little lower, can you make out a case for a decline in the floating debt; can you not?

Mr. BURGESS. We think we are entirely justified in including them.

Senator ANDERSON. Well, you say they are sensitive to market conditions?

Mr. BURGESS. Very.

Senator ANDERSON. Are not long-term bonds sensitive to market conditions?

Mr. BURGESS. Yes; but we do not have to redeem them.

Senator ANDERSON. Well, all securities held by financial institutions should be classified as floating debt under that classification, should they not; they all are subject to market conditions?

Mr. BURGESS. No, no, no. They are not subject to redemption.

Senator ANDERSON. The only reason you put G, J, and K bonds in was that they are sensitive to market conditions?

Mr. BURGESS. Well, the only reason I put them in is that we have been plastered with them, we have been hit with them because they have the right to come to us for redemption and are very sensitive. It is two things together, and they have proved themselves to be floating debt. The proof of the pudding is in the eating.

Senator ANDERSON. Then you included the E and H savings bonds with the longer term debt?

Mr. BURGESS. Because they have acted that way. They have behaved that way. They have been very stable.

Senator ANDERSON. Is one of the reasons the fact there has been an increase in them in an amount of about \$6 billion?

Mr. BURGESS. That is right. But if you take—

Senator ANDERSON. If the amount of bonds declines, they become floating and if they build up they become long-term?

Mr. BURGESS. Well, no. The behavior—actually they have not declined. The total outstanding have not declined of the E's and H's if you include the accumulation of interest.

Senator ANDERSON. Are they not just as redeemable as the G, J, and K bonds?

Mr. BURGESS. Legally, yes; actually—

Senator ANDERSON. Then why should they be differently classified?

Mr. BURGESS. Because that is the way they behave, Senator. I think you are entitled to do this on the basis of actual fact as to how things occur.

Senator ANDERSON. Now, actually the E and H savings bonds have not kept pace with redemption? It is only the accumulated interest that makes them look larger; is it not?

Mr. BURGESS. That is right.

Senator ANDERSON. Then they do not behave any differently than the others; do they?

Mr. BURGESS. Yes, they do. We have had to actually pay out in the past \$3 billion on the F's and G's.

Senator ANDERSON. Well, the fact you do not pay out interest on the E and H bonds does not really change the character of them, if you are not selling as many of them as you are redeeming?

Mr. BURGESS. As far as the cash position of the Treasury, these are interest payments you do not have to pay out. It just accumulates. You can take any measure you want to, Senator. I am just taking the thing from the operating point of view; as a matter of fact, it behaves this way, that is all.

Senator ANDERSON. On page 20, you have volume of Treasury market financing.

Mr. BURGESS. Yes.

Senator ANDERSON. And some indication of the rise of long-term bonds that are outstanding. Has the rise in long-term bonds been significant at all?

Mr. BURGESS. Well, it is significant in the sense we made a start. Here you see we had all the years since the war up through the end of 1952 when nobody made a start at refunding this debt, getting it out into long terms, and we made a beginning. Now, it is not very big, but when you sell long bonds, you have a very much more limited market than you have when you sell short stuff to the banks and to the corporations.

Look at it this way: The total amount of securities, of new securities that are sold in the market in this country, is in the neighborhood of \$15 billion a year. If you sell long-term Government bonds of \$1.5 billion, you are getting 10 percent of that market. So that the \$1.5 billion of long bonds means a lot more than the bigger amount of short stuff, where the market is very much bigger.

Senator ANDERSON. What percentage of the debt have they got?

Mr. BURGESS. It is a very small percentage of the debt. That constitutes our problem: to gradually move over to issuing long bonds is a real job.

Senator ANDERSON. Do you not think it is surprising that out of \$200 billion of issues from 1952 through 1956, only \$4 billion were in long-term Government securities?

Mr. BURGESS. Well, I think it is disappointing, but I do not think it is surprising in view of the circumstances.

Senator ANDERSON. Could it have been that the high money policy resulted in that?

Mr. BURGESS. Well, let's take that apart just a minute. It is not just the high money policy, Senator. It is that there has been a demand and supply. It is a tight money situation resulting from supply and demand, and also resulting from a Federal Reserve policy of restraining the growth of credit. We did not do it, Senator.

Senator ANDERSON. Now, on page 22, down at the bottom of the page you have some comments on encouraging thrift by selling more securities to individuals, and you mention the E and H bond holdings, a rise of \$6 billion since 1952. Should not that be considered alongside the rise of personal savings from \$30 billion in the last 4 years of the administration of President Truman to \$50 billion for the first Eisenhower Administration?

Mr. BURGESS. Yes.

Senator ANDERSON. Did you get your share of the market?

Mr. BURGESS. No, I do not think we have. We got more of our share of the market than was true in the preceding 6 years. We have not always got as much as I would like. But let me recall what I said a few minutes ago: That I think all of us would like to see our economy develop on a self-sustaining basis and with private enterprise doing as large a share as possible. This has been a period when you have had a very substantial growth of savings through savings and loan associations and the savings banks and life insurance; and there are limits to the extent we want to go out and compete with them. We want something that would be part of a package of savings. But I think if we went out and moved our rates way up and tried to shove our way in and get a larger proportion of it than these other agencies representing private enterprise, that we would be going a bit against the grain in this country.

Senator ANDERSON. I am going over to page 25 now where you comment on the rates of interest.

Mr. BURGESS. Yes.

Senator ANDERSON. And I tried to question Secretary Humphrey about this. I had the feeling that he did agree the Treasury does help to determine rates. Is it not pretty obvious that the Treasury accounts for one-third of all debt—it has to have some interest in rates?

Mr. BURGESS. Well, it does in this way, Senator: I would like to comment on that. You commented yourself in a very helpful way on

this 4-percent rate as to why we could not sell these bonds, these securities at a rate any less than that because we are competing with a yield in the market which was right there. We did not go out and lift the rate. We sold our securities at the lowest yield you could sell them on.

Senator ANDERSON. Well, you see, I have looked at it from a different angle and I admit probably incorrectly, but it would seem to me that as soon as you put a new Government bond on the market for 4 years at 4 percent, then the price of the other Government bonds in the market dropped down to meet it. You have turned it around the other way.

Mr. BURGESS. No; that bargain that you made was available before we put out these 4-percent bonds.

Senator ANDERSON. Not to that extent, because I took a good look at it. It was not quite that good because I was considering—

Mr. BURGESS. No; it made very little change in those bonds.

Senator KERR. Did the increase in interest rate on FHA bonds and increase in the prime rate precede or succeed the 4-percent break by the Treasury?

Mr. BURGESS. In the first place, as we explained before you got here, Senator, the change in the FHA bond rate is not a real change in what the holder of the mortgage has to pay because he can get his mortgage now on a smaller discount than he could before. That is,  $5\frac{1}{4}$  is simply the rate that represents a smaller discount on the mortgage.

Now, I have sat in on all those discussions. That whole program was worked up before they knew at all what our financing was. There was absolutely no connection with it.

Senator KERR. But in the time element, that announcement followed yours?

Mr. BURGESS. The announcement followed our announcement.

Senator KERR. Did the raise in the rediscount rate, was it offset by a reduction in the other discount required by the commercial banks?

Mr. BURGESS. The rediscount rate has not been raised.

Senator KERR. No.

Mr. BURGESS. The prime rate?

Senator KERR. You said in the field of FHA where he paid a higher rate of interest, his discount was reduced?

Mr. BURGESS. That is right.

Senator KERR. I asked you, was there a corresponding factor in the commercial borrower, in the commercial bank, that when his prime rate was raised to  $4\frac{1}{2}$  percent, did he get a reduction in his—

Mr. BURGESS. No.

Senator KERR. Discount.

Mr. BURGESS. No.

Senator KERR. Did that—

Mr. BURGESS. That prime rate was under consideration, the market was talking about it, it was in the air; plenty of people were expecting it at the time we put out our securities.

Senator KERR. Did you make your increase to 4 percent in anticipation or in preparation for that?

Mr. BURGESS. We anticipated that it would—might happen.

Senator KERR. They waited until you did that before they hit the people with it? They kind of let you break the ground for them; did they not?

Mr. BURGESS. No; I do not think that is a fair statement, Senator. I think they would have done this in any event.

Senator KERR. But they had not; had they?

Mr. BURGESS. When we indicated we were going to finance on a given date, I think they held back and did not crack the people on the nose the same day we went into the market.

Senator KERR. They let you soften them up?

Mr. BURGESS. Well, I would not imply those motives to them, Senator.

Senator ANDERSON. I do not know, I am dependent on memory now, but it did seem to me that these particular 1961 Treasury issues which have interested me—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). Were not yielding quite that much until you came out with a 4-percent. I thought they were more nearly a 3¾-percent yield. Do you have some figures there?

Mr. BURGESS. Well, here are the quotations on the 2½s of 1961. On July 15, which was—

Senator ANDERSON. I know what it was then because that is when I was home, or just about when I was home.

Mr. BURGESS. That is 94.6–10. One is the bid price and one is the sale price. They went down—we announced on the 18th, they went down from 94–8—

Senator ANDERSON. Got below?

Mr. BURGESS. (continuing). To 93.30, 93.20, 93.24; then they came back.

Senator ANDERSON. Now, 93.20, they had a yield of about 4.08, did they not?

Mr. BURGESS. That is about right, yes; but they have come back now so they are actually selling at a higher price than they were the middle of July. So we have not knocked them out. If you were smart enough to wade in, in just those few days after we made our announcement, the immediate effect of our announcement was the softening of that market and then it came back again.

Senator ANDERSON. I would have to answer your comment off the record.

(Discussion off the record.)

Senator ANDERSON. It did happen, as you yourself have pointed out, that many of these issues dropped down to meet the Treasury price, the yield of these particular ones was not 4 percent. It was more nearly 3.5.

Mr. BURGESS. Oh, no, no.

Senator ANDERSON. Well, it—

Mr. BURGESS. Before the issue back there.

Senator ANDERSON. You go back to about the middle of June and see what the 2¼s and 2¾s in 1961 were.

Mr. BURGESS. The 2¼s, but I assure you we were right on the market with that 4 percent. We could not have sold those for less.

Senator ANDERSON. That I would not argue with you, Mr. Secretary.

Mr. BURGESS. Yes. And I think the proof of the pudding there is in the eating; it showed \$1 billion there that these fellow did not take up. So we did not push the rate at all. We just put it, did it right on the market, and the same was true of the 3¼.

Senator ANDERSON. I go to page 28 of your statement, Mr. Secretary, You refer to the rise in late 1952 and early 1953. Apparently you believe this rise was a market phenomenon and made necessary the issuance of these  $3\frac{1}{4}$  bonds in 1953 that were, as you have recognized, somewhat criticized.

Mr. BURGESS. Yes.

Senator ANDERSON. You recall these bonds went down to about 90.

My question is this: In view of the fact of the very sharp rise of rates in the first half of 1953, and the large fall of rates in the latter part of 1953 and early 1954, would you not agree that these were largely the result of Treasury, and to some extent Federal Reserve, policy?

Mr. BURGESS. I do not think mainly. I do not think mainly.

I would like to try to make clear what I think was the effect of that Treasury financing.

I say, in the first place, that we did not go in and deliberately shove up those rates. We sold that bond at the lowest interest rate that I believe we could have sold that bond for. So that we did not shove up the rate. The market made the rate for us.

Now, I will say this, Senator: that we had the choice, as I pointed out in my talk with Senator Kerr, of selling a bond or of selling a note or certificates, and so on. And the fact that we did sell a long-term bond was a factor in the market, and we sold it at that rate which was the rate you had to sell it at to sell it. It was a factor in the market.

It goes back to what I was saying a little while ago, that a billion dollars in Treasury bills or in certificates is not a major operation; but a billion dollars of bonds is.

So it was an operation which had its effect in the market. But it was the fact of our selling a bond at the market rate rather than the fact that we priced it above the market, which we did not do.

Now, where we right in selling a bond? Should we have sold short stuff and waited for rates to go down in the autumn before we sold a bond?

Well, you can pass your own judgment on that. Our belief was we were under very strong compulsion to get started in dealing with this debt.

Senator ANDERSON. I am trying to find a chart, and I seem to have lost it, but it pointed out that the rate on Government bonds rose in a pretty dramatic fashion, you are undoubtedly familiar with this fact, in the last part of 1952.

Mr. BURGESS. That is right.

Senator ANDERSON. And early 1953. And then declined pretty drastically thereafter.

Mr. BURGESS. Yes.

Senator ANDERSON. Did not the Treasury have something to do with that by its own operations?

Mr. BURGESS. We had something to do with it, Senator, by the fact that we put out a long-term bond. That undoubtedly had an effect on the market.

Senator ANDERSON. Did not the market seem to anticipate your policy of higher rates?

Mr. BURGESS. Well, the rates were going up during a major part of 1952. They started well on back in the spring before they knew Mr. Eisenhower was going to be elected.

If you take from November on, the rate rise was not very sharp until, well, when we came in, the rate rise went up more sharply.

I think the market anticipated that when the President said, in campaign speeches and in his State of the Union message, that we were going to try to finance more with long-term, that he meant it. And it had an effect on the market.

Senator ANDERSON. Do you think that the decline that followed late in 1953, indicated in any way the policy had been wrong?

Mr. BURGESS. Not at all. No, no. That was a turn in the business situation.

Senator ANDERSON. It would not indicate that the policy was right, would it?

Mr. BURGESS. I do not think it indicated either. I think it was due to completely different causes. It was due to a turn in the business situation. Early in 1953, you had an inflationary situation. You had businessmen increasing their inventories too fast. You had people borrowing on consumer credit very heavily.

If you look over the whole range of the economic indicators, as we did at the time, it was a strong situation that was with a good deal of pressure on it.

That thing turned. It turned in June.

Now, was the Treasury financing a factor in the turn? I do not know. It may have been. There were a good many factors in it.

But people began reducing their inventories instead of increasing them.

I think one factor was that the new administration went to work on Government expenditures, and by the following year it had cut them by \$10 billion, and it began to be obvious that it was going to be cut, and people began to stop increasing their inventories, and people did not borrow money quite so fast. It was a complex series of events.

The probability is that our issuance of a long-term bond into that capital market slowed it down somewhat. It was probably a very good thing that it did, because the sooner you get these things, the adjustments, started, the less damage they do.

Senator ANDERSON. I will leave your statement and take some of the testimony which has been delivered here.

When you replied to Senator Byrd on this question of the Treasury influence on the market, you seemed to think the Treasury followed the market and did not make it.

Mr. BURGESS. That is right.

Senator ANDERSON. Then in reply to Senator Kerr, you did admit that the Treasury issues did influence the market.

Mr. BURGESS. Oh, there is no doubt about that.

Senator ANDERSON. Is there any need for clarification there?

Mr. BURGESS. The inference is what maturity we choose and what amounts we have. As has been brought out here, we have a Treasury debt which is something like a third of the total outstandings. What you do with it has an influence.

But I am—even if I overstate it sometimes, the point I am trying to make clear, Senator, is that we have at no time deliberately tried

to push money rates up with our issues. We have tried to price our issues right on the market, at the rates that you need to sell them, and I do not believe you can cite a case where we have put a rate on it that was bigger than necessary to sell that maturity.

There is a chart here, chart 15, this little job—

Senator ANDERSON. No; I am referring to the hearings. There was a chart Mr. Mayo, put in there, showing high rates abroad. I do not need to have it, but you will recognize what I am talking about.

Mr. BURGESS. It is the last charts; 18, 19, and 20.

Senator ANDERSON. You have material in here on page 1537, and commenting on these charts, they show higher rates of interest abroad.

Mr. BURGESS. Yes.

Senator ANDERSON. But could not the occasion for those rises be dollar shortages?

Mr. BURGESS. Partly.

Senator ANDERSON. And we do not have a dollar shortage here, so they are not really comparable.

Mr. BURGESS. Not so. In Canada, they have a dollar surplus.

Senator ANDERSON. I say they are not really comparable in many of the instances; are they?

Mr. BURGESS. Of course, each country has a different situation. The British have more of a shortage of capital than we have.

But I think it is very significant our rate is just about the lowest of the whole works. We have, or we had a chart here the other day that we put in, showing that money rates in this country even now are the lowest in the world. Switzerland is about the same. In no other place can money be gotten any cheaper.

So it must be that we are all arbitrary so-and-so's, all over the world.

Senator ANDERSON. Why has not the rise in interest rates cut investments?

Mr. BURGESS. Excuse me!

Senator ANDERSON. Why has not the rise in interest rates cut investment? You admit investment is at a record level after a year and a half of relatively dear money.

Is part of the explanation that other policies of the Government encourage investment, even as other policies try to discourage it?

Mr. BURGESS. I think that may be true. We were commenting yesterday on the depreciation laws. That tends to encourage investment, and it is a good thing.

I make a distinction between money rates and credit availability. I do not admit that the present less ease in credit availability has not affected investment. I think it has postponed some investment and put other investment forward into the future, so I think it has had an effect.

I think you would have more of that if money were more readily available, so it has effected some restraints.

Of course, one reason that higher rates do not affect the corporation is our tax laws. That is a case of where the Government with one hand makes money easier. The corporation only has to pay half of the interest rate, in effect, because of the Federal taxes.

But, there again, it is not the rate; it is the availability of the money that counts.

Senator ANDERSON. Well, of course, as Senator Long tried to point out the other day, we were having sort of a dear-money policy on one hand, and at the same time we had accelerated amortization.

Mr. BURGESS. And the tax law; a tax law which is—

Senator ANDERSON. Rushed many right into expansion of plants.

Mr. BURGESS. That means you get half of it back when you pay your interest rate. But I do not think that means that you ought to rush in and change the tax law or change the depreciation law. They are good long-term provisions, Senator.

Senator ANDERSON. Well, the accelerated depreciation—

Mr. BURGESS. We are talking about two different things. The 5-year—

Senator ANDERSON. I am referring to the fact Senator Long made some comments about this accelerated depreciation being an inflationary factor. It persuaded many people to rush out and invest in a great many things.

Mr. BURGESS. I thought we were talking about the new depreciation curve. The accelerated depreciation, as you know, the Treasury has for a long time tried to get that curbed, and now it is done pretty well.

Senator ANDERSON. Have you any feeling about this rather widespread dumping of Government issues since the tight-money policy or dear-money policy or new-money policy, whatever you wish to call it, came in? Has it not somewhat sacrificed the Government to private borrowers who come in?

Mr. BURGESS. That is a very interesting question. Of course, you are thinking about the insurance companies—

Senator ANDERSON. Yes.

Mr. BURGESS (continuing). And the savings banks. Of course, that goes way back. That has been happening ever since the end of the war.

The insurance companies during the war bought a lot of these 2½ percent bonds, low yield; 2½ percent is less than they need, as you know. You have been in touch with insurance. The average company needs about 2.90 to break even, to fulfill its contracts.

You cannot blame them very much if they get rid of 2½ percent bonds as fast as they can find other ways to use the money.

The other ways they have used their money have been very useful in the economy.

As long as the Government could absorb those bonds without inflation, without increasing bank credit, why, I think the net result is all to the good.

As you say, we have been able to get absorption of the Government securities partly due to the existence of these trust funds, which are a good thing.

Now, the time will come when we are going to have to look to insurance companies and some of these other savings agencies to take their share of Government bonds.

Senator ANDERSON. It has resulted, Mr. Secretary, in all sorts of strange things.

Mr. BURGESS. That is right.

Senator ANDERSON. States that have had very strongly guarded provisions in their constitution about the investment of public funds—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). And certain types of very high-grade bonds; are now passing laws providing for the investment of these funds in common stocks.

Mr. BURGESS. That has been going on for some time, has it not, Senator?

Senator ANDERSON. It just happened that the legislature of my home State, which is a public-lands State which has extensive public lands, passed a resolution saying that there should be set up an investment counsel, and he should buy common stocks, and so forth; where at the time when I was the treasurer of that State, we tried to make sure tht everything we bought was of the most rigidly examined type of security, with the very highest rating, because this was the schoolchildren's money we were investing.

Mr. BURGESS. Yes.

Senator ANDERSON. Now they do not think they can invest the schoolchildren's money unless they put it in a speculative stock which has some growth possibilities.

I am not trying to say what is right, but I do believe that it is twisting around our investment principles a little bit.

I think, Mr. Chairman, that probably Mr. Burgess would like to have a little rest at this point.

Senator KERR. Have you completed?

Senator ANDERSON. I think I am going to call it complete.

Senator KERR. Unless the Secretary has some observation——

Mr. BURGESS. No.

Senator KERR (continuing). He would like to make, in view of the very evident fact that he has not been called on by action from the Senator to extend his remarks, if either through habit or desire he wishes to say something further, we will happily permit it.

Mr. BURGESS. I observed your words with very great interest when you said "habit."

Senator KERR. Then the committee will recess until 10 o'clock in the morning.

(Whereupon, at 12:15 p. m., the committee recessed, to reconvene at 10 a. m., Friday, August 9, 1957.)

# INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

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FRIDAY, AUGUST 9, 1957

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Anderson, Martin, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury; Paul Wren, Assistant to the Secretary of the Treasury;

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will please come to order.

Senator Frear has requested me to ask Secretary Burgess these questions. The first one is:

Who handles the investments of the civil-service retirement fund?

## STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY—Resumed

Mr. BURGESS. The Treasury handles them, Mr. Chairman, under the provisions of the law, which are pretty precise, and under the instructions of Congress from year to year.

The CHAIRMAN. Second: What are the investments of the civil-service retirement fund?

Mr. BURGESS. They are all in Government securities, largely the special notes which we issue to them as the money comes in.

The CHAIRMAN. Why was the total interest paid into the fund in 1956 less than the 3 previous years, even though the principal sum was higher each year?

Mr. BURGESS. During the Truman administration. There was a committee appointed, called the Kaplan committee, to examine that whole fund, and the payment into it, and the adequacy and the actuarial requirements.

They recommended reducing the interest rate from 4 percent to 3 percent, because the 4 percent was obviously way above the current market. That was done, and then the matter came before Congress, and the Congress legislated a new rate which is computed on the same

formula as social security, and it relates itself to the coupon on the longer bonds.

That has actually resulted in a rate still lower than 3 percent. It is about  $2\frac{1}{2}$ .

The CHAIRMAN. The next question is:

Secretary Humphrey stated before this committee, when questioned by the junior Senator from Delaware on Government appropriations into the civil-service retirement fund, that the Budget Bureau did not request in 1954 and 1955 Government appropriations sufficient on an actuarial basis because of the Kaplan report.

Mr. BURGESS. That is correct.

The CHAIRMAN. Will you state for the record briefly why the sums appropriated by the Government were so low?

You answered that.

Mr. BURGESS. They were awaiting the results of that report.

The CHAIRMAN. These are questions, Senator Anderson, which I am asking for Senator Frear.

The next question:

Also, why did the Budget Bureau not request in 1956 a sufficient appropriation to make up for the deficits in 1954, 1955, and 1956?

Mr. BURGESS. Well, it would be on a sliding scale. They would make it up over a period. It would be a pretty big wad to make up all at once.

Senator ANDERSON. How long a period?

Mr. BURGESS. We haven't that information, Senator. We will be glad to put in a little statement about it.

Senator ANDERSON. Mr. Chairman, do you not think that is important, about how long the period is?

The CHAIRMAN. You furnish that for the record.

Mr. BURGESS. Yes.

(The information referred to is as follows:)

The civil-service retirement system is at present on a Government matching basis,  $6\frac{1}{2}$  percent of salary from the employee and the same amount from his agency. This total of 13 percent approximately pays the "normal" or "current service" cost. The actuarial valuation of the fund shows that in addition there is a further Government liability of considerable size. The problem of whether to fund the deficiency or operate on a pay-as-you-go basis is still under study so that a decision on making payments above current service cost has not been made.

The CHAIRMAN. The last question is:

Had sufficient funds been appropriated to the fund by the Government, would not the deficit have been greater in those years, and by what amount?

Mr. BURGESS. That, of course, is correct. That relates to what are sufficient funds.

As you gentlemen know, there is always a question about actuarial figures, and whether they are correct or not. I remember when we put in a pension plan in a bank I was connected with, they said we had a \$17 million deficit to start with, and we did not make it up, and it ran along for a few years and we found out we did not have that much deficit. So that it is very hard to determine exactly.

The CHAIRMAN. You might go over those questions, Mr. Secretary, and if you want to elaborate more than you have this morning, you may, for the record.

Mr. BURGESS. I would be very happy to do so, Senator, if it seems indicated.

The CHAIRMAN. Senator Green has asked me to ask you a few questions.

Mr. BURGESS. I think I have a list of those.

The CHAIRMAN. What is the market price for silver?

Mr. BURGESS. About 91 cents, plus or minus.

The CHAIRMAN. What values do the silver purchase laws require the Treasury to put on its monetized silver?

Mr. BURGESS. \$1.29, except for subsidiary coinage, which is \$1.38.

The CHAIRMAN. Does the Treasury guarantee this silver to be worth \$1.29 or \$1.38 an ounce?

Mr. BURGESS. Well, in a sense; yes; because all of these silver certificates and silver dollars which are issued against the silver are interchangeable with other forms of money.

The CHAIRMAN. Can you get \$1.29 or \$1.38 an ounce for this Treasury silver anywhere in the world?

Mr. BURGESS. I do not think you can unless you can find some remote mountain in Tibet, or something of that sort, where they do not know what it is worth. Probably they know better there than we do.

The CHAIRMAN. But the silver purchase laws require the Treasury to value the silver as an asset worth \$1.29 an ounce and \$1.38 an ounce, do they not?

Mr. BURGESS. That is right.

The CHAIRMAN. In other words, the Treasury shows about 2 billion ounces of silver to be worth about \$2.5 billion, when actually the market price, its only real value, is about \$1.8 billion?

Mr. BURGESS. That is substantially correct.

The CHAIRMAN. What do you think the Treasury could get an ounce for this silver if it had to realize it as an asset?

Mr. BURGESS. Well, it would be very much less than the current price, if they dumped it on the market, and that would depend on how gradually they did it. The market for silver is very much reduced because so many countries have gone off the silver base, so it would be something substantially under the current market price.

The CHAIRMAN. Senator Anderson suggests this: Do you think this bookkeeping arrangement should be terminated, or not?

Mr. BURGESS. Well, that is a political question, Senator.

Senator ANDERSON. I was thinking, Mr. Secretary, completely outside of the political question.

Mr. BURGESS. Yes.

Senator ANDERSON. What do you think of it? I am not trying to commit you.

May I just explain that the mining interests are always after those of us who come from Western States—

Mr. BURGESS. Yes.

Senator ANDERSON (continuing). As to the importance of this.

Frankly, I have not been able to understand the importance of it, and if it has some economic drawbacks, I think we ought to know those.

Mr. BURGESS. Of course, on the other side, the silver manufacturers all want a lower price on silver, so you have two powerful political groups lined up against each other.

Our answer in the Treasury is simply that the present system is working pretty well. It does not cause us any great inconvenience. The market price of silver has adjusted itself to our buying price; they are both around 91 cents.

We do not think that the slight amount of inflation involved in printing paper against silver which is not quite worth the money is serious enough as it is absorbed in our growing demand for money, so we are perfectly content to rock along as we are.

Senator MARTIN. Mr. Chairman, off the record.

(Discussion off the record.)

The CHAIRMAN. In connection with the other question you answered, which was: "What do you think the Treasury could get an ounce for the silver if it had to be realized as an asset?" there is another question which follows:

It would not get its market value, let alone its monetary value, would it?

Mr. BURGESS. No. That is right.

The CHAIRMAN. The next question is:

A former Democratic Secretary of the Treasury (Morgenthau) referred to the silver purchase laws as infamous. The last Democratic Secretary of the Treasury was in favor of their repeal. Can you tell me why the Treasury under a Republican administration has not favored repeal of these obviously unsound laws?

Mr. BURGESS. Well, I think I just answered that. They are not doing any great harm. We can live with them. We can live without them. We are going along comfortably, and we do not see any great value in disturbing the situation.

The CHAIRMAN. This last question is repetitious, but I will ask it:

You would favor repeal of these laws; would you not?

Mr. BURGESS. We would not object to it if the Congress wants to repeal them. But, on the other hand, we do not see there is any pressing requirement for doing so.

The CHAIRMAN. Thank you very much, sir. We will send that record to Senator Green.

Senator Carlson, you are next in line.

Senator CARLSON. Mr. Secretary, first I want to state that I had the privilege of serving on the Ways and Means Committee in the House for 8 years and also on the Joint Committee on the Economic Policy for 2 years, and then, of course, the privilege of being on this committee a few years, and I believe I can honestly state you have been a most frank, most helpful witness. In fact, you have given us more constructive information than any witness I believe I have heard in all those years, and I want to compliment you for it.

Mr. BURGESS. Thank you, sir.

Senator CARLSON. To me it has been most helpful.

I note the big news this morning, of course, is the increase in the discount rate, and I have been trying to get a little education on this as we went along. And coming from the Middle West, I am going to ask this question: Why did they increase the discount rates only in banks in the Middle West—Kansas City, Chicago, Minneapolis, and I believe one more, I have forgotten?

Mr. BURGESS. Philadelphia.

Senator CARLSON. I got out of that area. The three big banks in the Midwest, how did they select them?

Mr. BURGESS. It was self-selective, Senator. Those happened to be the banks which met yesterday and which voted an increase. The directors of those banks voted that way. The other banks were not meeting, I think, or else their directors did not vote. It was not arranged by anybody in Washington. It was simply that the directors of those banks were the ones who acted yesterday.

Senator CARLSON. In other words, these banks are authorized to do that on their own? Any one bank can do it, do I understand that is correct?

Mr. BURGESS. The law is that they fix the discount rate subject to review and determination by the Federal Reserve Board; so the Board has a veto power.

Senator CARLSON. Of course, that action was taken, I assume, to tighten the credit in those areas.

Mr. BURGESS. Well, I do not think so much to tighten the credit. It was a recognition of a rate structure. The commercial banks had raised their prime rates from 4 to 4½. They followed the market, rather than preceded it. If they had left their rates at 3, there would have been a very strong temptation on the part of the banks to borrow money and relend it with a 1½ percent differential on prime credits; and they are simply catching up to the market a little.

I do not think, as a matter of fact, it really affects the situation very much.

I would like to comment just a little more on that. I have commented here repeatedly that this situation seems to me a situation of supply and demand relationship, and particularly in the capital markets. That showed itself very vigorously earlier this year. The amount of new security offerings was \$2 billion more than last year. Now, that movement rather came to a head in May and early June, and you had a kind of money crisis of a minor sort. There were a good many issues that were put out that did not go well. The underwriters took some losses. Others had to be postponed, and the market went through a minor crisis.

As a result, they found they had to price their wares better, more cheaply—that is, at a higher rate—in order to sell them. So that in the first half of June, in reality, we went through a money market change to a higher level of rates.

Now, the banks and the Federal Reserve had not yet adjusted their rates to the facts of the market. That was the case when we had to do our financing, it was one of the things that complicated our situation, because we knew everybody was just waiting around to readjust their rates to this market condition. That was one of the reasons we had to price it at 4 percent. That was the market. The market was saying the prime rate is going up, the discount rate will go up.

So I look at this action as a followthrough and an adjustment to what had already been demonstrated by supply and demand in the market.

Senator CARLSON. Then may I assume that in these areas—take, for instance, the Kansas City bank which handles our discounts and is our central bank—

Mr. BURGESS. Yes.

Senator CARLSON (continuing). When a local institution sends in bonds or some of their securities for discount, it will now be 3½ percent?

Mr. BURGESS. That is right.

Senator CARLSON. Does this mean, then, that the adjustments have already taken place as to increase in interest rates, or can they expect an increase in interest in that district?

Mr. BURGESS. I do not think you will find very much change, Senator. I think credit will be as freely available. I think the price may be a shade higher, but I think if you take an area like that in Kansas City, the prime rate will be a little higher, but you get back outside of the cities, into the farm banks, I do not think you will find any change in rate. The bank rate is 6 percent or 7 or what have you in season and out of season in most of them.

Senator CARLSON. I can assure you that those folks who live out in the Midwest think that credit is difficult enough to secure and that rates are high enough at the present time. I sincerely hope that in the agricultural sections they will keep in mind that credit needs to be not only available but to be at rates that they can use it.

Mr. BURGESS. Yes.

Senator CARLSON. Afford to use it.

Mr. BURGESS. I am sure they have that very keenly in mind, Senator.

Senator CARLSON. We have been talking about and hearing much about the ineffectiveness of interest rates to curb this inflationary boom. I am wondering, as I heard all this testimony, if we have really an abundance or an unlimited supply of money at the present time. Is that the reason that so far it has not been effective?

Mr. BURGESS. I think that has been one difficulty, that this is a very rich country, and the volume of credit was expanded during the war, it was expanded very heavily after the war, partly as a result of what seemed to me mistaken policies about easy money and supporting the market, and a lot of that money is still around. So that you have to more or less eat into that before these policies become as effective as they might be.

Senator CARLSON. As I understand it, the velocity and the amount of money at the present time is such that you could not say that there is a shortage of money?

Mr. BURGESS. No. You can see that anywhere you go in the United States, can you not, Senator? People are spending money at a terrific rate.

Senator CARLSON. I think that is one thing that has got to be made abundantly clear, because there is an impression out in the country that they like to call it a tight money policy; and when they use those words, the inference is that we do not have sufficient money and that the Federal Reserve ought to, through discount rates and other methods, increase the supply of it.

But I think your testimony proves conclusively there is sufficient money through volume and amount.

Mr. BURGESS. I am sure of that, Senator, that there is plenty of money for every sound and legitimate operation in this country.

Senator CARLSON. That being the case then, evidently the interest rates which have been increasing have not prevented this inflation maybe as rapidly as we had hoped; but it is your thought, I assume, that eventually there is going to be a reaction here that will take care of the situation?

Mr. BURGESS. I have great faith in monetary and fiscal policy in the long run. They do not work like a thumbscrew you can turn on and off. You have to let the thing have its effect gradually. All these things work through the minds of men who make their decisions. The decision in the market whether you are going to buy bonds or you are going to buy stocks is affected by the relative yield. The plan a builder makes for his building next spring is affected by what he thinks the mortgage rate is going to be and the availability of mortgage money.

The business corporation plans a year or two ahead. So to have money tightened up and say, "It hasn't worked very much," simply means that this long cycle of plans has not yet reflected it. It is a long cycle.

Senator CARLSON. Of course, that gets to the point of whether our people will become impatient.

Mr. BURGESS. Yes; that is right.

Senator CARLSON. And result in changing some of these things through congressional action or some other way.

Now that is one of our problems, and I think if we can convince the country there is a sufficient amount of money and that this policy has worked—and it is your belief that it will work if we give it an opportunity to work—to prevent this continuing rise in inflationary costs.

Mr. BURGESS. I think that is one of the advantages of these hearings, and I think that is one of the fine things about the way they are being covered by the press. I think we are getting a lot of worthwhile information put through the country as a result of this.

Senator CARLSON. Senator Kerr has mentioned on occasions that, and he quoted, he paraphrased a verse of Scripture from the Book of Job that, "Oh, I would that mine enemy had written a book."

Well, you have written books; have you not?

Mr. BURGESS. I am afraid I have.

Senator ANDERSON. You do not mind, do you, the official reporter correcting that?

Senator CARLSON. You correct it.

Senator ANDERSON. To, "Oh, that mine enemy would write a book."

Senator CARLSON. You have written many, and one I enjoyed reading is a book entitled, "Our National Debt—Its History and Its Meaning Today." That is a book you wrote and one I read over the weekend.

Mr. BURGESS. I did not exactly write it, Senator. I was the chairman of a committee that produced it. I wrote one of the chapters with the help of one of my people, and I helped to edit the book. It was a committee appointed at the request of the Falk Foundation. The directors of that foundation wanted a study made of the public debt, and I was the chairman and we assembled a group of people, and the chapters were written by different people and were edited and discussed by the committee, and the conclusions represented the unanimous agreement of the members of that committee.

Senator CARLSON. In checking the men who had written and compiled papers, I find that they really, the list includes outstanding men who have been important in the financial affairs and monetary programs and economic policies of this Nation for many years.

I notice that you were chairman, and I am not going to go through the entire list.

I would like to ask, Mr. Chairman, that this list and those who advised with him be made a part of the record.

The CHAIRMAN. Without objection, that will be done.

(The list headed "Committee on Public Debt Policy" is as follows:)

#### COMMITTEE ON PUBLIC DEBT POLICY

Chairman: W. Randolph Burgess, chairman of the executive committee, National City Bank of New York

Vice chairman: John S. Sinclair, president, National Industrial Conference Board

Daniel W. Bell, president, American Security & Trust Co., Washington, D. C.

E. E. Brown, president, First National Bank of Chicago

Marion B. Folsom, treasurer, Eastman Kodak Co.

Wesley C. Mitchell, professor emeritus of economics, Columbia University

Benjamin U. Ratchford, professor of economics, Duke University

Earl B. Schwulst, executive vice president, Bowery Savings Bank

George Willard Smith, president, New England Mutual Life Insurance Co.

Levi P. Smith, president, the Burlington Savings Bank, Burlington, Vt.

H. B. Wells, president, Indiana University

Secretary to the committee: Donald B. Woodward, second vice president, the Mutual Life Insurance Company of New York.

#### *Advisers to the committee*

Charles C. Abbott, professor of business economics, Harvard School of Business Administration

Sherwin C. Badger, second vice president and financial secretary, New England Mutual Life Insurance Co.

B. H. Beckhart, professor of banking, Columbia University and director of research, the Chase National Bank

Stephen M. Foster, economic adviser, New York Life Insurance Co.

John W. Love, business editor, the Cleveland Press

Marcus Nadler, professor of finance, New York University

Roy L. Reiersen, assistant vice president, Bankers Trust Co., New York City

J. H. Riddle, vice president, Bankers Trust Co., New York City.

George B. Roberts, vice president, National City Bank of New York

Murray Shields, vice president, Bank of the Manhattan Co., New York City

Director of research: James J. O'Leary, director of research, Life Insurance Investment Research Committee

Senator CARLSON. I notice such names as Daniel W. Bell, president of the American Security & Trust Co. I think those of us who have served in Washington for many years remember when he was with the Treasury, and he is one of the outstanding men of the Nation.

Then there is John S. Sinclair, president of the National Industrial Conference Board. The National Industrial Conference Board has done outstanding work in this field. And there is Mr. E. E. Brown, president of the First National Bank of Chicago.

Some of these people I know personally. I noticed H. B. Wells, president of Indiana University, who I think the President has just recently nominated to serve on the NATO Organization. And Lewis Douglas, for instance, worked with you on this; did he not?

Mr. BURGESS. He worked with us until he was appointed Ambassador to Great Britain, so that he had to resign from the committee to do that.

Senator CARLSON. He was Director of the budget?

Mr. BURGESS. I may say his company, the Mutual Life, was very cooperative and lent us Donald Woodward, who was a very able fellow who worked with the committee as its secretary.

Senator CARLSON. And Lee Wiggins, I believe he also contributed?

Mr. BURGESS. Well, Lee, as you know had to resign also because

he was appointed Under Secretary of the Treasury under John Snyder.

Senator CARLSON. In other words, these are men who contributed in writing or preparing this information and the papers which resulted in this volume—were men who have served during various political administrations and men who have been very prominent in this field?

Mr. BURGESS. That is correct.

Senator CARLSON. I wanted to pick out 1 or 2 things here that I thought were interesting. I am going to read a few of these extracts from this book into the record. I think it ought to be made a part of the record. I think it is that important.

I notice the first statement in your introduction :

A public debt which reached a high point of close to \$279 billion has posed a new and baffling problem to the people of the United States. Public opinion about it is not yet clarified or confident. There are indeed some who have persuaded themselves that the debt does not matter. Others, through thoughtlessness, pay no heed to the debt and go on advocating and voting for huge Government spending programs without restraint.

I take it from your testimony, Mr. Secretary, that that statement is as sound today as it was when it was written in 1949?

Mr. BURGESS. I think it is.

Senator CARLSON. I notice here, too, in the final report of the committee you set out five points that you thought were essential to the successful management of the debt.

First, The control of the budget; second, to reduce the debt; third, to distribute the debt more widely; fourth, restore flexible interest rates, and fifth, nourish a dynamic economy.

How do you think we have fared on each or any of those?

Mr. BURGESS. Well I think we have made progress on the first and second. We have not made as much progress as I would have wished. I think at this time of great prosperity it would have been better from the economic point of view if we could have had a larger surplus and reduced the debt a little more rapidly, made a little more nick in it.

On the other points—the distribution of the debt—we have made progress. The last one on nourishing a dynamic economy, I think we have done extremely well on that. We have been very fortunate in this country. We have had a tremendous dynamism in our growth, and that helps us to carry the debt. As to flexible interest rates, we have restored that. I think in general we are making progress. It is a big job. It can not be done all at once.

Senator CARLSON. While you are talking about flexible interest rates, I assume that we can be sure that the Federal Reserve System—and I know this is really not your direct field—would be flexible in its policies? In other words, it is not to be a continuous process of trying to increase discount rates and tighten credit, but, if necessary, they could operate in reverse; is that right?

Mr. BURGESS. Well, Senator, I think they have demonstrated that. That as money was tight, their influence was toward the side of firmness, through 1951 and 1952, and the first part of 1953. When the situation changed, they changed very quickly and vigorously. They were on the easy-money side of it for the second half of 1953 and the first half of 1954, so that money rates again were low.

You can look at all these charts; they show it went down. They reduced their discount rates, they lowered reserve requirements, and then it was only when things began picking up and there began to be some of the elements leading to inflation, that they stiffened up again. So they have been flexible.

Senator CARLSON. I noticed the contents of this book are in about seven chapters. The first one deals with our national debt after great wars. Second is the debt and the budget. The third is the debt and the banks. The fourth is the debt and interest rates. The fifth is the debt and our savings. And the sixth is the debt and life insurance. The seventh is what to do about it.

Those are all very worthwhile studies in these fields. But I am not going to, Mr. Chairman, devote myself but to just one of them.

I want to take up the one on the "debt and interest rates." And I want to read a few quotes from this book.

Interest on the national debt has become an exceedingly large item in the Federal budget. Every taxpayer, Congressman, and administrative official wishes that charge to be as low as possible. In 1941, it was about \$1 billion. In 1948, at about the lowest rates the world has ever seen, it was \$5.2 billion. The man who came to dinner remains as a permanent guest.

The problem is bigger than balancing the budget. The influence of interest rates is woven into the Nation's economic fabric. The rates affect the amount of taxes we must pay to carry the public debt. They influence the cost of building and maintaining a home, the amounts businessmen and farmers pay for money they borrow, and what savings banks pay their depositors. Changes in interest rates alter the prices of bonds, stocks, and real estate and play a part in the ups and downs of American business. They determine a man's ability to provide for his old age, for they affect the earnings of life insurance companies and the cost of insurance to millions of policyholders.

The mechanism of banking operations which raise or lower the money supply and influence interest rates is one of the most complicated in the whole realm of economics \* \* \*. If banks were perfectly free to expand or contract the supply of bank money, the country would be unduly exposed to dangers of runaway prices, up or down. However, control of this matter is not with the banks, but under the country's central banking system.

Subject as our economy is to booms and depressions, Federal Reserve policy has aimed at stabilizing prices, national income and employment at high levels. During boom times, the Federal Reserve has taken steps to tighten up the availability of bank money, mild though they may have been since the war. At such times, its action has encouraged higher interest rates. When prices have fallen and workers have lost their jobs, Federal Reserve policy has favored increased availability of bank money and thereby has been an influence for declining interest rates.

As I read that statement, I begin to ask myself, in our present program and policy of interest rates, which are higher than they have been for some time, if it is healthy for the economy to carry these type of interest rates in view of an expansion that is necessary for production and for the maintenance of our Federal debt, and the carrying of the obligations of State governments? What can we do about it?

Mr. BURGESS. Do you want me to take a shot at that, Senator?

Senator CARLSON. We need some help on it, because that is one of our problems. We, I assume, at the present time are living with, if I may use that expression, interest rates that are higher than they have been for some time.

Mr. BURGESS. That is right.

Senator CARLSON. And the question is: If we are to continue it, if it is to be a policy that must continue in order to carry out the—

Mr. BURGESS. That is right.

Senator CARLSON (continuing). The increased costs of Government, the obligations that other States must bear, which increase eventually taxes, it gets to be a tax item.

Mr. BURGESS. It is a burden, there is no question about it. But on the other hand, it is a reward for the people who save. There are two sides to it. We were paying savers all together too little. So there are two sides to it. And the present rates are getting high. They are getting to be a burden particularly to States and municipalities, and so on.

I think the answer is that the sooner we can settle this inflation business and get that leveled off, the sooner we can look to level interest rates. The interest rates and the money condition that they indicate are tied directly to our inflation. And if we can deal with that properly, then the interest matter will settle itself.

And the interest rates are one of the methods, along with the more important influence of the availability of credit, for dealing with inflation. But they are only one aspect. As we have said, the budget is one, Government expenditures, which are very high, the defense expenditures which we are burdened with, and then also the matter of our whole attitude as a people, has a great deal to do with this inflation.

We are an ebullient people in this country, and when we are given an opportunity, we get optimistic and we like to spend and we move ahead, and it is a wonderful quality. But it sometimes goes a bit too far and we need occasionally to get a little New England restraint. And when we have got this thing in hand, then the interest rates will take care of themselves.

Senator FLANDERS. I think of a case of Virginia restraint as well. But we do not have congressional restraint. [Laughter.]

Senator CARLSON. I think the Senator from Vermont has just made a very pertinent comment on that. I, together with the chairman, was really concerned about the Senator from Vermont when he began to talk about the great benefits of debt, so I think we probably cleared that up.

We talk about our present interest rates and, of course, our memories go back to times when we had lower interest rates. I do not want to go back to the 1930's, but why did we have such low interest rates in the 1930's?

Mr. BURGESS. Well, those were depression rates. There was not the demand for money because this ebullient spirit of ours was under a cloud and under a damper. It did not operate, so that people did not want to build buildings, and States and municipalities did not want to go ahead. They were in bad financial situations, so they could not.

But money was not—the British have an expression, money is usable or money is not usable. Money was not usable at that time so the rate was low.

Also, we had a policy of keeping the rates down.

Senator FLANDERS. Will the Senator yield for a moment?

Senator CARLSON. Yes.

Senator FLANDERS. I was very much impressed—I forget just what year it would be, it was prior to 1936 I know and subsequent to 1933—I happened to be in the city of Columbus and I needed some new shirts. I went in to a haberdasher's and he did not have a shirt of my collar size or my sleeve length, that is, the combination of collar size and sleeve length. His stock was depleted down to practically nothing,

and he either could not borrow the money or did not dare to replenish his stock.

Now, is that not an example of the state of mind of the time?

Mr. BURGESS. Well, let me give another one, Senator.

In 1932 and 1933 we had that dreadful depression and we had a committee organized in New York around the Federal Reserve bank to see what we could get started that would employ people. And I got Alfred Sloan to lend us a man, and he worked with me. We explored all kinds of activities that we might get going on. And one of the suggestions was that we might get started on building the Lincoln Tunnel, you know, that went under the Hudson River at 42d Street. The Holland Tunnel had been in existence for a long time, was paying very well, it was supporting itself very nicely; the Port of New York Authority had that income. We just tried our best to get people organized to start digging the Lincoln Tunnel, but we just could not get them to dig it.

Now, it seemed perfectly obvious from any study of history that it was going to be needed and needed very badly, but you just could not get them off dead center. The ebullience was gone.

Senator CARLSON. Mr. Secretary, I do not believe that this Nation can afford a depression. But your statement indicates if we had one, there would be no problem of high interest rates, and Government bonds would probably go to par very rapidly; is that a correct statement?

Mr. BURGESS. That is certainly true; yes.

Senator CARLSON. I notice this man Livingston, who is a financial writer, J. A. Livingston, has been quoted many times in this hearing, and right on that line he made this statement in an article written on June 16, and I read it with great interest because many people complain about the bonds dropping below par, and he says this:

A depression would end the jam in quick style. Corporations wouldn't want to borrow. They would pay off debt. The Federal Reserve Board would try to prime the business pump by buying Treasury securities to increase bank reserves. Banks would then put these reserves to work by making loans. If borrowers could be found—

that is what you just said—

or by buying Government securities, bonds would go up in price, interest rates would drop. It would be easier and cheaper to finance, but businessmen would be less anxious to do so.

This just confirms, I think, what you have stated; and it is a problem that I think we, in the committee, really see. That is the reason I asked you about the flexibility of the operation.

Now, the flexibility is in the Federal Reserve, and I hope they use it, but I hope they use it before it is too late, and I am sure that those very able men are watching that very phase of it.

While we are talking about this, let me read another quote from your book. I was proud of the statement you made in this book several years ago, because you certainly have not changed your views, you have been very consistent. Here is a quote from the book in that particular section, and you are talking about the period of interest rates and values of bonds:

If I remember the period correctly—

this is a quote—

and the financing of World War II—it was determined by the Treasury and the Federal Reserve that the interest rates should be held at a very low level, which I believe was opposite the financing of World War I.

What about our World War I financing?

Mr. BURGESS. That is right. We started financing it at, I think,  $3\frac{1}{2}$  percent; and the rate went up until the last financing was done at, the last long bond was put out at  $4\frac{1}{4}$ , the Liberty Bond. And then the Victory notes in the spring of 1919 were put out at  $4\frac{3}{4}$ , so that we financed it on a rising interest rate.

Now, that has its difficulties, because the man who bought the earlier bonds finds his bonds selling below par, and they had to have a big mechanism for buying up those bonds and supporting the prices, and giving the privilege of exchange into later issues and it operated against succeeding financings.

So that I think the determination in World War II to try to keep the rate level for the whole war aided in the financing. But as I have said before here, I think they would have been more successful if they had picked a rate to do it that was a more livable rate and that would appeal more to the people who are the buyers, so that you would get more individuals buying the bonds. That is, I think we would have had a little less inflation if those bonds had been more widely distributed than they were. They were distributed under patriotism and pressure and all that, but not quite enough self-interest.

A little higher rate would have appealed to people and there would have been some more buyers and they would have hung on to them a little better, which would have helped.

Senator CARLSON. I have noticed that members of the committee have not hesitated to give personal experiences, and your mentioning the interest rates and the effect on bonds gets very personal with me.

In 1917 I thought it was my patriotic duty to go into the service, which I did. I had been farming and had accumulated some livestock and some other things, and I thought a fine way to do it was to sell it and put it all in Government bonds.

I came back in 1919 and bought a farm, and if I ever had a father who was sound in his business sense, it was this way, that he was violently opposed to debt. He insisted I sell those bonds at \$85, which I did, so I have had some effects of that, and I realize some of the problems. But it is one of the problems that we have at the present time for those who do cash them out.

And I want to ask you a question on that point. Supposing a bank in my State holds these bonds, and they take them to the Federal Reserve for a discount. Do they get full value, a hundred cents on the dollar?

Mr. BURGESS. They get full value. They get par; yes.

Senator CARLSON. Mr. Chairman, there are some of these other items here that I would like to have made a part of the record, because they are all good.

The CHAIRMAN. Senator, you may insert any material you desire in the record.

(The quote referred to follows:)

#### THE CASE FOR LOWER RATES

For several years, a policy of lower interest rates was strongly advocated in government and academic circles, both here and abroad. This sentiment, however, waned considerably as the inflationary spiral wound higher and higher. But since the policy had many adherents, any downturn in business is likely to see it urged again.

The argument for a government policy of lower interest rates has two chief points. One is that the obvious way to reduce the huge interest charge on our national debt is to drive rates still lower. For example, at an average rate of 2 percent, the annual interest charge on a public debt of \$250 billion would be 5 billions. But at an average rate of  $1\frac{1}{2}$  percent, interest on the same debt would be 3.75 billions.

As second claim is that falling rates would stimulate business activity and high employment. This assumes that the interest rate is a major consideration in decisions to borrow. The lower the rates, it is reasoned, the greater the encouragement for businessmen to undertake new ventures and expand old ones, to borrow for new factory buildings and equipment and fresh stocks of goods—all of which would provide more jobs.

\* \* \* \* \*

#### OTHER ADVERSE EFFECTS

Lower interest rates penalize the American people in more ways than one. They reduce the investment earnings of savings banks and thus cut the interest paid to millions of savings depositors. In the past 15 or 20 years, interest paid to savings depositors has dropped from  $3\frac{1}{2}$  and 4 percent to  $1\frac{1}{2}$  and 2 percent. Incomes of beneficiaries of trust funds have likewise been affected.

Falling interest rates increase the cost of pension plans which business concerns have set up for millions of employees. They also effect the retirement funds of teachers, policemen, other municipal employees and clergymen. Thirty annual payments of \$500 or \$15,000 in all, create at  $4\frac{1}{2}$  percent interest a pension reserve of \$31,876. To create a pension reserve of the same size at a 2½ percent rate would require annual contributions of \$679, or 36 percent more. Moreover, in 1930, when a pension reserve of \$31,876 could be built from annual payments of \$500, a man reaching 65 could expect from it monthly payments of \$273. In 1947, his pension would have been \$194 a month.

Senator CARLSON. Here is another quote, and I am going to put the rest in the record in order to save time, but here is one I thought—you ask a question in this book, "Is some other policy better?" That is, a policy better, some better policy than we have been discussing.

It seems clear—

this is a quote now—

that still lower interest rates would be unwise both now and in the future.

This was written in 1949.

If applied now, there is the danger that they would restimulate inflationary pressures. As a long-range policy, further reduction of interest rates would neither promote business expansion and housing construction nor afford a real saving to the American people. Consideration of any future policy, however, must rest on the realistic assumption that the Government will continue to have a regulating effect on interest rates.

Well, the regulating effect, I assume you have in mind, is the Federal Reserve and its monetary policies.

Mr. BURGESS. That is right; yes.

Senator CARLSON. And you think that is working effectively and you hopefully assume that will prevent this inflationary trend?

Mr. BURGESS. Well, I think it is, on the whole.

Of course, this represents the judgment of men about a very difficult problem, but I think on the whole they have done pretty well.

There were mistakes in the history of the system, I think, mistakes in 1919, 1920, and mistakes in 1927 and 1928 and 1929. I think we have learned a good deal. I think the system is now being operated with a good deal of wisdom.

(The additional quotes referred to follow:)

#### AN ELASTIC POLICY

1. Interest rates should be flexible enough to enable credit control to have a part in curbing inflation or resisting deflation. When inflationary forces are strong, the public welfare may be served best by taking up slack in the money market. Tighter credit means inevitably higher interest rates. But when prices fall and unemployment spreads, an easier credit policy and lower rates at least can help to relieve tension \* \* \*.

2. Government control over interest rates should be in full awareness that interest is both a cost to society and a part of its income. Almost all discussions of interest put too much emphasis on the tax cost of charges on our national debt; the income aspect is usually neglected. \* \* \*

3. Interest rates should have some freedom of movement. Without it, they cannot perform their economic function of maintaining a balance between the supply of savings and demand for investment funds at a high and increasing level of national income. A popular theory has been that the American people "over-save"—that they choke off prosperity by withholding too much money from consumer purchases. The great demand for investment funds which now exists and is likely to continue for many years compels readjustment of attitude towards savings. Our Nation has enjoyed a rising standard of living largely because abundant savings built up a great industrial system and enabled us to produce more and more goods and services. If living standards are to continue to improve, we must have adequate savings; and this is partly a question of the right level of interest rates. No one knows what the right rates are going to be, but the best chance of getting them will be when rates are flexible enough to reflect the market forces of demand for savings and their supply. \* \* \*

These are essentials in management of our national debt:

1. We must exercise careful watch over the budget.
2. We must plan a debt reduction policy which is related to the state of business activity of the country.
3. We must distribute the debt as widely as possible among nonbank investors, and so reduce the inflationary money supply that accompanies a national debt heavily concentrated in the hands of the banking system.
4. We must restore flexibility to interest rates so as to give monetary authorities more freedom in determining credit policies.
5. We must take every possible step to preserve and to increase the dynamic energy of our economic life, for it will make the burden of debt easier to bear and will help to maintain our American tradition of freedom.

\* \* \* \* \*

With a program embodying these essentials, the Committee on Public Debt Policy is confident this country can carry its heavy load of debt and still maintain the free and vigorous economy that has been our glory and strength over the years. The task is not easy. It needs courage and wisdom, a high order of statesmanship on the part of our leaders, and understanding and unity among the people.

Though debt management may seem abstract and remote to the average person, it is actually a job in which everyone can—indeed must inevitably—play a part. It involves decisions in such matters as interest rates, taxes, the amounts and purposes of Government spending—which affect all of indirectly and most of us directly. Each question is a test of how clearly we see the issues, whether we act as citizens rather than think primarily of selfish interests. The sum-total of such reactions determines public opinion and shapes public policy.

Happily, the country is endowed with rich gifts—an intelligent citizenry, great wealth in natural resources, boundless opportunities for development, and a tradition of venturing and energetic enterprise which has constantly pressed forward the frontiers of accomplishment. If we have wisdom to cherish these priceless advantages, which have brought us so far already, we should meet and surmount this challenge as we have met and surmounted greater crises in the past.

Senator CARLSON. Senator Kerr is not present, but I am sure he will not object if I take a statement out of the record that he made. And it is during his interrogation, Senator Kerr's interrogation, with the Secretary regarding farm credit. He stated present policies were making it difficult for farmers and others to secure needed credit. I can attest to that myself. There are some problems in the agricultural area. But in the hearing held on Wednesday, July 31, he stated:

But I go back home and tell the farmers that they can get credit from the Farm Housing Administration, the law says they can; and they can, if they have Government bonds for collateral.

But if they have not, I want to tell you right now, there are not many of them in Oklahoma getting it.

I am greatly interested in farm credit, Mr. Chairman, and for that reason I checked, and he says here he had the Farm Housing Administration. I am sure he meant the Farmers' Home Administration. And I find that they are making several types of loans, and I want to make that a part of the record, too.

For instance, they make what they call operating loans. That is for the purchase of farm and home equipment and productive livestock and to pay operating and living expenses.

Now, the interest rate on this, set by the Government, is 5 percent. And they give here some of the requirements for the credit. In fact, these loans, I think, are not too difficult to secure. They have a first lien obtainable on productive livestock or equipment purchased or refinanced. That is the operating loan.

Then they make what they call farm-ownership loans. These are made to farmers from funds that are furnished by private lenders and insured by the Farmers Home Administration, or from funds borrowed from the United States Treasury. These are to buy an adequate family-type farm or buy land. You can actually purchase land under this program. On these insured loans, the interest rate is  $3\frac{1}{2}$  percent, plus the 1 percent loan insurance, which makes these  $4\frac{1}{2}$  percent loans. And they are amortized over a period up to 40 years.

Then this same agency has what they call soil and water conservation loans. These are also  $4\frac{1}{2}$  percent loans.

I give only these details because I do not want to take the time of the committee.

They make farm housing loans. These are over a long period of time—in fact, 33 years—and the interest is 4 percent. And they make emergency loans at the rate of 3 percent.

Now, I realize that these emergency loans are given to farmers who are unable to secure local credit, but these other loans are loans that can be secured by making application and furnishing the required collateral. And I know that they are being made because here I have a list from the Farmers Home Administration giving the United States total, the total of all these loans in the United States in 1957, which was \$356,295,000. That is 1957 so far to date, this year.

And in the Midwest when I asked for Colorado, Kansas, Oklahoma, Texas—Oklahoma has over \$14 million of these loans already made in 1957; and in 1953 they only had \$3 million of them.

Our own State of—no, that was Kansas. Oklahoma had \$10 million in 1953, 10-plus, and \$12 million plus in 1957. Texas had \$56 million of these loans. Colorado had \$10 million.

I would like to make this table a part of the record, Mr. Chairman. The CHAIRMAN. Without objection.

(The material headed, "Types of Loans Made by the Farmers' Home Administration," and table are as follows:)

#### TYPES OF LOANS MADE BY THE FARMERS HOME ADMINISTRATION

##### OPERATING LOANS

These loans are used primarily to obtain resources needed to become successfully established in farming. They are made from funds appropriated by Congress.

Loan funds may be used to—

1. Purchase essential farm and home equipment and productive livestock.
2. Pay necessary farm operating and family living expenses.
3. Make minor real-estate improvements.
4. Refinance debts on livestock, farm equipment and harvested feed, when such action is necessary to assure a sound farming operation.

Terms and repayment policies are:

1. Interest rate is 5 percent on unpaid principal.
2. Total indebtedness for operating loans may not exceed \$20,000 principal. Usually credit needs of borrowers can be served with much smaller amount.
3. Amount borrowed for operating expenses to be repaid from the year's income.
4. Amount borrowed for capital goods scheduled for repayment in annual installments not to exceed 7 years.
5. Amount and time of repayment determined by availability of income for debt payment.
6. Generally no additional operating loans may be made after 7 years continuous indebtedness. However, in hardship cases additional loans may be made for 3 more years.

Security requirements are:

1. A first lien obtainable on productive livestock and equipment purchased or refinanced.
2. The best lien obtainable on productive livestock and farm equipment owned.
3. A first lien on crops and assignments on some items of income.
4. A subordination agreement by landlord when needed.

##### FARM OWNERSHIP LOANS

These loans assist farm families to become successfully established on adequate family-type farms. Farm-ownership loans are made either from funds furnished by private lenders and insured by the Farmers Home Administration or from funds borrowed from the United States Treasury as authorized by Congress.

Loan funds may be used to—

1. Buy an adequate family-type farm or buy land to enlarge an undersized farm.
2. Provide necessary water, and water facilities.
3. Provide basic land and soil improvements.
4. Construct, and improve buildings necessary for successful operation of a family-type farm.
5. Refinance existing debts if the applicant's total debts do not exceed the value of his real estate and chattels and if the applicant will be able to place his operations on a sound basis if his debts are refinanced on more favorable terms and conditions.
6. Pay authorized fees.

Loan terms and repayment policies are:

1. On insured loans,  $3\frac{1}{2}$  percent interest and 1 percent loan insurance charge on the unpaid principal.
  2. On direct loans,  $4\frac{1}{2}$  percent interest on the unpaid principal.
  3. Payments are due on January 1 each year. Borrowers are encouraged to build reserve by paying ahead of schedule.
  4. Loans are amortized over periods up to 40 years.
- Security requirements are:
1. A first or second real-estate mortgage.
  2. Buildings insured against loss by fire or other casualties.
  3. Real-estate taxes must be paid.

## SOIL AND WATER CONSERVATION LOANS

These loans are made to carry out soil-conservation measures and to develop irrigation and farmstead water-supply systems. They are made as insured or direct loans.

Loan funds may be used to—

1. Carry out approved soil-conservation practices.
2. Develop irrigation systems.
3. Develop drainage systems.
4. Pay authorized fees.

Loan terms and repayment policies are—

1. For insured loans,  $3\frac{1}{2}$  percent interest and 1 percent mortgage insurance charge on the unpaid principal balance.

2. For direct loans,  $4\frac{1}{2}$  percent interest on the unpaid principal balance.

3. Loans are repayable in 1 to 20 years, depending on ability to pay and security given.

4. Repayments are scheduled in equal annual installments except that, when necessary, the first or first two installments may be scheduled for interest only.

5. An individual's total indebtedness for an SW loan cannot exceed \$25,000. An association's total indebtedness cannot exceed \$250,000.

Security requirements are—

1. A short-term loan is secured by either a real-estate mortgage, chattel mortgage, or both.

2. A long-term loan is secured by real-estate mortgage.

NOTE.—Nonprofit organizations, such as incorporated water users' associations, are eligible for a loan when they are unable to obtain credit elsewhere and meet certain other conditions.

## FARM HOUSING LOANS

These loans are used to build and repair farmhouses and other essential farm buildings. They are made from funds appropriated by Congress.

Loan funds may be used to—

1. Construct or repair farmhouses and other essential farm buildings.

2. Provide water supply and related facilities for dwellings and other farm buildings.

3. Pay authorized fees.

Loan terms and repayment policies are—

1. Interest rate is 4 percent on unpaid principal.

2. Payments amortized over periods up to 33 years.

Security requirements are—

1. Adequate real-estate security on the farm being improved and on other real estate when necessary.

## EMERGENCY LOANS

These loans are used to assist farmers in emergency areas to continue farming. They are made from a revolving fund established by Congress.

Loan funds may be used in designated areas to—

1. Purchase feed, fuel, seed, fertilizer, and farm and home supplies.

2. Replace livestock lost in the disaster.

3. Replace or repair farm and home equipment.

4. Replace or repair farm buildings, fences, drainage or irrigation systems damaged as a result of the emergency.

5. Level land and remove debris resulting from the emergency.

6. Pay current taxes on real property when necessary.

7. Pay water charges necessary to the operation.

8. Make minor repairs or improvements to farm water supplies.

9. Pay labor, machinery hire, and other essential expenses.

Loans may not be made to—

1. Refinance existing debts.

2. Pay cash rent.

3. Enable borrowers to expand their normal operations.

Loan terms and repayment plans are—

1. Interest rate 3 percent on unpaid balance.

2. Loans for production of crops repaid as crops are sold.

3. Loans for feed repaid as livestock or livestock products are sold.

4. Loans for replacement of equipment, building repairs, or similar purposes, may be scheduled over a longer period.

Security requirements are—

1. A first lien on crops produced with loan funds.
2. A first lien on livestock and equipment purchased with loan funds.
3. The best lien obtainable on all other crops.
4. When necessary, the best lien obtainable on livestock and equipment owned when loan was made.
5. When necessary, the best lien obtainable on real estate.
6. Agreement for division of income when livestock is subject to a prior lien.

## UNITED STATES DEPARTMENT OF AGRICULTURE

*Comparison of total amount of loans made by the Farmers' Home Administration, fiscal years 1953-57, United States total and selected States*

State and year	Farm operating loans	Farm ownership loans		Farm housing loans	Soil and water conservation loans		Emergency loans	Total all loans
		Direct	Insured		Direct	Insured		
<b>U. S. totals:</b>								
1953.....	\$129,841,955	\$18,993,868	\$10,710,606	\$19,294,817	\$5,999,939	.....	\$44,124,520	\$228,965,705
1954.....	147,363,894	19,538,666	9,530,793	16,067,934	6,499,966	.....	93,460,793	292,462,046
1955.....	133,591,964	18,999,200	31,933,200	37,385	4,021,727	\$15,469,379	89,174,529	293,227,384
1956.....	147,107,130	18,999,999	39,765,277	3,760,035	1,321,089	10,589,252	87,043,993	306,586,775
1957.....	183,299,621	46,307,836	29,771,530	21,290,884	5,499,815	3,926,169	66,199,603	356,295,458
<b>Colorado:</b>								
1953.....	3,161,933	266,051	283,466	309,396	497,654	.....	508,554	5,027,054
1954.....	3,768,927	252,869	6,800	190,313	415,945	.....	5,132,927	9,767,781
1955.....	2,742,101	108,777	203,515	.....	261,514	265,600	4,293,196	7,874,703
1956.....	3,013,050	70,834	299,555	7,700	13,412	264,360	5,113,900	8,782,811
1957.....	4,522,731	483,339	494,825	67,246	244,340	162,075	4,209,994	10,184,550
<b>Kansas:</b>								
1953.....	2,045,231	358,558	290,410	279,468	217,335	.....	320,775	3,511,877
1954.....	3,715,447	329,820	435,420	261,757	335,443	.....	3,254,731	8,332,618
1955.....	3,702,959	409,594	811,980	.....	130,664	1,072,622	2,958,876	9,086,695
1956.....	3,694,447	412,205	1,418,935	12,350	.....	882,456	3,489,077	9,909,470
1957.....	5,473,918	1,487,372	706,120	218,606	651,677	211,335	5,227,282	14,016,275
<b>Oklahoma:</b>								
1953.....	5,507,206	386,983	363,601	777,766	504,893	.....	2,630,312	10,170,761
1954.....	6,925,602	392,428	303,930	571,960	608,100	.....	4,234,746	13,036,766
1955.....	5,363,458	367,957	748,902	.....	199,230	1,431,010	3,232,067	11,342,624
1956.....	5,521,325	457,095	1,230,876	104,650	.....	234,756	3,863,117	11,411,819
1957.....	6,695,981	1,281,702	1,392,585	534,824	110,622	87,285	2,377,061	12,480,060
<b>Texas:</b>								
1953.....	10,892,703	900,573	65,235	983,377	492,671	.....	11,411,976	24,746,533
1954.....	13,562,308	905,433	174,391	1,037,416	589,755	.....	38,512,213	54,781,516
1955.....	10,925,557	916,122	1,069,983	.....	186,345	2,319,705	32,821,202	48,238,914
1956.....	11,601,559	936,510	1,930,285	234,366	.....	1,285,251	35,396,705	51,394,675
1957.....	17,181,758	2,266,121	673,925	851,403	763,938	361,305	34,605,239	56,703,689

Senator CARLSON. Then I called the Farm Credit Administration. This is another agency that deals with farm credit, through Federal land banks and production credit associations and banks of cooperatives, and probably some others. And they direct them, and they assist in securing some of their funds. But some of them are controlled and operated directly by the organizations themselves, and no Federal money is in them.

But I just want to quote one paragraph from Mr. R. B. Tootell, who is the Governor of the Farm Credit Administration. He writes me and encloses some charts that I would like to have made a part of the record, which shows that the interest rates on farm loan bonds that they sell are in line with triple-A bonds, the United States Government bonds, and other bonds.

In other words, while farm interest rates are high, the rate has been consistent with other bonds; and this one paragraph is Mr. Tootell's own statement:

My basic philosophy on the cost of credit to farmers and stockmen is that the founders of our cooperative farm credit system contemplated that through it agriculture would have access to the money markets of the Nation on terms comparable with those available to other high-grade borrowers, and not at pre-

ferential or subsidized rates. In other words, the rates to agriculture would ebb and flow with the general current trends. The rates enjoyed for the past 20 years or so have led some people erroneously to associate agricultural financing with cheap money. A glance at the record, however, shows that the entire level of interest rates was relatively low during that time; also that interest costs to farmers through the cooperative credit system compare favorably with the cost of money in industry and commerce.

I would like to submit for the record two tables here, or charts, rather, not tables, with graphs showing what has happened to yields on corporate United States Treasury and consolidated Federal farm loan bonds in those two various periods.

The CHAIRMAN. Without objection it will be inserted.

(The letter from the Farm Credit Administration dated June 14, 1957, follows. The two enclosed graphs face this page.)

FARM CREDIT ADMINISTRATION,  
Washington, D. C., June 14, 1957.

HON. FRANK CARLSON,  
*United States Senate.*

DEAR SENATOR CARLSON: As mentioned in our telephone conversation yesterday afternoon, my comments before the group in Wichita which included George Fredrickson were based largely on the material in a report of our money market committee. This committee consists of several members of my staff here in Washington who meet periodically to discuss the current bond and money market situation and to formulate a report which relates the general picture to the particular financing problems of our farm credit banks.

A copy of the report which I used is enclosed. You will note that it is almost a year old and that on the cover page the committee states that there may be occasion for a revision of judgment as new information becomes available or if conditions change. You know, of course, that conditions did change in the past 11 months; as a result, interest rates advanced to a range beyond that anticipated when the report was written. The reasoning in the report, however, is fundamental and holds true today.

My basic philosophy on the cost of credit to farmers and stockmen is that the founders of our cooperative farm credit system contemplated that through it agriculture would have access to the money markets of the Nation on terms comparable with those available to other high-grade borrowers, and not at preferential or subsidized rates. In other words, the rates to agriculture would ebb and flow with the general current trends. The rates enjoyed for the past 20 years or so have led some people erroneously to associate agricultural financing with cheap money. A glance at the record, however, shows that the entire level of interest rates was relatively low during that time; also that interest costs to farmers through the cooperative credit system compare favorably with the cost of money in industry and commerce.

The rapid transition from relatively low- to relatively high-cost money is not easy, especially when accompanied by the cost-price squeeze in which the farmer finds himself between inflationary price increases for the things he buys and the relatively low prices on the commodities he sells.

A viewpoint from private industry was expressed by Mr. Ray D. Murphy, chairman of the board of the Equitable Life Assurance Society, in an address before a group of bankers in New York last December. A page of excerpts from his speech entitled, "How Long 'Tight' Money?" is enclosed.

I hope this material may be of some service to you. If there is any further information which we might supply, please do not hesitate to call upon us.

Sincerely yours,

R. B. TOOTELL, *Governor.*

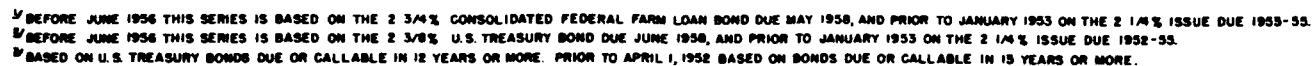
Senator CARLSON. Mr. Burgess, thank you for your kindness.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Mr. Chairman, I will move around closer to you.

Mr. Chairman, I find myself always at the end of the tail on this kite, and by the time the process gets to me, I think every question has been asked, not once but many times. I am yielding again to

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the same temptation to which I yielded at the end of Mr. Humphrey's appearance before the committee, to attempt to summarize the situation as I see it developing, rather than to go back over the questions.

I have a statement which will take about 20 minutes to read. The Secretary, Mr. Burgess, has had a copy of it, and I am going to give him opportunities to break in and disagree with me, if he wishes.

I want to begin by complimenting Mr. Burgess on the fine presentation which he has made and the manner in which he has clearly and directly answered the many questions which have been asked of him.

Also, I wish to express my regret over the fact that the Treasury is losing the services of such a distinguished individual and a superb technician in this field. I extend to him, as I am sure all members of the committee do, my sincere best wishes as he undertakes his new assignment.

These hearings began June 18, and in the 51 days that have passed there have been hundreds of points of contention developed, but most of them are minor. By a thorough review of the transcript, I have noted 16 that I consider worth recording here, 10 in the field of monetary policy, 3 touching debt management policies, and 3 of general economic significance.

But before I discuss them separately, I should like to make some general observations.

Behind these conflicts lie some more fundamental disagreements in basic economic philosophy. On the one side—the Treasury's—is a general acceptance of the validity of what might be called classic economics.

On the other is a variety of unorthodox economic theories. Some of these are hangovers from the economic experimentation of the thirties. Some are calculated to give special benefits to certain groups. Some indicate a preoccupation with depression—and the past—by a general program of making all economic comparisons within the past 25 years. Some indicate an unwillingness to trust free markets to produce prosperity.

In one way or another, and from many angles, the time-proven principles of economics are under attack.

Thus far our chief concern has been with inflation—its cause and cure. We know it exists in the form of a worldwide epidemic. We have not yet completed our study of its cause or causes.

Whether it is a flareup of a form of the disease that has been dormant at times, or whether it is a new and different form of the disease, we have yet to learn fully. It is being treated as though it is of the usual type.

The orthodox monetary doctors say we are trying to use more energy than we possess—and taking the narcotic of inflation to keep us going. They are trying to slow us down to a rate that can be sustained by our natural increase in strength, even though it means postponing some things we would like to enjoy now.

Resentment of this program of slowing us down has developed in a number of forms. Some apparently believe that inflation isn't a disease after all, but a desirable way to increase our rate of growth.

Some say the cure is worse than the disease. Others say that the cost in higher interest rates is too high. A few have suggested that this is all a plot between the doctors and the druggists—the banks—

to make extra profits out of our illness, and that we can be cured at less cost.

There are those who want the doctor fired, or at least they want to dictate the treatment. They say that the treatment has been going on for some months now, and has not cured the disease.

They also point to the times when the doctors permitted a little stimulation and the disease did not immediately show up, and therefore assume that there is no relationship between the disease and the cure. On the basis of this argument they call for more stimulant, saying that by this means we may be able to take more exercise and thus develop more muscle.

They are not concerned about the effect on our economic heart—the essential and healthy stability of the dollar.

Mr. Secretary, as I have listened to the questions during our many sessions, both with you and with Secretary Humphrey, I have been impressed by the fact that both of you have had to deal with what amounts to a series of charges, carefully organized and buttressed with data, tabular material, relevant quotations, and all the rest of it.

The time and effort which must surely have gone into the preparation of the charges is impressive—but I have been even more impressed with the answers that you and Secretary Humphrey have provided.

At this point I would just like to digress to call attention to the fact that this is a case where one side is prepared and the other side has to operate on a catch-as-catch-can basis, which makes their operation even more impressive.

It is clear to me that some are seeking nothing less than complete overturn of the sound principles which have been developed over the course of long and hard experience.

My colleagues have been so thorough in their questioning that I feel it would be repetitious for me to cover again, by means of still more questions, the ground which has already been traveled.

However, it does seem to me to be particularly important that the issues developed out of the charges and the answers be clearly defined.

Again to digress, some day this committee is going to have to write a report, and that report will reflect our judgment on the issues as they developed, and I think my definition of the issues here might be of some use in setting the pattern of that report.

Accordingly, rather than to question you, I should like to list briefly the issues as I have understood them, by studying the transcript, and I will give you an opportunity to comment at any point at which you feel my understanding is inadequate or faulty.

In this way, I know that you can be the most help to me, personally, in understanding the basic issues which have been developed, and perhaps also it will be of assistance to other members of the committee and to the public.

There are 10 of these issues that I found in the field of monetary policy, and they are numbered as we go down.

1. With respect to the issues in the field of monetary policy or monetary theory, the first concerns the nature of the current inflation.

It is charged that these price increases have behind them none of the elements of a classic inflation but, instead, are caused by tight money and manipulated prices in semimonopolistic industries.

The answer the Treasury has given to this is that current price increases are basically caused by the same factors which must operate

during every inflation: increased demand pressing against a limited supply of goods and services, with demand in this case, particularly strong in the capital goods field.

1a. There are two correlative issues here. It is claimed that restrictive monetary policy has not been successful in preventing price rises during the last year and a half. This has been answered by the fact that we now have relatively full utilization of some basic resources, particularly labor; and if these policies had not been adopted, there would have been considerably more inflation.

Mr. Burgess, is that a fair restatement of your point of view?

Mr. BURGESS. Yes; I think so. Very good.

Senator BENNETT. 1b. The other correlative issue—one which is particularly difficult for me to take seriously—arises out of the claim that correct policy in combating inflation is to provide for more rapid increases in the money supply than are currently permitted in order to secure substantial increases in output—for example, in housing and that these output increases would depress prices.

The response is that there is little possibility of output increasing at a faster rate than is already the case, regardless of excess capacity, because there is virtually no unemployment today above the frictional level.

It was a temptation at this point to stop and put in figures, but I realize if I start to get into the field of argument, I destroy the unity of my attempt to develop an analysis of the issues, so I refrained.

Furthermore, although it is possible to conceive of substantial increases in output in some individual sector of the economy, like housing, it is an increase in the entire economy which must be considered in a situation of this sort.

I said earlier that I find it difficult to take the issue seriously because I cannot comprehend how anyone can honestly advocate increasing the money supply to combat inflation. Are we then to believe—as we must, following this logic—that the way to halt a severe decline in prices is to contract the money supply?

2. The second major issue in the field of monetary policy arises out of the claim that the Federal Reserve System can support prices of Government bonds, thereby reducing the interest burden on the national debt and interest rates generally, without the necessity of making large purchases of Government bonds, and, therefore, without being inflationary.

On the other hand, the Treasury has made it clear to me that the Federal Reserve cannot start a policy of pegging bond prices without, at the same time, effectively relinquishing its control over monetary policies.

The data which purport to show that the Federal Reserve can support bond prices without adding considerably to bank reserves through necessary purchases of Government securities are taken from carefully selected years with conditions not comparable to the present.

3. The next two issues relate to the effectiveness of higher interest rates in combating inflation. It is claimed that higher interest cannot be a deterrent to capital investment since the volume of such investment is now at a peak.

But it can certainly be said that with lower interest rates the volume would undoubtedly be much larger and inflationary pressures that much more severe.

4. It is also suggested that higher interest is inflationary because it enters into costs and stimulates demand for higher wages.

The other side of the issue is that the deflationary effect of higher interest is far more important than its inflationary effect, particularly when it is remembered that higher rates reflect tightness in the availability of money.

Interest is, after all, a very small part of most costs, and the difference in rates that has developed is even less significant.

5. The next issue arises out of the charge that current monetary policy is hurting only small business; that it does not hurt large business. Although it can safely be said that such a policy will adversely affect all marginal businesses, there is no reason to assume that all marginal businesses are small business.

It is possible, as Secretary Humphrey admitted, that many small businesses may feel the pinch; but the data which were submitted, particularly after analysis, did not prove that small business was hurt any more seriously than large business.

In fact, Mr. Chairman, some of the data I have seen would indicate that money is not as tight in the rural areas served by small banks, who have a limited potential anyway, as it is in the large financial centers.

Would you have a comment on that, Mr. Secretary?

Mr. BURGESS. I think that is true. A great many of these banks have not felt the squeeze as much as the city banks. Some of them have, but generally speaking—

Senator BENNETT. I have become conscious recently that large borrowers, such as finance companies, have begun to turn to small banks to augment what they can borrow from their usual sources in New York and other centers, picking up \$10,000 here and \$50,000 there, or trying to pick them up, which would indicate there is actually more money available to be loaned in these areas than in some of the financial centers.

Mr. BURGESS. I think that is right.

Senator BENNETT. 6. The sixth issue has developed out of the charge that current—off the record.

(Discussion off the record.)

Senator BENNETT. Back on the record.

6. The sixth issue has developed out of the charge that current monetary policy, which is allegedly providing insufficient growth in the money supply and is characterized by higher interest rates, will cause a depression, just as similar policies during the 1920's resulted in the depression of 1929-33. I think that may be a non sequitur.

On the other side of this issue we find the wise judgment—which I believe was expressed in your testimony—that the primary value of current monetary policy is in preventing excesses of the type which eventually can lead to depression; and that the greater excess, the deeper the depression.

Also, you have noted that the money supply is not growing at too slow a rate when increases in velocity are taken into consideration; and finally, that monetary policy during the 1920's was not so much incorrect as poorly timed.

Is that a fair statement?

Mr. BURGESS. Yes; I think it was too slow.

Senator BENNETT. Too slow.

7. The next two issues in my informal tabulation relate to the causes of higher interest. It has been stated that rates are higher because the Federal Reserve has increased its rediscount rate on a number of occasions since 1953, including yesterday.

On the other hand, if I interpret the data correctly, changes in the rediscount rate have followed, not led, changes in the interest rate, and that includes yesterday.

Looking at the chart, Mr. Burgess, it seems to me that that change in the rate might have been indicated as early as the first of May.

Mr. BURGESS. It could well have been done at that time; that this, instead of hurrying this thing, they have delayed it rather than hurried it. They followed the market.

Senator BENNETT. Further, Federal Reserve influence over interest rates is exercised primarily through its control over the volume of money, rather than the rediscount rate.

Mr. BURGESS. That is right.

Senator BENNETT. 8. A change which, in my opinion, is entirely unsupported, has created my eighth issue. This begins with the claim that the Treasury has the power to set the general level of interest rates through the rates it selects for its own securities; and follows with the charge that it has deliberately used that power to increase interest rates.

I believe that both Secretary Humphrey and you have emphasized over and over again that the Treasury has never attempted to increase interest rates through its operations, but has accepted the market rate.

Treasury operations, if I understand you correctly, are a factor in the market but there are, in addition, many other factors and influences.

9. The 9th and 10th issues as I have tabulated them relate directly to the Federal Reserve. If I understood your testimony of several days ago—page 1664 of the transcript—the primary function of the Federal Reserve is to maintain a volume of money which will assure price stability and sound economic growth.

But this has been challenged with the claim that the primary function is to provide all of the funds demanded by a growing economy, presumably without regard to the effect on the price level.

I realize Mr. Martin will be up here next week, and that question will be put plainly to him.

10. The 10th issue is developed out of the claim that the Federal Reserve has almost unlimited power in its field and is controlled by only a few men who are, in effect, independent of any supervision.

The other side of the issue—with which I am in agreement—is that although the Federal Reserve has great power, that power is not unlimited; its policies are directed by a larger number of men from all areas and representing diverse economic backgrounds.

In the final analysis, the Federal Reserve is an agent of the Congress, which can and should exercise its authority whenever appropriate.

I might observe that the whole question of the independence of the Federal Reserve System seems to be developing rapidly in these hearings.

There have been indications that some members of the committee are considering legislation which would have the effect of destroying

the independence of the Federal Reserve by requiring that it center its activities on supporting the prices of United States Government obligations.

This would place the Federal Reserve in a subordinate position to the Treasury; therefore, subject to the political pressures which must necessarily be present.

That concludes my observations in the field of monetary management.

Do you have any comment?

Mr. BURGESS. No. I am in very close agreement, Senator. I think it is a good statement.

Senator BENNETT. Thank you.

1. Now turning to the field of debt management, it seems to me there are three basic issues that have been developed here.

The first relates to the maturity distribution of the public debt, and is based on the claim that because sales of longer term securities are deflationary, such sales should be attempted now, even though Federal Reserve policy has made this more difficult than it need be.

The answer given is that the time is not appropriate for the flotation of longer term securities, since the Treasury would now have to pay excessive rates.

And, parenthetically, the Treasury has tested the market on that basis, so it is not simply an empirical decision.

Mr. BURGESS. That is right.

Senator BENNETT. There is simply no market for long-term bonds in large amounts at rates which the Treasury is permitted by law to pay.

2. The second issue arises out of the charge that the Treasury has deliberately put itself at the mercy of the market in floating its securities. But the alternative, as I understand it, to acceptance of the competitive rate by the Treasury, is to maintain artificially low rates through rigid price supports on bonds by the Federal Reserve.

As indicated earlier, this policy would mean the acceptance of considerable inflation in return for lower interest rates.

3. The third issue relates to the Treasury policy of consulting with market representatives. It has been suggested that this consultation before the issue of securities may cause the market to anticipate new rates and make upward adjustments beforehand.

It is stated that the Treasury should make its own determination of appropriate rates and volume, presumably in secret.

On the other side of this issue, it has been shown that it is necessary to consult with a large number of people representing many different types of lenders in view of the large volume of financing which the Treasury must undertake.

This policy, which has been followed for a considerable period of time, even before this administration came into power, is correct, in my opinion, so long as discretion is maintained and it is understood that the Treasury does not commit itself in advance to the acceptance of any particular suggestion.

Do you have any comments on this category?

Mr. BURGESS. I think one might perhaps add—I am not sure I made it clear in the earlier testimony—that these consultations not only inform us, but they de-educate the market in the general objectives of the Treasury, and they prepare the way for an issue.

I have always thought of them as partly a sales instrument; by consulting the market and getting it ready for an issue, the issue goes very much more smoothly. This is too big a job to be done suddenly and spring on a market without any advance preparation.

Of course, it is just what is done in any issue of securities. Morgan Stanley or any of the other issue houses never just suddenly bid on an issue. They take several weeks beforehand to explore the buyers, to see who might buy this issue or that, so that when it comes out the ground is well prepared.

Senator BENNETT. They go through the same process through which you go?

Mr. BURGESS. Exactly.

Senator BENNETT. Yes.

Now the other issues:

1. Finally, I note three other issues which I have put in a miscellaneous category, even though, on closer examination, they might be fitted into either of the two major categories I have just described.

The first relates to housing and arises from the claim that a reduction in housing starts has been a goal of this administration.

I must say that I was greatly impressed with the answer of Secretary Humphrey to this charge when he clearly defined the issue by pointing out that the reduction in housing starts is a response to the influence of the free market; and was not deliberately planned by anybody. As demand shifts, and interest rates on mortgages become competitive, funds will again move into the housing market.

As a member of the Banking Committee, I have been interested in following the record of housing starts, and impressed by the fact that in that part of the home mortgage market which is free, in other words, that part which does not depend on Government guaranties, and therefore the sale of mortgages with interest rates fixed or limited by the Government, there has been no effective diminution.

The private sector, the completely private sector of the housing industry, has gone forward at its usual rate because it has been able to adjust itself to the changing pattern in the interest picture.

2. The second of my miscellaneous issues relates to the claim that corporations are somehow immoral if they set prices sufficient to secure a return which will provide funds to finance expansion.

It seems to me that it should be self-evident that some portion of its income must be put aside by every corporation for expansion and renewal. All funds used for expansion—other than those secured from equity financing, the sale of new stock—must come out of income, whether it be from current income or from future income to repay borrowing.

3. My third and final issue in this category relates to the claim that since the Federal Reserve took a substantial portion of the latest Treasury refunding, and since that refunding was at the rate of 4 percent, this must be taken to indicate that a constant increase in interest rates can be assumed for the foreseeable future.

However, it is impossible to see how this conclusion can be drawn from those facts. Interest rates have always fluctuated considerably, even during the past few years, and in the short range with relation to Treasury bills, even within the past few weeks. There is no assurance that during the next few months they will be either higher

or lower than they are today. This concludes my summary of the issues, Mr. Secretary.

Before asking for any comments you might care to make, I should like, again, to express my congratulations on your more than quarter century of direct and indirect service to the Treasury—a service which has spanned four administrations, under both political parties, and I am sure all of the members of the committee are wishing you every possible success and satisfaction in the new service of equal responsibility that you have accepted.

Mr. BURGESS. Thank you, sir. Thank you for those very gracious words, and I think, Senator, that is a very fine statement. I do not think I would want to make any exceptions to it or that I need to add to it.

There are two small points occurred to me as you were reading. One relates to the discussion we had a few moments ago about the availability of credit in the rural areas as compared with money centers.

One measure of that is found in the free reserves which banks have, whether they are net in debt to the Federal Reserve or whether they have actually free money. And these figures taken from page 777 of the Federal Reserve Bulletin for July of this year show that during the past year, from May of 1956 to May 1957, the New York City banks, the Chicago banks, and the Reserve city banks, which are the other large city banks, all of these groups, show a minus position on their free reserve. That is, they are borrowing more than they have in the way of free money.

On the other hand, during that entire period the country banks, month by month, had free reserves; that is, they had more free money than they were borrowing, which is a very interesting indication that this squeeze has come much more in the money centers than it has in the country banks.

Senator BENNETT. Have their free reserves increased in total over that year?

Mr. BURGESS. No. Here is the way it went: In May 1956, they had free reserves of \$205 million. Now, that is a result of excess reserves of \$406 million and borrowings of \$201 million, so there was a net of \$205 million.

The net ran between \$200 million and \$400 million all during 1956.

The net this year, \$369 million, \$299 million, \$280 million, \$269 million. In May it was \$192 million, compared with \$205 million in May of last year. This is a seasonal swing here. So their free reserves are almost as large as they were a year ago.

Senator BENNETT. And have been much larger during the season.

Mr. BURGESS. Yes.

One other point: It has frequently been suggested that this monetary and fiscal policy was not working, and we have been challenged to try to show places where it has been working.

I know it has been working, because I have been in touch enough with the banks of the country to know that they have been selective in their lending and have been trying to push off borrowers who were borrowing for unnecessary causes are unduly speculative. They have been watching that.

Just in the past few hours, we called up a few of the more important banks to get a few of these postponements, and here are some of the typical ones.

At least one large railroad has postponed the purchase of equipment. Now, I am sure that many more have, because they have been coming out just recently with an appeal for the Government to guarantee loans to them or to make loans to them.

The gas pipeline companies have deferred some of their extensive and expensive plans for expansion.

Several finance companies have postponed financing, and have cut down on some of their loans which were pretty excessive and were part of this installment finance business. Of course, there is still an adequate amount of funds for most use, but that has tightened up somewhat. Several utility companies have curtailed their budgets, and cut down on their bank borrowings. Many banks have adopted policies similar to those that they adopted back in 1948 and 1950, when we had among the banks the voluntary credit restraint program that I referred to some time ago. They use the same rules.

Under those rules, for example, they would hold a bank on credit for one company to buy another, which was not a necessary operation. It was not just regular process of business. It was an excess demand. So I think there is pretty good evidence that these policies are gradually working.

Senator BENNETT. That is all, Mr. Chairman. Thank you.

The CHAIRMAN. I think Senator Jenner desires to ask some questions. We will be in temporary recess until he gets back.

(Short recess.)

The CHAIRMAN. Senator Jenner, you may proceed.

Senator JENNER. Mr. Chairman, I really am not quite ready because I did not expect the hearings to wind up until tomorrow.

But let me say this: Mr. Burgess has given us an excellent description of the problems of our national debt. The book that the Treasury prepared for us broke the debt down into (1) forms of debt outstanding; (2) types of issues; (3) composition of debt; (4) interest rates.

Mr. Burgess explained the problems involved in the management and operation of the debt, and the factors which change.

The major problem in managing the debt, it seems to me, from an interested layman's point of view, is how to refinance it; in other words, how to get the money to pay maturing issues which fall due.

This problem is unrelated to the question of how large the debt should be. The question of the size of the debt involves basic philosophy. It involves questions on the proper functions of Government and the relationship of Government to individuals.

What size the debt should be and whether we should retire it, keep it constant, or increase it, is a matter of public political philosophy. That philosophy is, of course, reflected in the management of the debt. Refinancing is a question of operation within that policy.

From Mr. Humphrey's statement, I understand that the major problem in this country today is a renewed threat of inflation. The Treasury, in the way it manages the debt, has to consider the problem of inflation and the impact of debt management on the other factors in our economy.

One of the major aspects of the inflationary problem is that the demand for capital exceeds the supply. And competitive bidding for the short supply has resulted in an increase in the cost of borrowing.

Government borrowing is competing for the limited supply of capital, and is in a favored position in some ways. For example, the trust funds, right there, Mr. Burgess, what is the situation with the trust funds in the last fiscal year?

Mr. BURGESS. Well, they grew by a billion dollars, or something over. The situation is changing there, because up until this year the old-age and survivors insurance was taking in considerably more money than it paid out. This year for the first time they are paying out more than they take in, although there is enough interest on their investments so they are still in the black and still increasing.

Senator JENNER. In other words, you had to pay the interest and transfer it over to keep the fund in the black?

Mr. BURGESS. Yes; that is right.

Senator JENNER. What if that continues? Do you anticipate that situation? And what effect is that going to have?

Mr. BURGESS. No. The rate of collection increases, a couple of years from now, 1960, and the projections indicate that it will about balance itself over the next few years.

Senator JENNER. I have read someplace where this spurt of extended coverage, for example, of the farmers, brought about this imbalance this last year. Now, do you anticipate that will correct itself, or will it get further out of balance as more people come in?

Mr. BURGESS. This early retirement of women and disability—

Senator JENNER. This age drop from 65 to 62.

Mr. BURGESS. Those have proved very expensive. I really cannot answer that, Senator.

The actuaries would have to have a look at that on the basis of this experience. But certainly it is something we have to watch pretty carefully, because it is awfully easy to liberalize this thing to the point where we are going to find we have a net liability and have to jack these rates up.

Senator JENNER. Congress habitually, it seems, in the last few years has done it. But they never make any provision for increasing the rate at the same time.

Can we go on indefinitely with that type of procedure?

Mr. BURGESS. We cannot.

Senator JENNER. We cannot.

The CHAIRMAN. We did increase the rate last year.

Mr. BURGESS. Yes, we did.

Senator JENNER. Perhaps instead of our asking Mr. Burgess some questions, he ought to ask us some questions.

When the supply of capital is limited, it can be increased by stimulating increased savings or by artificially stimulating bank credit. This would tend to eventually level off the competition for funds and the cost of borrowing, namely, the interest rate.

We let the market forces work, and then some potential borrowers must do without, until the increased interest rates stimulate enough savings and defer enough potential borrowing to stabilize it at the new market rate.

If the supply is artificially increased by issuing bank credit, the increased supply of money will tend to increase inflationary pres-

tures, and the upward wage and price spiral, that is the symptom of inflation.

This is inevitable, because of the lag of production capacity to meet the increased demand the additional volume of money will generate.

In other words, this problem of inflation is going on all over the world.

Mr. BURGESS. That is right.

Senator JENNER. I see a recent statement from England that they are in a very tight squeeze in England.

Can we go on continually increasing wages and not getting any more production, and not expect more inflation?

Mr. BURGESS. I thought somebody quoted the statement by Thornycroft—

Senator JENNER. That is the statement I am referring to.

Mr. BURGESS. I think it was Senator Martin who quoted that, a very good statement. The Nation cannot pay itself more than it earns.

Senator JENNER. That will adversely affect consumers and all the people with fixed incomes. When the cost of living increases, organized labor usually demands and gets a wage increase.

Management then tries to pass the cost on to the consumer, and increase the prices. The consumer with fixed income, and annuitants or pensioners, most white-collar workers, are the ones who are badly hurt by inflationary pressures.

The Federal Reserve Board and the Treasury decided against artificial credit expansion as a way to refinance bonds. That meant selling Government bonds in a competitive market for loan funds, a market in which the interest rates are going up.

The interest the Government paid for loan funds had to go up or the Government could not attract enough lenders to meet its refinancing needs. The Treasury tried to sell its long-term savings bonds to the public. Congress raised the interest rate it could pay on E- and H-bonds. But still private loans paid a higher rate. That is correct, is it not?

Mr. BURGESS. That is correct.

Senator JENNER. Lenders prefer short-term loans during a period of increasing rates so they can move their capital into the best paying issues. The Treasury had to go into the short-term loan market, and offered the highest rates in recent history, 4 percent.

But we, of course, have paid as high as 7 and 6 percent back in the twenties—

Mr. BURGESS. That is right.

Senator JENNER (continuing). On short-term securities.

Now it is faced with the prospect of more frequent refinancing and possibly an ever-increasing interest rate, until the supply of available capital catches up with the demand for it or the increased cost of borrowing decreases the demand enough so the market stabilizes.

This committee has undertaken an inquiry into the fiscal and financial condition of this country. We heard Mr. Humphrey's description of the problem and what his policy is.

Now Mr. Burgess has told us about the problems of managing the public debt under that policy.

Some members of this committee disagree with the policy. They think the Government has created the so-called tight money, tight credit situation, and point out that it hurts veterans, small business,

prevents business expansion, makes it difficult to get long-term consumers' loans, to get mortgage loans, and the like. They advocate more bank credit.

Other members, and I am one, agree with the policy, and think the shortage of available loan funds is a market condition and not a Government creation.

The role of the Reserve banks in the inflation picture we will discuss with Mr. Martin of the Reserve bank when he appears before us.

Since Mr. Burgess undoubtedly knows more than anyone in the country about the gross public debt, I will ask most of my questions on the impact of the gross public debt on the other inflationary pressures in the economy today.

The arguments in Mr. Burgess' initial statement were that pentup war demand for funds and services resulted in an overwhelming demand on the part of business for postwar conversion and expansion of plants; of States and municipalities to build new schools, roads, and hospitals, and the like; of individuals to buy the shiny new cars and the houses and furniture not available during the war.

We recall that Government demand for additional capital funds decreased after the war except for the major exception of financing the Korean war.

The nonproductive element in military goods for defense are essentially inflationary; are they not, Mr. Burgess?

Mr. BURGESS. That is right.

Senator JENNER. The buck is being passed from management to labor, and labor to management, on who is to blame for the upward wage spiral—management says wages are rising faster than increases in productivity per man-hour. Labor claims productivity equal to or exceeding wage increases in a disproportionate relationship to increases in profits.

Farmers are not sharing in the general prosperity, but the cost-of-living index is increasing.

Major transportation industries, the airlines, for instance, claim they must raise rates because of the tight profit squeeze.

Management claims that capital depreciation and replacement funds, because of inflationary price increases, are inadequate to buy new equipment necessary for expansion of production which is necessary for employment, while the increased cost of borrowing for such capital expansion squeezes their profit margin so much they have to increase prices.

Some economists say modern inflation is the price of full employment. Others say inflation carries in itself the seeds of its own recession.

The claims and counterclaims are many, and I would like us in our discussion to try to separate and analyze how the debt affects these groups.

Mr. Burgess, would you say that the kind of government, the principles it stands for, its relationship to individuals in it, can be quickly evaluated by looking at the combination of its budget, its debt, its tax structure, and monetary and fiscal policies?

Mr. BURGESS. Well, they are a pretty good index. If you were asked to give the character of country X, they did not give you the name of the country but they gave you its budget and its tax struc-

ture, and its monetary position, you would know what kind of country it was. So what you say is right.

Senator JENNER. Well, then, taking the policy that has been set, and, under the testimony of Secretary Humphrey, looking at all these factors, I believe he made this statement, Mr. Chairman, or in substance this statement:

Unless we stop and reverse this trend that we are in, we are headed for serious trouble.

Do you agree with that?

Mr. BURGESS. I think so, yes. I think we have slowed it down. We have made some progress. But it is a dangerous trend.

Senator JENNER. Would you say that an important factor in determining the volume of investment, particularly new investment, investment for plant expansion and investment to replace obsolete or depreciated capital equipment, all of which have an important relationship to the volume of employment, the wage level, and the price level, is the expectation of selling a product at a profit?

Mr. BURGESS. Yes, certainly.

Senator JENNER. What is the relationship, first, between debt operation and anticipated business sales? Would you say it varied in individual industries?

Mr. BURGESS. Oh, yes; widely, widely.

Senator JENNER. Could you quickly point out—I do not want to take too much time, Mr. Chairman. Mr. Burgess has been very patient—could you point out an example of that?

Mr. BURGESS. For example, public utilities have a ratio of debt to their total assets that is much higher than, for example, manufacturing. They will run up to 50 percent in terms of debt, whereas the average business, manufacturing concern, that had that much debt, you would be pretty suspicious of.

Senator JENNER. What is the effect of the Government budget on the expectation of profits?

Mr. BURGESS. Well, the budget, of course, if it has a heavy deficit and deficit financing, and you expect inflation, and you think the prices of your product are going up, that leads to a great urge for expansion.

On the other hand, a budget which is balanced or a little over-balanced, that gives stability, gives businessmen a chance to concentrate on what should be the real bases of decision, which are the market and the long-term expectation.

Senator JENNER. Do you not think we have had a little too much of just what you have said?

Mr. BURGESS. I think so, yes. I think so.

Senator JENNER. And that is definitely industry's fault; is it not?

Mr. BURGESS. Well, industry and Government, yes.

Senator JENNER. Of course the Government.

Mr. BURGESS. Yes.

Senator JENNER. What is the effect of, what about the effect on the tax policies, now? You have told us about the expectation of profits. How will it affect the tax policies?

Mr. BURGESS. Of course, Senator, everybody does business these days with his tax lawyer at his elbow, and he does not dare to undertake any business decision without consulting his lawyer, because he wants to know what all the effects are of depreciation, of the tax, on his

product, where he can take capital gains, where he can take losses, where he goes into a merger.

The whole thing is all mixed up with taxes, and what that means, in my book, is that for long-term growth of this country, we will do better, make more rapid progress over a period when we can get our tax structure down to lower rates.

Senator JENNER. What is the effect on money control?

Mr. BURGESS. Well, of course, there, too, it is very difficult to give you just an example. We are having policies designed to restrain inflation. A part of that is the interest rate that a business concern pays when it borrows money, but the fact that 52 percent of the interest rate that they pay is a tax deduction means that to interpret these rates in terms of their deterrent effect or their stimulating effect on business, you have to chop the rate in two; so they may appear to be paying a 6 percent rate when actually they are only paying 3 percent.

Senator JENNER. What is the effect on credit controls?

Mr. BURGESS. Well, it makes it just that much more difficult.

Senator JENNER. Would you say that the financial policies of a government indicate the philosophy of government and the degree of control over the activities of its citizens, and are an important indicator of changes in philosophy and control?

Mr. BURGESS. Well, sir, I think that is true in the long run.

My old teacher of history used to say that people get just the kind of government that they really want. But there are a lot of slips between the cup and the lip.

Some of the things we get are done in a scramble, in a political scramble, and you sometimes get results that do not represent the real philosophy of the country, but represent compromises of one sort or another that are temporary.

It is one of our difficulties.

Senator JENNER. Mr. Burgess, how do your debt operations affect the supply of labor, the demand for labor, the wage contract, taking the general picture or looking at individual industries?

Mr. BURGESS. Well, of course, that is a very broad question, and we took a whole book, which Senator Carlson read from, to try to answer that question.

Senator JENNER. If it has been answered, I do not care for repetition.

Mr. BURGESS. They are a big factor, let us say, and they touch on human welfare, on the pay people receive, on their power to save for their old age, their habits of saving. They touch everywhere there is human life.

Senator JENNER. How do your debt operations affect the supply of savings, the demand for savings, the interest rate on savings, and the use of savings? I use "savings" to mean pensions and insurance and trust funds—

Mr. BURGESS. Yes.

Senator JENNER (continuing). And the like, as well as savings accounts.

Mr. BURGESS. Well, I think there again it makes a lot of difference how we handle it, what the incentive to save is. The Federal debt rate has an effect on all money rates, and what we do does make a difference.

Of course, we try—let me put in a plug here—the Treasury has tried for many years, it goes back of our administration, to use the

Federal debt to stimulate habits of saving. Our savings bond campaign, I think is a great national asset, for example.

Senator JENNER. How much is in that now?

Mr. BURGESS. \$41 billion in E and H bonds.

Senator JENNER. What percentage is that of the total?

Mr. BURGESS. It is about a seventh of the total debt.

Senator JENNER. What is the effect of your debt operations on the supply of bank credit and the demand for bank credit, the interest rate on bank credit, and the use of bank credit?

Mr. BURGESS. Of course, we have been trying to reduce the amount of the debt that the banks hold so that it would be more nearly neutral, and let that operation go on as it should in response to supply and demand.

Senator JENNER. I think the record shows the amounts.

Mr. BURGESS. Yes.

Senator JENNER. What, then, would you say would summarize the effect of your debt operations on the supply, demand, and interest rate of money and credit generally, again omitting the Federal Reserve.

Mr. BURGESS. Yes.

Well, properly conducted, I think we are able to hold it reasonably neutral, but if we run off the track and make mistakes, why, we affect the situation considerably.

Senator JENNER. What would you say is the impact of debt operation on Federal Reserve policies and functions?

Mr. BURGESS. One thing is that the Federal Reserve is limited in its credit policies by our debt operations, that is, they always have to remember that they have a double responsibility:

One is to the credit situation of the country; and the other is to financing the Government.

The financing of the Government is such a big item they cannot neglect it. So, for one thing, they have to do their big credit moves at a time when we are not in the market.

For example, they would not have done this discount rate job in the week that we had this big refunding. They would recognize it would have made it too uncertain for the people who were going to buy the bonds.

Also, of course, their operations are in our securities. That is the method they use to carry out their credit operation, which is largely buying and selling Federal Government securities.

And for that reason, we have to, and we do, consult with them constantly so that we see that our policies harmonize with each other.

Senator JENNER. What would you say is the impact of the Federal Reserve policies and actions on debt operations?

Mr. BURGESS. Ah, ha. That is the big one, Senator.

Of course, the capacity of the market to buy and hold our securities depends a great deal on the money supply, so when they pursue tight money policies, our marketing problem becomes very much more difficult.

On the other hand, when they make money easier, we can sell our securities very easily.

So the debt manager just loves easy money. But he has to constantly remember what is good for the country.

I think that is really the broad answer to that, Senator.

Senator JENNER. What would you say is the impact of Federal Reserve policies—well, I asked you that.

How would you describe the division of responsibility?

Mr. BURGESS. Well, they are both parts of the Government. The activities of both of them have an enormous effect on the welfare of the people, and yet they have to keep their spheres somewhat separate.

They ought to exchange information back and forth, and we do that, and we tell each other our opinions frankly. But if you are going to have a Federal Reserve System that is going to operate for the good of the country, its final decisions have got to be made independently of the Treasury, and vice versa.

Senator JENNER. Would you say, then, that the Federal Reserve policies and actions are on the same plane with the Treasury policy?

Mr. BURGESS. That is right.

Senator JENNER. That the policy merely guides the direction of debt operation, you refinance the debt as well as you can, and your operations are such that they do not add to bank credit expansion. Is that right?

Mr. BURGESS. We have tried to do that, and we have had some success.

Senator JENNER. Mr. Burgess, what philosophy of Government debt do you hold? Do you believe the size should vary with the national income?

Mr. BURGESS. No, sir. No, sir. I think the history of debt in this country is the history of great wars, and I believe that when we have acquired a great debt, as we have, we ought to make provision to start to reduce it regularly and systematically.

Senator JENNER. Right there, Mr. Burgess, if we cannot reduce debt now, with supposedly great prosperity, when in God's world are we ever going to be able to do it, and how?

Mr. BURGESS. You are quite right. There is no better time than now.

With this, we always ought to put in this qualification, Senator: That this debt was acquired in war, and we are fighting a cold war today, so it is not quite the same as a normal peacetime.

But I think, nevertheless, at a time of great prosperity like this, we should be retiring debt, and retiring it in somewhat larger amounts than we are now doing.

Senator JENNER. For example, on that very point—I will come to that in just a moment.

Do you really believe that as income goes up, debt becomes less of a burden?

Mr. BURGESS. Yes; I think so, Senator. I think it does. You have more—just as with an individual, with which to pay debt and interest. You and I, probably, bought houses in our youth. As your salary goes up, your ability to handle the carrying charges on the house is better, and I think the same is true to a degree for the Nation.

But I do not think you want to fool yourself on that, because fluctuations in income are fluctuations; they are not necessarily permanent. And I think we ought to be reducing this debt in spite of all considerations about our increased income and our greater ease in handling the debt.

Senator JENNER. The individual debt in this country now is what, about \$217 billion; \$213 billion or \$217 billion, which is it?

Mr. BURGESS. We have it in this little chart book.

Senator JENNER. Let us figure it this way: What percent is it to individual income for the year?

Mr. BURGESS. Well, individual debt is \$207.5 billion, as against income of three-hundred-and-fifty-odd billion dollars. So it is more than half; I would say 60 percent, something like that.

Senator JENNER. What would you say about the idea that responsible governments, like responsible people, pay their debts?

Mr. BURGESS. I agree. They may not extinguish them altogether. We have had in this country a national debt for a very long time. But you reduce it when possible. You have a policy of reducing it.

Senator JENNER. Of course, as you say, this has been brought on primarily by wars. But our national debt began when, we only had about a billion dollars national debt, when was that?

Mr. BURGESS. Before World War I; 1914, yes.

Senator JENNER. Yes.

What about the burdens we pass on to our children?

Mr. BURGESS. Well, Washington had something to say about that in his Farewell Address, not passing on to posterity the burdens that we ourselves should carry, or words to that effect.

Senator JENNER. How would that apply to the interest rate in the budget, the interest side of the budget?

Mr. BURGESS. Of course, the interest is a factor of two things: It is a factor of the size of the debt, and if you reduce the debt you reduce the interest rate. It is also connected, of course, with business movements and policies, and so on. That is another question.

Senator JENNER. I think I can finish here in about 5 or 10 minutes, but I want to refer to this chart, the monthly statement of receipts and expenditures of the United States Government for July 1, 1956, to June 30, 1957.

In your statement you refer to the cheapest and easiest way to borrow money is usually short term.

Do you honestly mean you really believe you can say the cheapest way is short-term borrowing? Is not one of the reasons why our interest costs are rising because we have to borrow in the short-run market, and is not the rate we are paying now the highest it has ever been?

Mr. BURGESS. The rate is not the highest it has ever been, but it is the highest for a good many years.

Senator JENNER. Twenty-four, twenty-five years.

Mr. BURGESS. But actually, the rate on short-term securities is a little lower than the rate on longer ones. That is, we are borrowing on Treasury bills on a 3.30 basis, whereas we borrowed on 4-year notes on a 4-percent basis.

So it actually costs a little more to extend your debt at longer term, but it is worth it.

Senator JENNER. Then you still stand by the statement the cheapest and easiest way to borrow is usually the short term?

Mr. BURGESS. It is the cheapest, but it is not the wisest.

Senator JENNER. I see.

Mr. Burgess, in your statement, you said if the Treasury ever found itself in a financial emergency, it would resort to short-term borrow-

ing from the private market. I believe these are your words, and I will quote—

Mr. BURGESS. That is right.

Senator JENNER (reading) :

If at any time in the future the Treasury is faced with a financing emergency, it will probably have to fall back on short-term borrowing. It is important, therefore, that this source of funds not be depleted unnecessarily ahead of time. In that way any minor emergency which arises may be handled by selling short-term securities to the private market rather than having to use the Treasury's authority to borrow directly from the Federal Reserve System.

Mr. Burgess, do not these figures indicate that the Treasury is now refinancing its debt by borrowing from the short-term private market?

Mr. BURGESS. Well, it is to an extent, but as my statement showed with respect to the floating debt, Senator, we have made some progress in reducing our short-term obligations, not as much as we would have wished, but we have made some progress.

Let me illustrate—

Senator JENNER. According to your statement then you mean we are now facing a financial emergency?

Mr. BURGESS. No.

Senator JENNER. What do you mean?

Mr. BURGESS. Elsewhere in the statement I said that it is perfectly all right and part of the picture to have some of the debt at short-term. They are used for the operations of the Federal Reserve System, to give the banks liquidity. The market wants a large supply of short-term stuff, Treasury bills, and so on. And I think it is a perfectly proper function for the Treasury to have part of its debt there. It would be very hard to stretch it all out further.

Let me illustrate what I meant by an emergency where the Treasury has to borrow short term. I was thinking, for example, of the banking holiday in March 1933. I was on the Treasury desk at the Federal Reserve System then. And the Treasury had maturities—I have forgotten what the amount was—500 or 600 million dollars, and we had to refund them as the banks were just opening their doors and nobody knew what the market rates were—it was a pure guess. So what we did was to put out 2 certificates—1 of 5 months and 1 of 9 months, as I remember—at 4 and  $4\frac{1}{4}$  percent. And then we sat there with our fingers crossed to see whether the market would take them.

But you could not have sold a long bond under circumstances of that sort. So it is just as well to have some of your short-term market, not all congested, and available for emergencies of that sort.

Senator JENNER. Then you say we are not in an emergency right now?

Mr. BURGESS. No.

Senator JENNER. What is the current picture and what can we expect in the future?

Mr. BURGESS. Well, the current picture is that you have a market that does not give you very free choice of where you finance. You have to finance where you can get the money, where the buyers will be.

Senator JENNER. And that is short-term?

Mr. BURGESS. That is short-term, relatively short-term.

Now, we also try, on every one of our financings where we can, we give the holders of maturing issues a choice between a short issue

and a longer one. We gave them a choice of 5 months, of a year, and of 4 years this last time.

Senator JENNER. With the right to convert at the end of two?

Mr. BURGESS. Yes, and we always try to attract people out further so we are always trying to pull them out.

But sometimes it goes against the grain; you have to work hard at it.

Senator JENNER. If we are not in an emergency now and we are using short-term, and we are in the peak of prosperity, what do you see for the future?

Mr. BURGESS. Well, I think there will—let's see. Mr. Morgan was asked about what was going to happen to stock prices, and he said, "They will fluctuate." I think that is equally true of this situation. It will change. There will be periods when you can finance at long-term, and there will be periods when you cannot.

Now, we financed at long or intermediate term in 1953, in 1954, and 1955, as some of these charts in my testimony show. We moved out over \$40 billion of debt from short into long or intermediate.

In 1956, the gates of the prison house began to close on us, and we could no longer finance long very easily. So we do the very best we can. We finance as long as we can, and we wait for a time when the market opens up. But it will, I guarantee.

Senator JENNER. What is the relationship between debt operation and tax structure, Federal, State, and local?

Mr. BURGESS. Well, of course, it touches it at a great many points. It is pretty hard to summarize it, Senator. There are many relationships, because it is taxes that you pay debt out of. It is from taxes that you pay the interest on the debt. The smaller the debt, the smaller your taxes have to be.

Senator JENNER. And what is the relationship between debt operation and the budget structure and operation?

Mr. BURGESS. Well, that is the same general problem. You always have to take care of your debt as a part of your budget.

Senator JENNER. Turn to table 8 of the Treasury statement.

Mr. BURGESS. What statement have you got there, Senator? I am not sure I am following the same.

Senator JENNER. Let me see. I think I grabbed the wrong one.

Mr. BURGESS. Monthly statement, receipts?

Senator JENNER. Yes, table 8; it is on page 12 of the monthly statement of receipts and expenditures.

Mr. BURGESS. Yes.

Senator JENNER. I would like to know how to interpret the changes from 1956 to 1957, and ask how the different debt operations affect one another and the total debt for both years?

Mr. BURGESS. Yes. Well, that is pretty hard to make much sense out of because—

Senator JENNER. It is pretty hard for me, I know that.

Mr. BURGESS (continuing). The Treasury certificates of indebtedness, we have increased by \$4 billion as against \$2.6 billion of the corresponding period of the fiscal year last year. That is a net result of some certificates that mature—some of these maturities in August were certificates and some were notes—and of the new certificates that we issued.

The Treasury bills are up because we put out \$1½ billion of September tax bills the latter part of May, and we had not done that last year. We also added over \$1 billion to our regular bills.

The Treasury bonds are down because we had—I think it was a maturity of a bond last September. That is, these are each the result of a miscellaneous group of operations.

Senator JENNER. Well, are there some major trends we should notice particularly in this?

Mr. BURGESS. No; I do not think there is anything here particularly.

Senator JENNER. The budget surplus or deficit is a major variable factor in the debt picture, is it not?

Mr. BURGESS. That is right.

Senator JENNER. For example, in line 1 there you show a budget surplus of \$1,644,549,367?

Mr. BURGESS. Yes.

Senator JENNER. Then down in line 10—I had these numbers by lines—you have got increase or decrease in the public debt, minus \$2,223,641,752?

Mr. BURGESS. That is right.

Senator JENNER. What I cannot understand is how can you retire, how can you decrease the public debt \$2,223,641,752 when in line 1 you only had a surplus of \$1,644,549,367. Where is that \$579 million?

Mr. BURGESS. That is a variation in your cash balance.

Senator JENNER. Variation in cash balance?

Mr. BURGESS. Yes, and a few other items.

Senator JENNER. Then it does not really mean too much on a picture showing the trend, does it?

Mr. BURGESS. No. It does not correspond exactly. Your cash balance fluctuates, you see, from time to time.

Senator JENNER. Is a budget surplus the only way we can effect debt decrease, or are there other ways to reduce the debt of the Government?

Mr. BURGESS. No. A budget surplus is the only real way you can do it.

Senator JENNER. The only way you can do it?

Mr. BURGESS. Yes.

Senator JENNER. You said in your statement, and I quote:

Also, much of the interest goes to Government trust accounts—

Mr. BURGESS. Yes.

Senator JENNER (continues reading):

or to the Federal Reserve System which returns 90 percent of its net earnings to the Government.

Is the budget item requested for interest each year simply a fictitious bookkeeping transaction? If that is the case, why do we appropriate new funds from revenue we have to raise each year?

Mr. BURGESS. No. It is not fictitious; it is only in part a bookkeeping operation.

For example, the interest on the public debt includes the accumulation of interest on savings bonds, whether they are cashed or not; and it includes the payment of interest to trust funds, but that is an obligation of the Government just as much as though we took it out of our pocket and handed it to them.

Senator JENNER. Do you actually pay the trust funds the interest they accrue, or just as an I O U?

Mr. BURGESS. Well, in a sense it is an I O U, but the trust-fund books are kept just like any other books, and they show that the Federal Government has paid them so much money. They have that much more of our obligations, just as you would if you were operating a pension fund for a bank or business concern. You would have a large part of it in Government bonds, and the interest would accumulate and you would reinvest it and so on.

The CHAIRMAN. Do you actually turn the bonds over to these different trust funds?

Mr. BURGESS. Oh, yes.

The CHAIRMAN. You physically turn them over?

Mr. BURGESS. Yes.

Senator BENNETT. May I make a comment, Senator Jenner?

Senator JENNER. Yes.

Senator BENNETT. They do not pay it, as it eventually works out; they do not give the trust fund cash which the trust fund then puts in the bank. They give the trust fund additional bonds on which the trust funds continue to—

Senator JENNER. Wait a minute. This year we had to pay interest to the trust funds to keep them in balance because we spent out more than we took in.

Senator BENNETT. You did not have to pay interest for that purpose.

Senator JENNER. Yes, you did; to keep it in the black.

Senator BENNETT. They would have had to pay interest whether they went into the red or black. But it was the amount of interest they received which kept them in the black. We pay interest every year whether they are on the verge or not.

Senator JENNER. You know, Mr. Chairman, I have listened here to Secretary Humphrey and Mr. Burgess, and so forth, but these trust funds are a complete mystery to me.

Mr. BURGESS. Come down sometime to the Treasury and we will show you the books and we will show you the notes we have put in the vault.

Senator JENNER. And we keep expanding the field and so forth and so on, and yet we talk about our economy slips back, if it makes a slight readjustment to 1955 we are going to have a \$13 billion deficit, and so forth and so on. Are we committing a fraud on the people of this country?

Mr. BURGESS. I do not think so, Senator.

Senator JENNER. Help me out a little on that.

Mr. BURGESS. I think we are doing the only thing we can with it. We are handling it just the way an insurance company would be handling it. We are putting in this trust-fund money which is paid in by employers and employees; we are putting it into the best investment in the world.

Senator JENNER. Government bonds?

Mr. BURGESS. Government bonds.

Senator JENNER. That is an I O U?

Mr. BURGESS. Just as an insurance company would operate it. They put it in investments and we put it away similarly. And when they want it, we do as an insurance company would, we sell the bonds, and have the money to pay out.

Senator JENNER. Then we have got to control this inflation in order to keep our Government bonds sound, or otherwise we are in an awful fix; are we not?

Mr. BURGESS. I think we had better control it for a great many reasons.

Senator JENNER. On this one specific trust fund idea I am mentioning now?

Mr. BURGESS. Yes. If, when these people come to get their money from the trust fund, they find that prices have gone up 10 percent, why, the value of their fund is reduced just that much.

Senator JENNER. That more or less happened this year. In other words, from the standpoint of the basis it is operated——

Mr. BURGESS. Yes.

Senator JENNER. More of them came to get money and the money was not there, so the Government had to pay interest back of the fund in order to keep it?

Mr. BURGESS. No.

Senator BENNETT. No.

Mr. BURGESS. No. Interest was all there, the interest had already been paid before they came to get it.

Senator JENNER. Do you understand this?

The CHAIRMAN. The interest is paid every year.

Mr. BURGESS. That is right, paid every month, paid right along.

Senator BENNETT. It took the combination of the new money that the people paid into the trust fund, plus——

Senator JENNER. The interest?

Senator BENNETT. The interest to match this year's demand. The trust fund had been increasing in previous years both by new payments and by interest; but this year it did not increase on that basis; it took the interest to balance it off.

The CHAIRMAN. Just this one question: All the interest now of the trust fund, of course, that is fixed by law, is it not?

Mr. BURGESS. Yes.

The CHAIRMAN. And do they compare to the average interest rates that are paid outside?

Mr. BURGESS. No, as a matter of fact, they do not. The Congress has fixed that by law, the method of computing the interest on the trust fund, and they take as a basis the coupon rate on outstanding governments of over a 5-year maturity; and that figures out now to only 2½ percent. That is following just the law Congress passed. So we are not——

Senator JENNER. That is a little out of line under present conditions; is it not?

Mr. BURGESS. That is right.

The CHAIRMAN. Does the Treasury recommend the trust fund be increased?

Mr. BURGESS. This follows a recommendation which Marion Folsom's agency made to the Congress. That was a couple of years ago; and on that formula at that time, they got a little better rate than they would have if they had taken the market rate.

Senator JENNER. I again say, Mr. Chairman, maybe Mr. Burgess had better ask this committee some questions.

Mr. BURGESS. But at the present time they would do much better on the market rate.

The CHAIRMAN. Now, you have got the social security—that is the biggest one?

Mr. BURGESS. That is the biggest one.

The CHAIRMAN. That is about what, \$23 billion?

Senator JENNER. \$23 billion, I think.

The CHAIRMAN. You have unemployment insurance, and you have the bank deposits.

Mr. BURGESS. That is FDIC; yes.

The CHAIRMAN. And railroad retirement fund.

Mr. BURGESS. Government employees.

The CHAIRMAN. Government employees.

Mr. BURGESS. Then the two veterans' life-insurance funds: World War I and II.

Senator BENNETT. What chart is that?

Mr. BURGESS. That is chart No. 7, in the little book which gives that breakdown.

The CHAIRMAN. Is there any difference in the interest rates in the various funds?

Mr. BURGESS. They are all different, except the old-age retirement and the civil service, Government employees, are now the same. Veterans, the first fund is  $3\frac{1}{2}$ , and the other is 3. Unemployment, is that now about the same?

Senator JENNER. Two and a half.

Mr. BURGESS. That is the same as old-age and employment—no, that is a little different, too.

The CHAIRMAN. What is that?

Mr. BURGESS. Two and five-eighths is the unemployment.

The CHAIRMAN. What is the railroad retirement?

Mr. BURGESS. Two and five-eighths on unemployment?

The CHAIRMAN. The total of the trust funds is?

Mr. BURGESS. \$54 billion.

The CHAIRMAN. \$54 billion. Then the Federal Reserve is \$25 billion?

Mr. BURGESS. That is right.

Senator JENNER. Yes.

The CHAIRMAN. Excuse me. Do they get the same rates?

Mr. BURGESS. The Federal Reserve gets the market rate. They buy in the market.

The CHAIRMAN. Yes.

Mr. BURGESS. They have mostly short-term stuff, so it is running around—

The CHAIRMAN. It is whatever the market rate is?

Mr. BURGESS. Whatever is the market rate.

Senator JENNER. Thank you, Mr. Burgess. I asked you to explain the ramifications of debt operation on the other important variables so we would have a clear picture of the role of debt policy and the way it affects other elements in the inflationary picture.

When we have to decide, after this study and these hearings are over, we will have to weigh the alternatives of different policies. A clear idea of the positive and negative effects of policy makes it easier to determine its relative importance as compared with another policy.

When Mr. Martin comes before this committee, I will ask him to explain the role of the Federal Reserve System in the economy and the way in which its policies and operations affect the rest of the economy.

I want to thank you for your patience.

Mr. BURGESS. Thank you.

Senator JENNER. I believe I would have been shorter if I had had a little more notice. There have been so many questions asked, being the last on the committee, I had to keep changing.

The CHAIRMAN. Mr. Burgess, do you have a statement you would like to make?

Mr. BURGESS. Senator, I would very much like the privilege of making a very brief statement which represents certain of my own broad conclusions as the result of this very interesting period of some hours that I have had the pleasure of sitting before your committee and listening to your questioning and trying to examine my own inner thoughts.

The CHAIRMAN. We will be very glad to have you state them.

Mr. BURGESS. Thank you, sir.

Mr. Chairman, it has been a privilege to have had the opportunity to appear before this committee.

I have been glad to participate because I believe that it is imperative that we have an enlarged public understanding of current monetary and fiscal policies and their influence on the levels of living of every American family. Your committee, in these hearings, and the study of other groups in parallel investigations, aid in developing increased public interest and knowledge.

I would like to summarize what appear to me to be the most important facts which have been developed in these hearings up to this point.

1. The economy is, and for some time has been, operating at a very high level.

Employment is at an all-time peak, We are producing more goods and services than ever before. Personal income is at a high level and is widely shared throughout the population. This has encouraged a large volume of purchases, with resort to extensive credit to augment purchases further, and without the usual resistance to price increases.

2. After 4 or 5 years of stable prices, we have been faced with a renewal of inflationary pressures, and it is important that this should be curbed.

As Secretary Humphrey said in his opening statement, "The threat of renewed inflation is perhaps our most serious domestic economic problem."

While some few benefit from inflation, it is a cruel injustice to the great majority of our people and ultimately saps the economic vitality of a nation.

It runs the risk of "boom and bust," a point that Senator Bennett made so clearly. If these economic movements go so far that they are badly out of balance, then the resulting crack is much more severe than if they are checked earlier.

3. The Federal Reserve has been following monetary policies intended to resist inflationary pressures.

Its principal policy has been to limit the growth of credit and, hence, exercise some restraint on the demand for goods and services, and thereby restrain prices.

As a consequence of this policy and the heavy demand for funds, interest rates have been rising.

4. This administration has followed fiscal practices designed to resist inflationary pressures.

For the past 2 years, the budget has been balanced and the surplus has been applied to debt reduction. Some of the public debt has been shifted from banks and into the hands of the public, and the floating debt has been reduced. Governmental expenditures were reduced through 1955, but both defense and nondefense items increased in the 1957 and 1958 budgets.

It is true that, in cutting taxes in 1954 and in helping housing, small business, and the farmer, the administration may have increased demands for goods and services somewhat, but these measures simply gave some relief in those areas where the impact of credit restraint has been felt most severely.

5. To date, these monetary and fiscal practices have not fully overcome the inflationary pressures.

Consumer prices have risen for 15 of the past 16 months. While the amount of these monthly rises has been small, the consumer price index is now nearly 5 percent higher than it was 16 months ago.

There is some evidence that the current inflationary pressures may abate in the near future, though this is uncertain. Furthermore, such abatement may prove temporary unless measures are taken which affect the underlying causes.

6. This raises the question whether these policies should be relaxed or whether there is some better way to deal with inflation.

The relaxation of these policies has serious dangers. It would result in increasing the demand for goods and accentuating the inflation.

7. We should not underrate the effectiveness of present policies but should have patience to allow them to work.

These are the policies which have been effective in this country and in other countries over many years. They have proved historically powerful influences for economic stability. They require time and patience to become effective.

8. No feasible alternatives to present policies have been presented in these hearings.

The alternatives of direct controls are not desirable.

Governmentally enforced wage or price controls, or forced savings, during peacetime, are inconsistent with our traditions of freedom.

Specific curbs on credit for particular purposes during peacetime are an undesirable interference with the individual's freedom and discriminate against a particular segment of our society.

9. A more anti-inflationary governmental fiscal policy is desirable.

In the present high state of prosperity in this country, the Federal Government should have a larger surplus and should be retiring debt more rapidly.

This is probably the most effective step which could be taken by the Federal Government.

10. Similar restraint in excessive spending should be practiced by States and municipalities, businessmen, and consumers.

All such segments of the population have been increasing their debts at much more rapid rates than the Federal Government.

There needs to be greater public recognition of the dangers of over-expansion and overconsumption—on borrowed money—at a time like this.

The citizens of the country cannot look to the Federal Government alone for the necessary restraint in meeting this situation.

11. Such restraint should be matched by equal restraint on the part of business and labor in their demands for profit and wage increases.

As was pointed out by one of the members of your committee, a principal cause of the current renewal of inflationary pressures is the continued—

increases in profits and wages greater than increases in productivity.

President Eisenhower, in his Economic Report of last January, said:

Business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those persons immediately involved. Businesses must recognize the broad public interest in the prices set on their products and services.

12. Such restraint throughout all segments of the economy is necessary for lasting abatement of inflationary pressures.

The monetary and fiscal practices of the past several years may be bringing about a lessening of the current inflationary pressures. But continued vigilance must be maintained against their recurrence.

13. The needed economic statesmanship on the part of Federal, State, and local governments, the consumer, business, and labor, will arise only from an appreciation of the evils of inflation.

Restraint is inevitably unpopular.

It can be achieved only if the alternatives are recognized as even less desirable.

14. And finally, it is for these reasons that I believe that such a hearing as your committee is conducting may prove a most useful instrument.

Such a hearing develops and disseminates the information needed to make the public aware of the disastrous results of inflation and the necessity for self-restraint to prevent it.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you for that statement.

Mr. Secretary, your time is at an end. You have been here 10 days.

Mr. BURGESS. I am a way short of the record, Senator.

The CHAIRMAN. That indicates, however, the interest of the committee in your testimony, because you were only exceeded by Mr. Humphrey with 14 days.

I want to personally thank you, sir, for the fine testimony you have given. You have been frank. You have been very patient, and you have been very illuminating in what you have told us.

You have a remarkable knowledge of the fiscal and monetary conditions of this country and the policies. So I want to thank you and express the hope that you will get great pleasure and contentment out of your new position.

Mr. BURGESS. Thank you, sir, for those courteous words.

The CHAIRMAN. It may be necessary to call you back, but I doubt it. (Discussion off the record.)

The CHAIRMAN. The best of luck to you.

The committee will recess until Tuesday morning at 10 o'clock.

(Whereupon, at 12:35 p. m., the committee recessed until 10 a. m., August 13, 1957.)