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EMPLOYMENT, GROWTH, AND PRICE LEVELS

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1st Edition

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

EIGHTY-SIXTH CONGRESS

FIRST SESSION

PURSUANT TO

S. Con. Res. 13

AUGUST 5, 6, AND 7, 1959

PART 6B—THE GOVERNMENT'S MANAGEMENT OF ITS
MONETARY, FISCAL, AND DEBT OPERATIONS

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STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

(Pursuant to S. Con. Res. 13, 86th Cong., 1st sess.)

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EMPLOYMENT, GROWTH, AND PRICE LEVELS

WEDNESDAY, AUGUST 5, 1959

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
New York, N.Y.

The committee met at 10 a.m., pursuant to call, in room 110, U.S. Courthouse, Foley Square, New York, N.Y., Senator Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas and Javits, and Representative Patman.

The CHAIRMAN. The hour of 10 o'clock having arrived, the committee will come to order.

The Chair wants to make a few preliminary observations before we request the first witness to testify.

I have noticed a feeling on the part of some financial writers in New York, and possibly these may also reflect the sentiments of some members of the financial community, that Congress should not concern itself about financial matters, about the money supply, the price level, and other affairs; that these matters should be left to the Federal Reserve Board and the Federal Reserve banks and the financial community, in the sense that it is an act of impertinence for Congress to come to New York and hold hearings about these concerns.

It is also implied by many financial writers that Congress is ignorant and incompetent to deal with these matters. I think, therefore, before we begin these hearings that it might be well to lay a basis for our proceedings.

Someone once remarked that men needed not so much to be informed as to be reminded, and, therefore, I think it is appropriate that we should remember article 1, section 8, of the Constitution of the United States, which gives powers to Congress and, indeed, imposes powers upon Congress which Congress must perform.

Section 8, fifth paragraph, states, after the preamble:

Congress shall have power to coin money and regulate the value thereof.

So that the Constitution lodged in Congress the power of creating what was then purchasing power and also the attendant responsibility of regulating the value of money. The value of money, of course, is the amount which it can purchase in the market. It is, therefore, the reciprocal of the price level.

If the price level doubles, the value of money falls in half. If the price level falls in half, the value of the unit money doubles. So that the ultimate power over the price level, as over the creation of monetary purchasing power, rests in Congress. Congress cannot evade that responsibility nor avoid that responsibility.

It is a difficult responsibility, but it is one which we neglect at our peril. If we were to neglect it, we would be subject to very proper criticism for failing to concern ourselves with it.

Coming to New York, it might be appropriate also to recall some of the history of the exercises of this power by Congress, to indicate that in a very large percentage of cases it has been Congress which has been adjudged to be correct in the light of history, rather than the opinions of the dominant financial community in New York.

I was a graduate student at Columbia from 1913 to 1915 at the time the Federal Reserve System was being formed and legislation establishing it put through Congress. The 12 regional banks were set up. I can well remember the bitter opposition of the New York financial writers and papers to the creation of this System, the opposition of the American Bankers Association and of the leading financiers of the city.

But Congress, in its wisdom, prevailed rather than the New York financial community, and now 45 years after the event by the happy reconciliation of time most of the New York financial community believes that it originated the Federal Reserve System, and the contributions of Carter Glass and Robert L. Owen and Woodrow Wilson tend to be forgotten.

Similarly, in 1933 and 1934, after some of the facts connected with the New York Stock Exchange dealings of the boom period and of the depression began to come to light, I can remember the introduction of bills in Congress calling for the regulation of the securities market—the stock market.

I remember with a certain feeling of dryness the testimony of the then president of the New York Stock Exchange, Mr. Richard Whitney, stating that no regulation of the stock market was necessary or at least not regulation of the type which was proposed. Nevertheless, Congress went ahead and passed the Securities and Exchange Commission Act, and I think the verdict after 25 years is that, on the whole, Congress did very well.

Again I think the securities business rather believes that it originated the Securities and Exchange Commission Act instead of fighting it with all the power at its disposal. Similarly, the changes in the Federal Reserve law which were passed in 1933 and 1935 were done at the instance of Congress and while there may be some dispute over details, on the whole I think they are regarded now as constructive contributions.

If I may touch upon a matter of recent history, upon which there is some difference of opinion inside of Congress and inside the Nation, with honest men holding different points of view, when the question of the accord came up, I think it was the pressure of Congress and to some degree the pressure of the present chairman, the Senator from Illinois, which led the Treasury to agree to the accord.

So it was Congress which fought for the independence of the Federal Reserve Board from the Executive. That can be debated back and forth and there are very honest men who differ with this point of view. It is admitted that the Federal Reserve Board is the agent of Congress. I do not use the term "creature" of Congress. That implies a servile relationship which I do not wish to attribute,

but Congress is the principal and the Federal Reserve Board and the Federal Reserve System, their 12 regional banks, are our agents.

Now in view of the grave financial problems of the Government, in view of the fact that the conditions of the money market affect the general level of employment, rate of growth as well as the price level, and the flotation of Government securities, the Joint Economic Committee has felt its duty and obligation to come to the city of New York and hold these hearings.

I want to make it clear that it does so in no spirit of antagonism to any person or to any group of persons. We are honestly seeking to grapple with a whole series of very perplexing technical questions. We shall take for granted the good faith of those who testify. Although this hearing is being held in a courtroom, I hope the witnesses will not feel in any sense they are on trial. We shall try to accord to them the courtesy and respect which we feel.

We are very appreciative that Mr. Robert G. Rouse, vice president of the Federal Reserve Bank to New York, and manager of the open market account, has agreed to come and clear up some of the points about which we are somewhat uncertain.

I would appreciate if he would identify for the record the experts who are with him.

STATEMENT OF ROBERT G. ROUSE, VICE PRESIDENT, FEDERAL RESERVE BANK OF NEW YORK, AND MANAGER, OPEN MARKET ACCOUNT; ACCOMPANIED BY JOHN J. LARKIN AND SPENCER S. MARSH, JR., ASSISTANT VICE PRESIDENTS, FEDERAL RESERVE BANK OF NEW YORK

Mr. ROUSE. I would be very happy to, Mr. Chairman.

On my right is Mr. John J. Larkin, assistant vice president of the Federal Reserve Bank of New York, and on my left is Mr. Spencer S. Marsh, Jr., assistant vice president of the Federal Reserve Bank of New York, both of whom are associated with me in the operation of the System open market account.

The CHAIRMAN. Thank you very much.

Mr. Rouse, one of the things which has perplexed us is the relatively small number of authorized dealers in Government securities in New York as compared with the tremendous volume of transactions. For example, the total amount of bills, notes, certificates, and bonds issued by the Government last year amounted to over \$62 billion. This formed three-quarters of the capital issues of the Federal Government, State and local governments, and corporations.

I would say that the total volume of dealings in Government securities in New York, both on the new issues and issues already out, would be something in the magnitude of \$200 billion a year.

That is approximately right, is it not?

Mr. ROUSE. I believe so.

The CHAIRMAN. It is well known there are only 17 authorized dealers. Isn't that true?

Mr. ROUSE. There are 17 dealers with whom we do business.

The CHAIRMAN. That is right.

Mr. ROUSE. You have used the term "authorized," Senator. I am not clear what you mean by that. We deal with anyone.

The CHAIRMAN. The New York bank acts not merely as the agent of the Federal Reserve, but it also acts as the agent of the Treasury; is that not true?

Mr. ROUSE. Yes.

The CHAIRMAN. So that your new issues will be handled through the 17 dealers.

Mr. ROUSE. The new issues are handled largely initially through subscribers.

The CHAIRMAN. Do you deal directly with the subscribers or do you deal with the 17 dealers?

Mr. ROUSE. To the extent that we deal, we deal in the market through the 17 dealers.

The CHAIRMAN. That is right. This would apply to the \$62 billion of Federal issues as well as in the volume of open market transactions of the Federal Reserve.

Mr. ROUSE. That is correct. The \$62 billion of new issues was initially sold by the Treasury through the Reserve banks on subscription and subsequently may have been part of the open market transactions of the Federal Reserve.

The CHAIRMAN. What would be the volume of open market transactions of the Federal Reserve in a year? Let us take 1958 for an example.

Mr. ROUSE. The volume of open market transactions by the System Open Market Account during 1958 was about \$7.5 billion. Market transactions by the New York Reserve Bank for others aggregated about \$8.5 billion, for a total of about \$16 billion.

The CHAIRMAN. So you place \$82 billion through the 17 dealers.

Mr. ROUSE. That would be the sum of open market purchases and sales added to the volume sold by the Treasury on subscription or tender.

The CHAIRMAN. That is right.

Mr. ROUSE. Yes; the purchases and sales in the market are done through those dealers.

The CHAIRMAN. As I understand it, the present dealers comprise five banks, namely, the Chemical Corn Exchange, the Guaranty Trust & Bankers Trust of New York, and the First National & Continental Illinois National of Chicago.

Mr. ROUSE. Yes, sir.

The CHAIRMAN. Then there are 12 other dealers, nonbank dealers; is that correct?

Mr. ROUSE. That is correct.

The CHAIRMAN. I know some of these. I do not know all. D. W. Rich, C. F. Childs & Co., the Discount Corp. of New York, C. J. Devine & Co., the First Boston, Salomon Bros. & Hutzler, Audrey G. Lanston & Co. Would you supply for the record the other dealers?

Mr. ROUSE. Bartow Leeds & Co., Briggs Schaedle & Co., Inc., New York Hanseatic Corp., W. E. Pollock & Co., and Charles E. Quincey & Co.

The CHAIRMAN. Thank you very much.

How many of these are members of the New York Stock Exchange, which I believe imposes margin requirements of 5 percent on dealings with Government brokers?

Mr. ROUSE. Salomon Bros. & Hutzler and C. E. Quincey & Co.

The CHAIRMAN. In other words, 2 are members of the stock exchange; 15 are not members of the stock exchange.

Mr. ROUSE. That is correct.

The CHAIRMAN. So only two would be subject to the margin requirements of the New York Stock Exchange?

Mr. ROUSE. That is correct.

The CHAIRMAN. How many dealers did you work with prior to 1953?

Mr. ROUSE. I would say about the same number.

The CHAIRMAN. In what year was the number increased? I believe at one time you dealt with 12 or 13 dealers.

Mr. ROUSE. Yes. Some of these are new people in the business. Bartow Leeds, Briggs Schaedle & Co., Pollock, Lanston, and Hanseatic.

The CHAIRMAN. The last five names you read are comparatively recent entrants into the business?

Mr. ROUSE. Yes, in the sense of becoming primary dealers in making markets.

The CHAIRMAN. May I ask this: What standards do you require before you recognize a dealer?

Mr. ROUSE. We will do business with any firm or organization purporting to be a dealer who can demonstrate that he makes primary markets regularly in the securities of the United States.

The CHAIRMAN. How do you demonstrate? What standards do you lay down that he must satisfy in demonstrating?

Mr. ROUSE. A dealer becomes a dealer and he buys and sells on quotations that he makes. He is willing to take a net position, making a quotation to you, you accepting one side of it. He would take that into his own position or sell it to you out of his position. He is a dealer, not a broker.

The CHAIRMAN. Have you had men apply for recognition as authorized dealers whose applications you have refused?

Mr. ROUSE. In recent years, no.

The CHAIRMAN. What is your definition of "recent"? When was the last time?

Mr. ROUSE. Let us go back to about the time of the accord, or better, to the time of the ad hoc subcommittee report.

The CHAIRMAN. Without identifying the firms, because that would be improper, how many applications did you refuse?

Mr. ROUSE. I recall one in the late 1940's, but prior to that I have no recollection that I could rely on.

The CHAIRMAN. You say since 1951 everyone who has asked to be recognized has been recognized?

Mr. ROUSE. Since 1953 a number of firms have come in and talked with me and my associates with respect to dealing in Government securities. None has asked.

The CHAIRMAN. It is something like an application for a club. For membership in a club, feelers are put out whether you will be admitted, and then when it is found that probably you won't be admitted, the application is not made.

How many, after coming and inquiring as to whether they might be welcome to submit applications, have, upon reflection and as a

result of your conversations and other factors, decided that it would be inadvisable to press the matter?

Mr. ROUSE. I wouldn't say that anyone had been turned down by us directly or by implication.

The CHAIRMAN. You know life operates in a very subtle manner, Mr. Rouse. Financiers and diplomats have great subtlety in these matters. Sharp refusals are seldom given. Have you poured cold water—verbal and emotional cold water—upon some of these inquiries?

Mr. ROUSE. I have not.

The CHAIRMAN. Do they come to you or do they come to someone else?

Mr. ROUSE. They come to me. If I were not present they would speak with either Mr. Larkin or Mr. Marsh. They can speak for themselves as to whether they poured cold water on anyone.

The CHAIRMAN. I suppose you put out a fire with lukewarm water. Have any of you acted the part of fire extinguisher, curbing the incipient, or do you have a welcome sign out for all to come?

Mr. ROUSE. We would welcome more dealers.

The CHAIRMAN. You would welcome more dealers. Now, may I ask, why don't you get them? Here is an enormous volume of transactions. Direct issue by the Government of \$62 billion a year, Federal Reserve trading of \$20 billion a year, private trading in issues that are already out of certainly well over \$120 billion a year. So that the general volume is somewhat in the magnitude of \$200 billion a year and may indeed be over this figure, and yet there are only 17 dealers.

Why is this? Why do you have such an enormous volume of transactions funneling through a relatively small number of dealers? Don't you think this is a proper subject for congressional curiosity and should not be regarded as impertinent by the New York financial writers?

Mr. ROUSE. As to the 17, this business, if I may describe it briefly, is initiated by investors largely all over the country. Some go to their brokers. Some go to their banks. Gradually the net of that feeds in finally to these 17 dealers.

A good bit of it is done locally because there are offsetting transactions by brokers and by banks. But in the end, the net of it all feeds into the 17 dealers. They do this business.

I would say there are two primary reasons for there not being more dealers. The first is the lack of personnel that is available. The second is the risk. It is a very risky business. It is a hazardous business.

The CHAIRMAN. Is it as risky as stock market dealings? The fluctuations in Government bonds are relatively minor compared to the fluctuations in stocks.

Mr. ROUSE. The fluctuations generally are minor. But on the other hand, you are working with a position that is large in relation to your capital.

The CHAIRMAN. Does this mean that margin requirements are either low or nonexistent?

Mr. ROUSE. Yes. That means that a small amount of capital will carry a large amount of securities.

The CHAIRMAN. This raises another matter of great interest to me.

The New York Clearing House came down before the Banking and Currency Committee, of which I am also a member, in connection with the matter of reserves of member banks, and produced figures on the velocity of turnover of accounts of classified firms doing business with banks in the New York Clearing House.

On commercial paper, the average rate of turnover was 30 per year. The volume of checks drawn in a month on firms that did business in commercial paper was $2\frac{1}{2}$ times their average deposit with a yearly ratio of around 30.

In the case of dealers in Government securities, there were some fantastic figures. For instance, the testimony before the Banking and Currency Committee, as I remember it, was approximately this: In 1 month they did over \$18 billion worth of business upon average deposits to their accounts of \$37 million. This was a turnover rate of approximately 550 to the month, or over 6,600 to the year, which meant that the average account turned over in 22 trading days 25 times a day.

I understand that in later testimony before a House committee the clearinghouse revised its figures on average deposits of these firms downward. They said the average checking account was \$20 million. This produces the fantastic figure of an average turnover of over 11,000 to the year, or about 350 times the turnover of those dealing with commercial loans, and an average daily turnover—22 days to the month—of well over 40.

This must indicate they do a terrific volume of business—relatively few firms do a terrific volume of business—upon a relatively small amount of capital. Isn't that true?

Mr. ROUSE. Yes, in relative terms. As you say, in relative terms. Of course, this turnover reflects the loans which the dealers have from their banks.

The CHAIRMAN. The point that I want to make is this: There are hundreds of firms on the New York Stock Exchange, I suppose. I have not tabulated the number. There are a large number of firms on the American Stock Exchange dealing in very hazardous fluctuations.

They have developed skill. Why can't you develop a sufficient number of skilled people to handle the fluctuations in the Government bond market which would seem to be relatively much more simple than the fluctuations in the stocks?

Mr. ROUSE. The fluctuations sometimes are rather sudden.

The CHAIRMAN. Not as sudden as in stocks.

Mr. ROUSE. Excuse me, sir. My actual participation in the business was a good many years ago as a dealer. At that time we had people like Mr. Mussolini and Mr. Hitler making speeches from time to time and you had a position that you thought was sound and you had a point loss in no time at all.

The CHAIRMAN. As I say, the fluctuations may be large in comparison with the margins, and we shall go into this matter later, but certainly in their absolute magnitude or their relative magnitude, in comparison with the quoted prices, they are minor compared with the fluctuations of stocks.

Mr. ROUSE. No, sir. In stocks you are dealing with brokers, not dealers, by and large. Brokers do not take the same risks that dealers take in carrying positions.

The CHAIRMAN. I think perhaps we will pass on the questioning. We alternate the questions between both sides. I think I should call on my colleague, Senator Javits.

Senator JAVITS. Can you make your own explanation of how this dealer operation works and why there are so relatively few dealers?

Mr. ROUSE. It would be a little difficult to put in a few words how the dealer operation works other than that they are principals. They buy and sell securities for their own account and risk.

To be a dealer requires the maintenance of a substantial position. I can't tell you offhand how many issues of U.S. securities are outstanding, but there is a Treasury bill maturing every week for 6 months, and several other special bills.

In addition, there are probably a dozen notes and 25 or 30 bonds or more. I don't know the exact number on any of those items.

A dealer is called upon to bid or offer those securities during the day. These chaps who go into the business are prepared to do that. There may be a few very small issues which in the ordinary course they would feel they would have to operate as a broker. In some there is very small floating supply. But by and large in the outstanding issues they are prepared to make markets throughout the list. The total volume of a position may be a number of times their capital. It is true in the London market, it is true in the U.S. market. How many times position may exceed capital, I am not prepared to say, but depending on the risks involved, that is related to the average maturity, it could be from 10 to 30 times, or in those general magnitudes.

That is the problem that the dealer faces.

He must then build up clientele, which requires, if I can use the term, high-grade personnel, intelligent people who are educated in financial matters, who understand the workings of a central bank, and understand the workings of the Treasury and the banking system as a whole, and who must have some very general understanding of the workings of the economic system as a whole, and to a degree be a close follower of international developments.

So all in all you have a problem of personnel that is very difficult.

Then I might also say that to trade in these securities effectively requires in addition to these qualities which I have mentioned, what I call a sixth sense, a sense of markets. It is not given to very many people. You see people who do a good workmanlike job in this business, but they don't last at it. People who do the real job are people, with all that background of knowledge, that have a sixth sense with regard to the turn of the market. It is a difficult thing.

I cannot describe it adequately, I am sure.

This, Senator, gives you a thumbnail sketch as I see it.

Senator JAVITS. If Senator Douglas did not ask you, will you tell us when, as far as you know, is the last time any firm entered into this business of being a dealer, any new firm?

Mr. ROUSE. I think there was either in the very late forties or 1950 or 1951—I am not sure when it took place—one of the larger dealers went into the business. I might say it was a branching off of a man from one firm to form his own firm.

Senator JAVITS. What about prior to that?

Mr. ROUSE. Prior to that these several others, Briggs Schaedle & Co., where men went from one firm and formed another firm of their own. C. J. Devine & Co. is another one. Mr. Devine left Childs & Co. 25 years ago, approximately.

I think the same thing was true of Hanseatic going into the business; Mr. Pollock; Mr. Rich was another, an offshoot of one of the original dealers.

Senator JAVITS. I have one other question on this and then I would like to go into another subject briefly.

Do you feel that in order for anybody to go into this business they have to have such unusual backing by the banks that it is really the banks that make it possible for anybody to go into this business?

Mr. ROUSE. Yes; to go into the business one needs to have the confidence of his banker.

Senator JAVITS. So in a practical way in view of the large amounts of credit which are involved, the banks can determine how many people are going to be in this business?

Mr. ROUSE. Yes; in a sense. The loans that the dealer requires are all secured. Even the day loans. So it is not as much of a problem as the way you phrased your question implies. While the banks make the loans, the competition among banks for these loans is such that the dealer thinking in terms of going into this business, who has a good reputation, who has known ability, would not have very much difficulty in getting credit.

Senator JAVITS. But nevertheless he has to have very large bank backing.

Mr. ROUSE. He has to have adequate credit and credit can come from banks; it can come from business concerns these days, as well as banks.

Senator JAVITS. I want to take you to another subject because my time is going fast, and that is the subject of savings bonds.

There is a good deal of discussion in which I have participated about the extent to which some effort to accelerate very materially the whole savings bonds sale would have upon the problem of higher interest rates on our long-term debt.

Do you have any opinion of that? I am sure you noticed that I have suggested some patriotic effort connected with \$25 billion of peace bonds.

Senator Williams on the floor the other day urged greater inducements to buy savings bonds. We had a group of insurance company economists before us the other day. They emphasized the anti-inflationary aspect of a major effort to sell savings bonds or a bond like a savings bond to the individual.

Could you give us your views on that from the point of view of the New York market?

Mr. ROUSE. I think something badly needs to be done about the savings bonds in the way of improved terms. These are the securities for the little fellow, so-called. Because of the taxes—income taxes—they are not attractive at high taxable rates to large investors, as you know.

But there should be some further inducements given. The principal one, of course, is rate. The Treasury presently is having to pay out in attrition of savings bonds substantial sums every day at the existing interest rate of approximately 3.26 percent.

I think the Treasury would like to have the authority, as it has asked the Congress for, as a matter of fact, to improve its terms.

Senator JAVITS. Don't you think we would be more encouraged to give it that authority if we had a feeling that they would get on their horse and do something with it in an effective way instead of being passive and static about it, which is all they have promised me.

Mr. ROUSE. They have been carrying on a remarkably effective campaign for years. They have had the support of industry. They have had the support of many individuals devoting hours and hours of their time every week to this thing without any remuneration of any kind, not even public kudos. It is really a shame.

Senator JAVITS. I am all for their getting public kudos, and that was the point of my recommendation.

Suppose that you could revivify this whole effort in savings bonds, whether with a peace-bond idea, what effect would that have in your opinion upon the market for long-term Government bonds other than saving bonds?

Mr. ROUSE. It would have an improving effect on the market for other Government securities if the attrition on savings bonds was eliminated. I think there is some question as to the desirability of increasing the demand liability on the Treasury. Presently you have outstanding 15 percent of the debt in terms of series E and H savings bonds. I think the figure is around \$42 billion.

In addition, there are another \$7 billion or \$8 billion of the F and G and J and K bonds which are gradually maturing.

I would think that it would be desirable to maintain that \$42 billion if it is possible. The only way I see it is possible is by improving the terms and making a continued effort to sell as they have in the past.

Senator JAVITS. Do you think that in the market estimate of what U.S. Government bonds ought to sell for a factor exists in the fact that the individual is or is not willing to invest savings in an active way?

Mr. ROUSE. I think the average investor takes relative rates into consideration. He can put money in one of our local savings banks, for example, at $3\frac{1}{4}$ percent and he can get the $3\frac{1}{4}$ percent immediately. It begins to work.

He doesn't have to wait for 8 years to get his 3.26 percent.

Senator JAVITS. We certainly agree that the attrition of cash redemptions as against purchases is a depressing effect upon the Government bond market and if you eliminated the attrition you would have, would you say, a material beneficial influence on the Government bond market?

Mr. ROUSE. It would be a help. I would not say it would be material because the rate of attrition now is a matter of \$200 million a month, and in relation to the cash borrowings of the Treasury it is distinctly marginal.

Senator JAVITS. Psychologically you feel it would help?

Mr. ROUSE. Psychologically it would help.

Senator JAVITS. Materially help?

Mr. ROUSE. I am not using that word.

Senator JAVITS. You feel it would help?

Mr. ROUSE. I feel it would help.

Senator JAVITS. Have you taken any soundings on that with the dealers in order to get some slant on market sentiment?

Mr. ROUSE. No, I have not.

Senator JAVITS. Do you think it would be a good idea to do that?

Mr. ROUSE. I think it would be a good idea for the Treasury to do it. If they asked us to do it we would be happy to.

Senator JAVITS. Thank you very much.

The CHAIRMAN. Congressman Patman.

Representative PATMAN. I want to agree with what Senator Douglas said in the beginning except, of course, what he said about the accord. There is an honest difference of opinion between us on that. Generally I agree with what he said and endorse what he said.

There are now 17 dealers. In 1952 there were 12 dealers, were there not?

Mr. ROUSE. I am not sure of the date, Mr. Patman, but it was around 1950.

Representative PATMAN. They had an exclusive franchise, did they not?

Mr. ROUSE. I am afraid I will have to make a statement on this.

In 1944 or 1945—I forget exactly which year—the Federal Open Market Committee adopted a basis, or in effect rules, by which we would determine with whom business was done for the system account. That held into the spring of 1953.

In the spring of 1953 they withdrew those rules and authorized us to deal with anyone who made primary markets and with responsible people who were, in general, making a contribution to the existence and functioning of a Government securities market.

Representative PATMAN. That was after a report was made by a congressional committee criticizing what they called the select 12, or the exclusive 12.

Mr. ROUSE. I don't identify it that way. I identify it as the result of an ad hoc committee study by the Federal Reserve itself.

Representative PATMAN. All right, sir.

The dealers you state have somewhat of a hazardous business. I can see where it would be somewhat hazardous.

Have any of the dealers actually gone broke or gone into bankruptcy or failed?

Mr. ROUSE. I think I have no record of one having gone into bankruptcy. Some of them have withdrawn from the business or changed the character of the business. I recall one having lost his capital.

Representative PATMAN. Was that one of the 12 we were speaking of a while ago?

Mr. ROUSE. One that was connected with one of them at one time.

Representative PATMAN. The \$200 billion in transactions in Government securities a year, I believe you stated that about \$8 billion is done by the Federal.

Mr. ROUSE. I think I said 20, but I am not sure of the figure.

Representative PATMAN. How much of the business do the 17 dealers do? They do part of this 20, I guess, or all of it.

Mr. ROUSE. It would all be done through them.

Representative PATMAN. It would all be done through the dealers?

Mr. ROUSE. That is right.

Representative PATMAN. How much do they do, in addition to the business they do with the Fed?

Mr. ROUSE. The business they would do with us would probably average somewhere between 5 and 10 percent of their business.

Representative PATMAN. In other words, they do about \$150 to \$180 billion worth besides that?

Mr. ROUSE. Yes.

Representative PATMAN. That is the 17 dealers.

The 12 Federal Reserve banks on their own in representing their member banks, do a considerable amount of business, too, do they not, in Government securities?

Mr. ROUSE. Yes, they do.

Representative PATMAN. What would you say it would aggregate in the course of a year?

Mr. ROUSE. I don't know. I wouldn't make an estimate. I have not seen any figures for the other Reserve banks.

Representative PATMAN. Would it be 5 billion or 50 billion? Somewhere you would have some idea.

Mr. ROUSE. I would say it would be small, because I assume they do the business about the way we do. The business we do for member banks is quite small, relatively.

Representative PATMAN. Do you actually do—

Mr. ROUSE. I have never seen the figures for the other banks.

Representative PATMAN. I didn't think the Fed did business directly for member banks. Am I mistaken about that?

Mr. ROUSE. We execute orders for some small member banks who do not have access to the Government securities market.

Representative PATMAN. They don't have access to the Government securities market. How much would that aggregate in the course of a year? Just approximately.

Mr. ROUSE. \$200 million.

Representative PATMAN. You are bound to have an estimate or a guess on how much the 12 Federal Reserve banks do in the course of a year, Mr. Rouse.

Mr. ROUSE. No, I haven't. I don't know.

Representative PATMAN. The business that they do is really in competition with you, is it not? In other words, a Dallas, Tex., bank, or a San Francisco Federal Reserve bank, in seeking an opportunity to buy Government securities at the same time you are seeking to buy, or the other way around, they are in competition, are they not?

Mr. ROUSE. If they happen to coincide, that would be true.

Representative PATMAN. That is what I say. It would be very unusual if they did not coincide if they are all in the market for Government bonds.

Mr. ROUSE. Yes, it would be very unlikely that they would coincide due to the average size of these transactions in terms of a hundred thousand or something of that sort. You don't have very many transactions in a year. We are not in the market very often ourselves.

Representative PATMAN. How would I get this amount of business? I thought you were the outstanding expert in the United States on this thing and would have these answers on your fingertips about the Government bond market.

Mr. ROUSE. I am sorry; I don't.

Representative PATMAN. I am disappointed you don't have any estimate on the amount of business done by the 12 Federal Reserve

banks. I assume that the Federal Reserve Board can furnish that information.

Mr. ROUSE. I believe you already have that information through the Federal Reserve System.

Representative PATMAN. We must have. The amount of business that is done on the stock exchange in the year, how much does it aggregate?

Mr. ROUSE. I don't know.

Representative PATMAN. And the American exchange and the commodity exchange?

Mr. ROUSE. You are referring to stock business and bond business?

Representative PATMAN. That is right.

Mr. ROUSE. I don't know. I might say with respect to Government securities—

Representative PATMAN. I am not confining it to that. What I am driving at is this: I can't understand why this market is not regulated. It is undoubtedly much larger than any other market in America. It is not regulated. It is not supervised.

I just wonder why there has not been some demand from the Fed to have a supervised market or a regulated market.

Mr. ROUSE. I was interested in the report which Chairman Martin and Secretary Anderson made recently, the joint report, summarizing the result of consultations with respect to the Treasury-Federal Reserve study.

The interesting part of that to me in this respect was that the people who were consulted with respect to this market all thought that it was conducted in a highly ethical way. They thought the market was one in which they could carry out their transactions at modest cost, and they found no criticism of the market, which seemed to be uniform. I think one must be bound to be a little surprised if that was the case.

Representative PATMAN. They had a lot at stake in this themselves, did they not? You know if they had found much to criticize they would really be criticizing themselves.

Mr. ROUSE. I wasn't present at most of these conferences so I wouldn't know. I have seen a list of the people who were consulted and I think that would not apply, since a majority were investors, not dealers.

Representative PATMAN. I was disappointed that they did not go further into the matter. I don't consider the investigation a good investigation at all. I hope that a good investigation can be made. I think it was lacking in many respects.

The subscribers you mentioned a while ago, to bonds of the Government that the Treasury is selling, they are sold directly through subscribers. They don't go through a dealer?

Mr. ROUSE. No, sir.

Representative PATMAN. But the other must go through a dealer. Anything that is sold in the market must go through one of the 17 dealers?

Mr. ROUSE. As I said earlier, it may go through a bank or a broker, but ultimately the net of it is liquidated in the dealer market.

Representative PATMAN. I want to ask you a question about the savings bonds.

Do you think the interest rate really has much influence over savings bonds? Don't you think the fact that there is a coordinated

program and a campaign, almost an evangelistic campaign to get people to subscribe, and payroll deduction, had more to do with it than the interest rate.

Mr. ROUSE. That certainly is a substantial factor. On the other hand, as I said to Senator Javits in this area where we have rates on savings accounts, of $3\frac{1}{4}$ percent compared with 3.26 percent on savings bonds, and you can get your savings deposit interest immediately, the relative rates come into play. Whether or not—or put it this way: One can argue that the rate is not an influence in the volume of sales. I know people in central banks and academic circles and other circles as well that argue that rate does not affect savings. Certainly relative rates do affect the direction of savings. I can see it in my own family.

Representative PATMAN. It is my understanding that the administration is advocating a rate of $3\frac{3}{4}$ percent. That would still be much less than the savings and loans are paying and much less than the savers can get from other places.

You would still have the same disadvantage in difference in interest rate that we have now except that it would not be as much.

Mr. ROUSE. Let me say this: At the present rate, I am sure there are a good many businessmen who have been recommending savings bonds to their employees on payroll deduction plans who feel embarrassed in doing it today, and if something is not done about it they are going to stop.

Representative PATMAN. Would that embarrassment still be there? Maybe there would not be as much embarrassment, but there would be some in recommending $3\frac{3}{4}$ percent when they can get $4\frac{1}{2}$ percent Government guaranteed.

Mr. ROUSE. Government guarantee?

Representative PATMAN. Yes, sir. That is through these savings and loans. They are guaranteed up to \$10,000, at least their investments are.

Mr. ROUSE. Their investments are and you have waiting and you have problems.

Representative PATMAN. They don't advertise in the newspapers, but they pass the word around that you can get the money when you want it.

Mr. ROUSE. That is right. I think the Treasury must have taken some soundings. I cannot speak for them. I think they must have taken some soundings and believe that the $3\frac{3}{4}$ rate will do what they think it will. I have not participated in that.

Representative PATMAN. I look upon it as a kind of sweetener, taking the lid off their $4\frac{1}{4}$ percent. It is possible they will get that on the savings, but I predict they will not get it on the $4\frac{1}{4}$ percent because I do not believe the Members of Congress are going to vote to raise that lid.

I know it is a controversial issue right now, but I think too many Members of Congress look upon a Government rate of $4\frac{1}{4}$ percent long term as a distortion rate and I do not believe the majority of the Members of Congress will do it.

The portfolio of the Open Market Committee, I wanted to ask you a question or two about that. You keep that here in the New York Federal Reserve bank?

Mr. ROUSE. We do the bookkeeping here.

Representative PATMAN. Do you keep the bonds here?

Mr. ROUSE. We keep the securities here.

Representative PATMAN. You keep the securities here. You do this for the other 11 banks and also the Federal Reserve Bank of New York?

Mr. ROUSE. Yes, sir.

Representative PATMAN. Is that a separate and distinct operation from the Federal Reserve Bank of New York or is it connected with it?

Mr. ROUSE. It is a function which the New York bank carries on, on behalf of itself and the other 11 banks.

Representative PATMAN. You have in that portfolio now about \$26 billion; is that right?

Mr. ROUSE. Yes, sir.

Representative PATMAN. Since 1935, have you had the same dealer relationship and the same use for the dealers like the 17 dealers that you had before 1935, or did you have a different setup before 1935? You were operating under a kind of working agreement between the Governors of the 12 Federal Reserve banks, I believe, then.

Mr. ROUSE. Of course, the history of it goes back to after the First World War and it worked out first by transactions at individual Reserve banks, then by an agreement between the Governors of the banks, and then in 1932 the Open Market Committee was established and then the final authority given to that Committee in 1935 whereby no one Reserve bank could decline to go along with an instruction to buy or sell from the Open Market Committee.

Representative PATMAN. That is 1935.

Mr. ROUSE. That is when it had the final effect.

Representative PATMAN. Since that time we have really had a central bank. Before that time, the way I view it, we did not have a central bank. Do you view it that way or not?

Mr. ROUSE. I believe the system functioned as a central bank prior to 1935. I understand your point and I agree with it. I think you have to admit that the system did function as a central bank prior to that.

Representative PATMAN. By agreement of the Governors.

Mr. ROUSE. By agreement, yes.

Representative PATMAN. Not by law.

Mr. ROUSE. Not by law.

Representative PATMAN. Any one bank could come out any time it wanted to.

Mr. ROUSE. They could compete with each other in the market.

Representative PATMAN. That is right. In other words, each bank had power. It was a regional system. But since 1935 it is a central bank and the local banks outside of the Bank of New York, I can't find any power that they have. Can you name any important power that one of the 11 Federal Reserve banks has now?

Mr. ROUSE. They have a discount function.

Representative PATMAN. That is minor, isn't it?

Mr. ROUSE. No, sir.

Representative PATMAN. It is a kind of slide-rule deal.

Mr. ROUSE. I would not say so. It is a very effective instrument.

Representative PATMAN. I know. But who fixes the discount?

The Board of Governors fixes the discount. That is not a function of the regional bank. They have no power. They exercise it and advertise it and proclaim and make out that they are doing a lot, but they do not really have any power, do they?

Mr. ROUSE. I would admit that the Board of Governors perhaps has veto power.

Representative PATMAN. Not veto. I think you are using the wrong word there, Mr. Rouse. Do they not have the power in the law? Does the law not say to establish the rate? These banks do not have any power to establish a rate.

Mr. ROUSE. I am not a lawyer. I will not get into that. But the directors of the Reserve banks initiate a rate and act on it, which is passed on to the Board of Governors for their acknowledgment and they have the privilege of either approving it or disapproving it.

Representative PATMAN. Recommending, yes, sir.

My time has expired. Mr. Chairman, I have a number of questions I want to ask this witness and I have carefully prepared these questions to cover many points, like making markets and trading with the dealers, competition among the dealers, expert knowledge of the market and operation of the Open Market Account, and why so few dealers and repurchase agreements, and advice to the Treasury and margin regulations and I think they are of sufficient interest that I would like to ask these questions publicly and I would like to have a public reply.

After we go around once, isn't it the rule then that we have rather unlimited time? There is some time in our proceedings when a member should have plenty of time according to the way we have acted in the past.

The CHAIRMAN. We have never dealt specifically with this question. There is no desire on the part of the chairman to muffle Congressman Patman or any other member of the committee. He does have a rather formidable list of questions. I have looked at the first three pages and I have seen they are extremely good questions. They pique my curiosity and I would like to see them answered.

The Senator from New York is also a member of the committee, and while the Senator from Illinois does not wish to dominate the hearings, he has some questions he would like to ask, too.

Representative PATMAN. I do not want to do it now. I am talking about some time in the proceedings. In other words, after we have 10 or 15 minutes each a time or two, then we could take the bridle off and let a member ask a lot more questions than he would be privileged to ask under a limitation of 10 or 15 minutes.

The CHAIRMAN. The chairman has no desire to put the bridle on anybody.

Representative PATMAN. I am yielding. I would even be last. I am not asking to be first. If it is all right for me to have you and Senator Javits ask all the questions you want, just so I am privileged to ask the ones I want.

Senator JAVITS. Mr. Chairman, I realize what Congressman Patman says, that there do come times in a hearing of this kind when members do not have time limitations. I am sure, however, that the chairman would wish to sort of maintain that position in the proceedings which would not result in exhausting the witness, but I am sure

that Congressman Patman is a man of great experience in this field of congressional matters and I am confident that he would exercise self-discipline in that regard.

I do wish to state, however, because I think that silence should not give consent, that I do not agree that the Congress will not vote a lifting of the 4¼ percent ceiling. I think that the situation we face today is a realistic one.

We have to somehow or other unhitch ourselves from the limitations of the bills-only market and get into the sale of long-term securities. I rather think with limitations in time and perhaps in condition—I am speaking for myself and I believe other members—the administration's necessity will be likely to prevail with us.

I do not know whether we will be a majority or not. I do not wish to stand by and allow the statement to stand that Congress will not do this. I could not agree more with Congressman Patman and Senator Douglas that a case must be made out for it. That is why we are here. That is why we have been having these long hearings in Washington. That is why I think all these questions are very pertinent.

If, for example, it should appear that the way in which Government bond market operations are conducted is inhibiting the sale of long-term bonds at a rate below the interest rate ceiling, that would be an extremely material factor in what the Congress would do.

I know Mr. Rouse from my own experience in New York and I know that he will do all he can to help us in finding a way through this labyrinth, which is the dealer market, and any other questions which we might ask him. I think in all fairness it was necessary to state that.

I would like to ask you, and I shall not detain the committee but a couple of minutes, because I think Congressman Patman has a long roster of questions that should be asked, in this dealer business, just to go back for that a minute, do they do well? Is this a profitable business?

Mr. ROUSE. Over time, yes. They have good years and they have bad years. I might add to that, from my knowledge of it, it is not an extremely profitable business.

Senator JAVITS. Do you feel that the number of dealers that are in business today and the conditions under which they operate give us fair and open competition insofar as their economic function is concerned in respect of the price of Government bonds?

Mr. ROUSE. I do. The competition between them is intense.

Senator JAVITS. Do you feel that they have themselves in any way that you know of, and if so I hope you will tell us, contributed to the decline and very seriously decline in prices of Federal Government long-term bonds which have brought on this crisis which requires the administration to ask Congress to lift the interest ceiling, which has been with us for years?

Mr. ROUSE. Referring to the bond market, the decline is the result of the supply and demand of savings and capital.

Senator JAVITS. This brings me back to this question of the impact upon the market, of a willingness of the individual investor to put his savings into U.S. Government securities in a way in which he has not been willing to do in recent years.

Isn't this the real evaluation as to what these people consider to be the speculative risk in terms of the United States?

Mr. ROUSE. Yes, in part. But you have to consider the tax picture as far as the individual is concerned and the fact that Government securities are taxable.

Senator JAVITS. Would you in any way suggest that we would do better if we made some amelioration of the tax on interest on Government securities?

Mr. ROUSE. No, I think we should stay on the same ground we are on, namely, full taxability, whether it is savings bonds or marketable bonds.

Senator JAVITS. Do I understand you to say, therefore, that the market operation—that is, the economic function of buying and selling performed by these dealers—does not in your opinion affect the price at which these securities are bought or sold?

Mr. ROUSE. It is possible for dealers to have a temporary effect on the market, but the net effect over any length of time is the result of economic factors, not of an observation that somebody might make 1 day and affect the market for 2 minutes.

Senator JAVITS. Are you satisfied, comparing these prices with the prices of other securities, and the traditional relationships between them, that this Government bond market today reflects the situation of where it ought to stand in the financial world?

Mr. ROUSE. Would you mind rephrasing that, please?

Senator JAVITS. Do you believe from your study of this situation that based upon traditional relationships between yields on Federal Government bonds and yields on other securities, and other factors which you take into account as the head of a very extensive operation here, that these Government bonds are about where they ought to be or is there something extraordinary about their price today in connection with the traditional relationships which they bear to other securities and to financial markets generally?

Mr. ROUSE. I would agree that they fit into the general picture of where they are.

Senator JAVITS. As the matter stands now?

Mr. ROUSE. As the matter stands now. There have been exceptions in individual cases. We had one not long ago in Treasury 4's of 69 that were selling at 101-plus. When the Treasury offered more at par, it was quickly realized that the premium that had been on those bonds was not a realistic one because of a limited market.

Senator JAVITS. But other than particular instances of that character, you are satisfied that this thing is standing pretty much as it ought to be in terms of a great financial market like this?

Mr. ROUSE. In terms of the supply and demand factors, the psychological factors, our fiscal situation, the factors of our balance of payments situation, these are all involved in this. It is an extremely complicated business.

The reasoning that comes out is never spelled out. It is a feeling that these factors are all stirred in together and an answer comes out through market operation. That is the point of a free market that is so essential.

Senator JAVITS. Suppose we lift the interest ceiling on these long-term Government bonds even for 2 or 3 years, which is what is being

discussed today. What effect do you see on the market if we do that? That is, on the existing market for existing long-term Federal bonds, everything else being equal.

Assuming that the international or national situation does not otherwise change materially.

Mr. ROUSE. That would involve a continued demand for capital by States, municipalities and business at the rates we have been having at the last 2 or 3 years. I would think that in that case the United States would be forced to finance largely in the short-term market which would be disturbing to a good many people and I think it would have an adverse effect on long-term rates.

Senator JAVITS. Suppose we do allow the long-term rate to be lifted. Will that have any effect upon the present prices of Federal long-term bonds, which are quite low?

Mr. ROUSE. I would not think so.

Senator JAVITS. You would not think so. Except as to the new issues which we finance at higher rates?

Mr. ROUSE. That is right.

Senator JAVITS. Finally, as to the savings bond effort, you still are not ready to say that this would have any material effect upon these markets, even if we did much better than we are doing now?

Mr. ROUSE. The fiscal situation, balance of payments, and all that, I think, is more important.

Senator JAVITS. Than how many savings bonds you are selling?

Mr. ROUSE. Yes. I think, as I say, the improvement in the savings bonds is highly desirable.

Senator JAVITS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. Rouse, I want to ask some questions, if I may, about margin requirements.

Mr. ROUSE. Yes, sir.

The CHAIRMAN. Some of us were startled and disconcerted by the relatively sharp rise in Government securities last June followed by the relatively sharp fall in their prices immediately following. Some of us began to inquire about what margin requirements, if any, were imposed on dealings in Government securities.

The Chairman of the Federal Reserve Board testified before our committee in early February, and certainly gave me the impression that the margin requirements were 5 percent. I have to check the record, but that was the general impression. Is it true that these margin requirements of 5 percent are only imposed by the New York Stock Exchange?

Mr. ROUSE. I am not familiar in detail with the New York Stock Exchange requirements, but the margin requirements that lenders impose on borrowers—

The CHAIRMAN. Let us talk about the stock exchange. What are the requirements of the stock exchange?

Mr. ROUSE. I cannot answer authoritatively.

The CHAIRMAN. Mr. Rouse, do you have any assistants who can answer that?

Mr. ROUSE. Mr. Larkin can answer the question?

The CHAIRMAN. Mr. Larkin, would you answer that?

Mr. LARKIN. I think they have a standing rule where 5 percent applies against borrowings.

The CHAIRMAN. In other words, the chairman was correct on that.

Mr. LARKIN. Yes.

The CHAIRMAN. Earlier testimony indicated that only 2 of the 17 dealers are members of the New York Stock Exchange.

Mr. ROUSE. That is right.

The CHAIRMAN. So this 5 percent requirement would apply to only two. What were those two again?

Mr. ROUSE. Salomon Bros. & Hutzler, and C. E. Quincey & Co.

The CHAIRMAN. The first a large dealer and the second a relatively small dealer?

Mr. ROUSE. They are both dealers.

The CHAIRMAN. The first is much larger than the second?

Mr. ROUSE. The first is better known perhaps.

The CHAIRMAN. What requirements are imposed on the other dealers? What margin requirements, if any?

Mr. ROUSE. The margin requirements, as far as other dealers are concerned, are those that the people from whom they borrow impose, and that is a matter of negotiation between them.

The CHAIRMAN. That means the banks and insurance companies.

Mr. ROUSE. Banks, business corporations. I do not think insurance companies lend to dealers.

The CHAIRMAN. What is the normal margin requirement?

Mr. ROUSE. With respect to Treasury bills, practically no margin.

The CHAIRMAN. Virtually no margin. When you say "virtually no margin," does that mean no margin or a slight margin?

Mr. ROUSE. I think it varies.

The CHAIRMAN. What proportion would be no margin and slight margin?

Mr. ROUSE. In the case of people with large capital funds and relatively small borrowings, no margin.

The CHAIRMAN. Do you think a proportion of the dealings with short-time Governments are carried on with no margin at all?

Mr. ROUSE. I should say a substantial portion of dealer borrowing against short-term issues was without margin.

The CHAIRMAN. Would this apply to notes and certificates, as well as to bills?

Mr. ROUSE. No, sir; there would be margin requirements on those.

The CHAIRMAN. What margin requirements are there on notes and certificates?

Mr. ROUSE. I should preface anything I say about this with the fact that it is almost hearsay with me, not being a dealer and I am not a lender in the sense that banks lend to dealers.

The CHAIRMAN. You deal with the dealers.

Mr. ROUSE. I deal with the dealers. This is their information and their banks' information. It is not mine. But in general, from what they have told me from time to time, I believe that a substantial portion of the loans on Treasury bills are not margined.

The CHAIRMAN. Are not margined?

Mr. ROUSE. Are not margined.

The CHAIRMAN. That is on bills. What about notes?

Mr. ROUSE. On certificates and notes and bonds they do get margin.

The CHAIRMAN. How much are those margins on notes and how much on certificates?

Mr. ROUSE. They are rather small on certificates. One percent, perhaps. Then going out to long bonds, it ranges from 2 to 5 percent.

The CHAIRMAN. What about notes?

Mr. ROUSE. Notes in the sense of being 2 years and out, probably 2 percent.

The CHAIRMAN. Bonds of over 5 years—what would be the margin.

Mr. ROUSE. Two to three percent to five percent, depending on the dealer and his relationship to the lender, and it is understood that such margins are to be maintained on a daily basis. I particularly want to make this point clear.

The CHAIRMAN. So that the 5-percent requirement is the exception rather than the rule, taking the Government securities market as a whole.

Mr. ROUSE. Five percent is the rule on the longer ones.

The CHAIRMAN. That applies only to members of the stock exchange?

Mr. ROUSE. No.

The CHAIRMAN. You mean that the banks require it?

Mr. ROUSE. Yes.

The CHAIRMAN. Do the banks require 5 percent on the long-time Governments?

Mr. ROUSE. Yes.

The CHAIRMAN. But not on the short-time?

Mr. ROUSE. Not on the short-time. It really depends on the liquidity of the instrument.

The CHAIRMAN. In some cases it is 1 and 2 percent and in some cases 3 percent.

Mr. ROUSE. The margin requirement is fundamentally based on the liquidity of the instrument.

The CHAIRMAN. Did you take part in the study by the Treasury and the Federal Reserve Board on the debacle in the Government bond market of last year? I have the three volumes before me.

Mr. ROUSE. No, sir.

The CHAIRMAN. You studied it; have you?

Mr. ROUSE. No, sir.

The CHAIRMAN. Mr. Rouse, I want to deal kindly with you. I do not say in a Senator or Congressman berating a witness. I must say I am startled by the fact that here was an investigation of the extraordinary debacle of last June and here you, the great expert of the Federal Reserve, have not studied the report and do not apparently feel competent to testify about it.

Mr. ROUSE. No. Mr. Chairman, this report was made available, you may recall, about 2 weeks ago.

The CHAIRMAN. That is right.

Mr. ROUSE. I had been away up to that time for some time. I also was listed to testify here. I also had a day's work to do. There is a limit to what one's eyes can study. I have read the first chapter of this report, as I have indicated already in my testimony, but I have not had an opportunity to study this.

The CHAIRMAN. May I ask if Mr. Larkin or your other expert has studied this report?

Mr. LARKIN. I have studied it; yes.

The CHAIRMAN. Mr. Marsh?

Mr. MARSH. Yes; most of it.

The CHAIRMAN. Let me address a question to you collectively. It is based on pages 90 to 91 of the second volume. The Senator from Illinois does not wish to parade his virtue, but he is rather occupied, too, and he has a lot of material for his eyes to cover. I felt it was my obligation to read this report. Page 91 states:

Many who were carrying the issue on credit suddenly came to realize that the large leverage present in thinly margined purchases of Treasury issues could work both ways—that is, the same leverage ratio that could lead to such impressive returns on margin buying in a period of market advance could also lead to equally dramatic losses in market decline.

Because the narrow margins on some credit financing of the 2½-percent bonds were, in fact, quickly wiped out, lenders were forced to make margin calls almost immediately to keep the value of collateral backing their financing from falling below loan value. In many instances, borrowers were unprepared to meet these calls. Although many had the financial resources to meet the calls—and many did so in the hopes of recouping their potential losses in a subsequent market rally—others were unwilling to put up more margin and moved quickly to sell out. Because of their lack of experience in Government securities trading, such sellers tended to adopt distress selling tactics in liquidating positions and in so doing, exaggerated the pace of the decline. Each significant new drop in prices elicited new margin calls which, in turn, prompted further liquidation and led to further decline.

These pages sound as though they might have been addressed in some measure to the behavior of the stock market in the decline of late October and November of 1929; namely, relatively low-margin requirements in comparison with price movements of the securities in question, wiping out margins, the wave of distress selling which, in turn, caused prices of securities to go down still further which swept out further margins, and therefore the low-margin requirements were at least one factor contributing to a cumulative decline.

The cumulative decline in the prices of stocks in late 1929 and after the immediate rally in 1930, and so forth, led in part to granting the Federal Reserve Board the power to fix margin requirements and to the imposition of higher margins.

Now, I would like to ask you these questions. Does not the experience of last year indicate the need for regulation of margin requirements by an official governmental body, and second, should not the margin requirements be higher than those now imposed on a very small fraction—or rather, now imposed by lenders?

Mr. ROUSE. Is this addressed to me or is it Mr. Larkin?

The CHAIRMAN. Did you understand the question, Mr. Larkin?

Mr. LARKIN. I did not understand that the question was directed to me.

The CHAIRMAN. I addressed the question to the three of you collectively. I shall welcome a reply from any one of you who is authorized by Mr. Rouse to reply.

Mr. ROUSE. I would be glad to have you reply.

Mr. LARKIN. I understand your question was in two parts.

The CHAIRMAN. That there should be general regulation by Government authority, and whether such margins should not be higher than those now fixed by voluntary agreement between the lenders to the 17 dealers and the dealers themselves.

Is the question clear?

Mr. LARKIN. Yes; it is, Mr. Chairman.

First let me say in responding to this question I would have to respond as an individual. I cannot be responding for the Federal Reserve System.

In connection with part 1 of your question, the study which was recently completed by the Treasury-Federal Reserve—

The CHAIRMAN. We are well aware of that. I have copies of it here.

Mr. LARKIN. The study suggests that margins might be treated through the supervisory agencies, those having to do with supervision of the banks in the country. In other words, from the source of credit, not the use of credit.

The CHAIRMAN. Would it be the State banking authorities in the various States?

Mr. LARKIN. The State banking authorities and the Comptroller's Office. In other words, control this through the source of credit.

The CHAIRMAN. Would this not result in a multiplicity of rules? Would you suggest that this be done in case of transactions in stocks?

Mr. LARKIN. There was no attempt to draw a parallel between the administration of margins as they apply to stocks.

The CHAIRMAN. I know there was no intention.

Mr. LARKIN. As against Government securities, this was one of the alternatives that has been considered in the course of this study. Not necessarily with a recommendation.

The CHAIRMAN. Do I understand that you are opposed to any imposition by a Federal agency of uniform margins on dealings in Government securities?

Mr. LARKIN. Not necessarily, Mr. Chairman.

The CHAIRMAN. What is your position on that?

Mr. LARKIN. This is a rather complex field and complex area.

The CHAIRMAN. Do you think it is a proper area for Congress to deal with?

Mr. LARKIN. It is an area that requires much further study and an answer cannot be given offhandedly to a question of this importance.

The CHAIRMAN. Doesn't the experience of last June and July indicate that the lowness of the margins contributed to the sharp rise and then a sharp fall in the prices of Government securities?

Mr. LARKIN. In some areas.

The CHAIRMAN. Didn't this have an adverse effect upon public credit?

Mr. LARKIN. The paragraphs that you read from volume 2 of this study referred to those that lacked experience in Government securities. In other words, aside from the so-called professionals in the market.

The CHAIRMAN. The professionals were all right?

Mr. LARKIN. I am not inferring that, Mr. Chairman. At least professionals have an awareness of the fact that prices could go down as well as up.

The CHAIRMAN. Would you suggest lower margins for the professionals, higher margins for the amateurs or semiprofs?

Mr. LARKIN. Something like that may be conceivable. That would have to be studied further, too.

The CHAIRMAN. This is a very important matter. We are trying to safeguard the credit of the United States and to get a sound fiscal

policy. We are coming to you gentlemen both for information and advice. One reason we came to New York was because we were well aware of the fact that the New York bank was somewhat independent of the Federal Reserve Board and frankly, on the bills-only policy, have always agreed with the New York bank rather than with the Federal Reserve Board.

So we thought that we could get the information and wisdom of counsel from you. Mr. Rouse, would you like to add anything to this?

Mr. ROUSE. Yes, I would like to add this: This group studying this problem have worked on it very actively for the last 4 months and they have come up with this data. It has just now in effect become available for study by other people in the system.

One of the things that has been highly recommended as we went along, because they thought it would be effective, was this matter that Mr. Larkin suggested, that is, that a letter on this subject from the Comptroller of the Currency to national banks would almost automatically be concurred in by the system and also by State supervisory authorities and that banks would be governed by it without the necessity for legislation.

The CHAIRMAN. Why don't you want legislation? Suppose we pass legislation requiring margins and then allow the margins to be set at the discretion of some supervisory board? Why are you afraid of Congress stepping in to protect you and to give you the authority to produce fiscal solvency and fiscal soundness in these matters?

Mr. ROUSE. I am sure no one in the group questions the propriety of Congress dealing with these things. As I have tried to say a moment ago, this study produced facts. Now it is to be dealt with and come to you with recommendations.

The CHAIRMAN. We would like to see you deal with it.

Mr. ROUSE. The Treasury and the System would like to study this further and then come to the Congress with recommendations.

The CHAIRMAN. In the meantime, there might be another debacle in the Government market. How many debacles such as last June and July can we afford?

Mr. ROUSE. We haven't had one for a long time. I think the lesson that was given to the speculators was a costly one. I think a good many of them lost a good deal of money. I do not think we are apt to have one during the period in which study can be completed and the System and the Treasury come up with recommendations to you.

The CHAIRMAN. What about the decline in the stock market in 1920 and 1921 when people had some of their margins wiped out? That did not seem to teach the banks or the dealers any lessons, so the margins continued low and we had the terrific stock market crash of 1929 which was certainly aggravated by the low margin requirements.

Congress stepped in and saved the dealers and the banks from themselves.

Mr. ROUSE. May I say that the Treasury and the Federal Reserve System—I think I can speak for both of them in this matter—take this matter extremely seriously. That is why they initiated this study.

The CHAIRMAN. I think they felt the hot breath of Congress upon their necks and knew if they did not act, we would.

Mr. ROUSE. I think it was voluntary on their part. I am sure that came along.

The CHAIRMAN. Thus Ajax rather was propelled from behind into the fray.

Mr. ROUSE. We in New York were seriously aware of this and talked both to the Open Market Committee and to the Treasury about it. It is a thing that everyone is seriously interested in.

The CHAIRMAN. Don't you think the margins should be higher than they are now?

Mr. ROUSE. This is a relative matter, Senator. It depends on whom you are dealing with. In some places you do not want any margin or security. In some you want security.

The CHAIRMAN. What harm could be done by requiring margins?

Mr. ROUSE. The only harm that could be done would be in the case of—well, there is no harm done in requiring margins. The amount of the margin in respect to different groups might have to be different. I think if you want to get a good Government securities market you have to have ample credit available to the dealers.

The CHAIRMAN. Those who want to prevent speculative increases and decreases in Government securities; isn't that true?

Mr. ROUSE. That is true. Some healthy speculation is a good thing.

The CHAIRMAN. Within limits?

Mr. ROUSE. Yes, I will agree.

The CHAIRMAN. Are you defending the speculative rise and the speculative fall of last June and July?

Mr. ROUSE. No, sir.

The CHAIRMAN. Do you think that was a healthy thing?

Mr. ROUSE. Of course not.

The CHAIRMAN. This might happen again, might it not, unless margin requirements were changed and somewhat increased?

Mr. ROUSE. I would like to come back 2 months from now with an answer.

The CHAIRMAN. It might reduce the turnover. The New York Stock Exchange is also opposed to any increase in margin requirements because it diminishes dealers' commissions. I think the general public realizes that the imposition of margin requirements on stocks has been a very healthy thing and that Congress, over the opposition of the financial community, safeguarded the interests of this Nation. Of course, the margin requirements in the case of bonds need not be anywhere as rigorous as the requirements in the field of stocks, because the absolute magnitudes and, indeed, the relative magnitudes of the fluctuations are much less.

But this provision of no margins at all on 90-day bills and 1-percent margins on 6-month and 1-year bills and the low requirements on others certainly contributed to that debacle.

Mr. ROUSE. Would you mind stating that question, again, Senator?

The CHAIRMAN. I am afraid it is somewhat rhetorical. I say, is it true that the absence of any margin requirements on bills the provision for only 1-percent margins on short-term notes, are at most 2 percent, and I am not at all certain that the 5-percent requirement was uniform even on the long-term bonds, certainly was a contributing factor, was it not, to the speculative rise and the speculative fall in the prices of securities, of Government securities last June and July?

Mr. ROUSE. These margins that I mentioned that you referred to are the margins required of dealers, not of the general public. These margins are imposed in the light of the financial statements of the dealers, the capital that is available to them, and their ability over the years to cope with all these things.

The CHAIRMAN. Are you saying that the present margin requirements are adequate and do not need be changed?

Mr. ROUSE. I am saying that the margin requirements of other than dealers are higher. I think most banks that I am familiar with would charge from 5 to 10 percent on bonds as a margin.

The CHAIRMAN. You mean long-term bonds?

Mr. ROUSE. Yes, sir.

The CHAIRMAN. What about the notes?

Mr. ROUSE. I mean to individuals who might be buying them. If I went in to borrow money to carry a Government security—which I would not do, of course—as an individual, I would be required to put up larger margins than dealers.

The CHAIRMAN. I am a little confused. I thought you said there was no requirement on bills and only 1 percent on the shorter time notes and certificates.

Mr. ROUSE. You were speaking of the 17 dealers, sir, and I referred to them.

The CHAIRMAN. Yes.

Mr. ROUSE. Mr. Larkin was talking about people other than dealers who became involved in the market. I think in those cases the margins were larger.

The CHAIRMAN. I think you testified that about \$200 billion is handled by these 17 dealers; \$60 billion in initial issue of Governments, \$20 billion in Federal Reserve, and \$120 billion dealings in outstanding Governments. Certainly that is the major portion of the market and it is to that I have been trying to address my attention.

I would like to ask you this direct question: Do you think that the margin requirements on dealers should be increased?

Mr. ROUSE. Should be increased?

The CHAIRMAN. Yes.

Mr. ROUSE. No, I don't think that is necessary.

The CHAIRMAN. Therefore, you see no need for any Federal action. You are satisfied with the present situation?

Mr. ROUSE. Yes.

The CHAIRMAN. Are you authorized to speak in this matter for the Federal Reserve Bank of New York?

Mr. ROUSE. No, sir. I am here as Robert Rouse.

The CHAIRMAN. Has the Federal Reserve Bank of New York taken any position in this matter?

Mr. ROUSE. No, sir; it has not.

The CHAIRMAN. There are some questions which I had wanted to ask about the auction system as compared to the present system for floating initial issues of long-term Governments, but perhaps I have taken up too much time.

Representative PATMAN. No, Senator, please go on. It is perfectly all right with me. I urge you to go ahead.

The CHAIRMAN. If I may go into the question, at present you auction bills?

Mr. ROUSE. Yes, sir; the Treasury auctions bills.

The CHAIRMAN. Yes, but you act as the agent for the Treasury.

Mr. ROUSE. In New York. Each of the Reserve banks receives tenders.

The CHAIRMAN. Would you describe the auction system?

Mr. ROUSE. The Treasury through its own publicity department and through the Federal Reserve banks announces, as far as regular Treasury bills are concerned each Wednesday and Thursday, an amount of bills to be subject to tenders the following Monday.

The CHAIRMAN. Those do not have to be sold at par?

Mr. ROUSE. They do not have to be sold at par.

The CHAIRMAN. How does the bidding take place?

Mr. ROUSE. The bidding takes place by potential bidders being furnished with forms.

The CHAIRMAN. Does the Treasury fix the interest rate?

Mr. ROUSE. No, sir; it has in one instance on a special bill.

The CHAIRMAN. How does the bidding take place?

Mr. ROUSE. The bidding takes place by the submission of sealed tenders to the Reserve banks.

The CHAIRMAN. And the amount of the discount determines the rate of interest?

Mr. ROUSE. That is correct. It is a price matter. Included in the awards may be an amount determined by noncompetitive tenders agreeing to accept awards which may not exceed \$200,000, at the average rate of the competitive tenders.

The CHAIRMAN. Those are the small ones?

Mr. ROUSE. Yes, sir.

The CHAIRMAN. Suppose dealer X bids for \$50 million at 99½, dealer Y bids for \$50 million—how do you quote ½ds?

Mr. ROUSE. No; this is in decimals. In 3 decimals. 99.120.

The CHAIRMAN. Suppose X bids \$50 million at 99.50; Y bids at 99.49; and Z bids at 99.48, and so on. At what rate will the bills be sold to the bidders? Will it be at a uniform rate or will it be at the rate which each bidder bid?

Mr. ROUSE. It will be at the rate at which each bidder bids until the aggregate amount is reached.

The CHAIRMAN. Suppose there is an oversubscription, which is likely to be the case—what happens?

Mr. ROUSE. If the bidders not receiving awards really want the bills they have to buy them in the open market the next day.

The CHAIRMAN. I know.

Mr. ROUSE. They are eliminated. They receive no award at all.

The CHAIRMAN. Suppose the total issue is \$2 billion and the total volume of bids is \$8 billion. Then how is the \$2 billion apportioned?

Mr. ROUSE. To those submitting the tenders at the highest price.

The CHAIRMAN. Or the lowest discount?

Mr. ROUSE. At the lowest discount. Taking your figures, 99.50 would get everything. Fellows at 0.49 might get everything. The fellows at 0.48 might only get half. Fellows at 0.47 would not get any.

The CHAIRMAN. In other words, each dealer gets the amount for which he bid at the price which he bid?

Mr. ROUSE. Each bidder; yes, sir.

The CHAIRMAN. There is no uniform rate which is applied to all dealers?

Mr. ROUSE. No.

The CHAIRMAN. In this respect it differs from issuance of underwriting issues or issue of long-term bonds?

Mr. ROUSE. The Treasury announces an average price, but that is not related to the individual awards at different prices.

The CHAIRMAN. It doesn't apply to each individual?

Mr. ROUSE. It doesn't apply to individual tenders except up to \$200,000 on a noncompetitive tender basis.

The CHAIRMAN. In the case of long-term bonds of over 5 years, the procedure is somewhat different, is it not?

Mr. ROUSE. Yes.

The CHAIRMAN. Let me see if I understand the answer. The bonds are issued at par?

Mr. ROUSE. At par or at a price. Usually at par. Sometimes at a price.

The CHAIRMAN. The interest rate is fixed by the Government?

Mr. ROUSE. Yes.

The CHAIRMAN. The bidding takes the form of how much they will take at the fixed price.

Mr. ROUSE. Yes; that is correct.

The CHAIRMAN. If the issue is oversubscribed, as it generally is, how is it apportioned, how is the apportionment made between individuals?

Mr. ROUSE. Between individual subscribers?

The CHAIRMAN. Yes.

Mr. ROUSE. In the case of bonds the Treasury usually nowadays gives a preferential allotment to a group known as savings institutions, if you will. We will call them savers. And a lesser percentage is allotted perhaps, to commercial banks in terms of ratio, and to others perhaps a still smaller ratio.

The CHAIRMAN. What proportion is taken by the 17 dealers?

Mr. ROUSE. They would come in after the savers' group and the banks.

The CHAIRMAN. Do you know what proportion of the long-term issues have been subscribed for by the 17 dealers?

Mr. ROUSE. No; I don't believe I have it.

The CHAIRMAN. Could you furnish those figures for the record?

Mr. ROUSE. We will endeavor to, with the Treasury approval. This is Treasury data.

The CHAIRMAN. You do not handle it for them?

Mr. ROUSE. No; we handle it only for New York. Perhaps the request might be made to Secretary Anderson.

The CHAIRMAN. We would appreciate it if you would give the figures for New York at least.

Mr. ROUSE. I would be glad to, with their approval. We will clear with them because we are their agent. (See part 6A of hearings, pp. 1105-1131.)

The CHAIRMAN. The question I would like to raise is this: Could not the auction method be used for the issuance of long-term securities in excess of 5 years?

If I may explain this—I think the record will be clear. Let it stand just as it is.

Mr. ROUSE. The Treasury could experiment with this. It would not be encouraged by the record in this respect. As I recall in the

middle 1930's Secretary Morgenthau undertook to do this, and he offered small amounts of both U.S. guaranteed securities and also direct obligations at auction, and the results were not satisfactory, but they were not conclusive possibly.

The CHAIRMAN. That was 29 years ago.

Mr. ROUSE. This was the middle 1930's.

The CHAIRMAN. Twenty-five years ago.

Mr. ROUSE. Twenty-five years ago. As I recall, it was either Federal Farm Mortgage or HOLC in the first instance, but then he offered some 3's of 46-48 and 2 $\frac{7}{8}$ of 55-60. It seemed to freeze out or frighten away the small investor. The dealers and the large banking institutions seemed to get the principal awards at the start. This is going back a long time. I am dredging this up.

Really they were doing it as underwriters. It had an adverse market effect and was finally given up.

But I don't think that is necessarily conclusive, and should not be reexamined.

The CHAIRMAN. Let the chairman make it clear, first, that he is not proposing a stock exchange system for outstanding issues as the Federal Reserve Board and Treasury seem to indicate in their study. He is proposing it simply on new long-time issues. It should be used for the long-term issues as it is now used for the short term. It seems to me this would have certain advantages.

First it would make it clear that the rate was a competitive rate and not a negotiated or collectively bargained rate.

Second, it would skim off the investors' surplus because lots would be sold to each bidder at the price that the bidder himself made instead of all being sold at the lowest price.

I think it would be more flexible and would not embarrass the Federal Reserve as much as the present practice.

The chairman recognizes, of course, that any such transition could not be effected immediately or overnight and should be carefully prepared for and every effort should be made to get new participants in the purchase of Government securities.

But I wonder if this would not be a very valuable innovation.

Mr. ROUSE. I am sure that any Secretary of the Treasury would be delighted to be relieved of the responsibility of determining the price.

The CHAIRMAN. The extraordinary thing is that they don't seem to be. They resist all these ideas with great obstinacy.

Mr. ROUSE. There are perhaps times when there is a greater responsibility in trying to get a better price through setting a price, and a better distribution through setting a price than doing it through auction.

The Secretary takes on a responsibility in doing it.

The CHAIRMAN. What could be better than auctions, broadly prepared for, announced in advance, and periodically occurring? Why this would be the competitive system which presumably this administration believes in, carried to perfection.

Mr. ROUSE. I see no problem in experimenting, but I would be fearful of the results. I think it would end up with primarily your professionals underwriting the issue. I don't think you would get the broad distribution.

The CHAIRMAN. You would get the professionals anyway. But beyond the professionals you could get the banks, insurance companies,

savings and loan institutions, mutual savings banks, and the individual investors. They could get investment counsellors, who could help them. It would create a new profession, so to speak, and break down this little tightly knit group which operates here.

Mr. ROUSE. It might be that it would work out that way. Some of the samples that we have had have not worked that way. In selling a Treasury bill at a fixed price, which was done once—in other words, the Secretary determined the price—I believe he got much wider distribution than he would through a regular Treasury bill auction in which the number of participants are comparatively small.

The CHAIRMAN. I have taken up more time than I should.

Congressman Patman.

Representative PATMAN. That is all right, Senator. That was very interesting and helpful.

Mr. ROUSE, am I correct in assuming that you were not consulted about this report that was made by the Federal Reserve and the Treasury?

Mr. ROUSE. This study was carried on by a study group of which I was not a member.

Representative PATMAN. And you were not consulted about it?

Mr. ROUSE. I participated in listening to two or three, as I recall, of the consultants' comments. I listened as one of the senior people in the System, but I was not consulted.

Representative PATMAN. You were not consulted about what went into the report?

Mr. ROUSE. No, that is correct.

Representative PATMAN. I am in accord with your views of not having tax exemptions on bonds. There is some sentiment in the country that the way to do this thing is to have some tax exemption or wholly tax-exempt bonds. I agree with what you say that we should not start that.

I know one time an effort was made to get rid of all tax exempt bonds, and we succeeded in getting rid of the ones in the Federal Government only. I think that was very helpful. Instead of having more tax exemption I would love to see the others gotten rid of, too, like we did on the Federal Government bonds.

The questions I shall ask you, Mr. Rouse, if you cannot answer them without an extension of time, without expanding upon your remarks, I suggest that you answer them as much as you can and then when you get the transcript feel free to elaborate on what you have said, if you desire to do so. In that way we can shorten it some, I assume.

I don't want you to withhold any answer that should be given here, if you please.

Mr. ROUSE. I will try not to, sir. I would think that the chances would be that I am not as articulate as I would like to be, so I would like to have a little time with the transcript.

Representative PATMAN. Certainly you will have that privilege. I hope you will not be as articulate as some people are in the Federal Reserve, because I would not get to ask you very many of these questions today. I say that with all due respect to the gentlemen. They have so much knowledge and information that they have to have a lot of time to elaborate on their answers.

The first question is about making markets.

The Government securities dealers are said to perform a good service in that they make markets. Precisely what is meant by the term "making markets"?

Mr. ROUSE. A dealer makes a market when he quotes a price to a customer on which he will either buy or sell a given amount.

Representative PATMAN. Is it your belief that the 17 dealers with whom the open market trades bring about the sales of a great deal more Government securities than would otherwise be sold?

If so, do you have any rough estimate as to the percentage of the securities which these dealers place in the hands of investors that would not otherwise be placed with the investors?

Mr. ROUSE. I can only answer that in general terms, Mr. Patman. I think they perform a very real service as to the amount of Government securities that are held by investors in the sense that investors would not buy them unless there had been established an active and broad market in these securities and it is that which the dealers provide.

Representative PATMAN. You would not be able to make an estimate of what the difference would be?

Mr. ROUSE. I would not attempt it, sir; no, sir.

Representative PATMAN. Do you have any knowledge or any estimate as to the number of cities in the country where the dealers regularly make purchases and sales?

Mr. ROUSE. I would think it was unlimited. You tell me the number of cities, I would say that they function in every one of them. It is an active telephone market. The dealers are in touch with the principal investors in each city, and I think almost every day.

Representative PATMAN. That is the 17 dealers. Would you say that would be in all the Reserve cities in the System or many more than the Reserve cities?

Mr. ROUSE. Many more than the Reserve cities.

Representative PATMAN. Including most of the country bank cities?

Mr. ROUSE. That is right.

Representative PATMAN. Do you have any knowledge of the number of member banks that trade directly with the 17 dealers?

Mr. ROUSE. No, sir. I assume that most of them would do so.

Representative PATMAN. Another function which we have heard that dealers perform is that of adjusting bank reserves so that the loanable funds are balanced with loan demands in the various localities of the country. In other words, you add reserves to the banking system or take them out at New York, and the reserves added in New York are supposed to flow out across the country to places where they are needed.

Have you had occasion to make any study of this question of how fully and how promptly changes in bank reserves in New York are carried out over the country?

Mr. ROUSE. I believe we have not any recent study on that subject. I have assumed myself that people who need reserves and wish to acquire them through the disposition of securities are in touch with the dealers and that the dealer—if we were buying security—would be soliciting the potential sellers in order to effect a sale.

Representative PATMAN. The Federal funds market is used now more than in the past, Mr. Rouse?

Mr. ROUSE. Yes, sir.

Representative PATMAN. I will ask you about trading with the dealers. Some of the Federal Reserve reports state that the open market accounts transactions with the dealers are made mostly on the basis of best price. When transactions have been made with the dealers not on the basis of best price, on what basis have they been made?

Mr. ROUSE. It is on the basis of best price in this sense. I and my associates when we are active on the desk know the markets, and we have gotten competitive markets from several dealers as far as any one transaction is concerned. It is on the basis of best price.

So the inference conveyed in what you have just said is incorrect. It is always best price.

Representative PATMAN. Does it happen that you are quoted identical prices by the six largest dealers?

Mr. ROUSE. I think that would happen very rarely.

Representative PATMAN. Infrequently?

Mr. ROUSE. I think it would be very rare. Infrequently is correct.

Representative PATMAN. When several of the dealers quote identical prices and you felt on the basis of best price you cannot buy or sell the full amount you wish to buy or sell, how have you determined how to divide the business among the dealers?

Mr. ROUSE. Mr. Larkin will answer that.

Mr. LARKIN. Divide by 6, or distribute it as evenly as possible.

Representative PATMAN. Does that often occur?

Mr. LARKIN. No. Rarely, as Mr. Rouse suggested.

Representative PATMAN. The answer Mr. Rouse made a while ago, infrequently?

Mr. LARKIN. That is right.

Representative PATMAN. Whenever you get it that way you divide by 6?

Mr. LARKIN. That is right. It might be two or three. We divide by that number. The point is that we try to divide the total business as evenly as the best price requirement permits.

Representative PATMAN. Could you supply for the record the data showing the volume of purchases and also the volume of sales with the dealers which were made on the basis of something other than best price. It would be well if you could supply such data on a monthly basis for 1958 and the 4 previous years. But I believe your answer is the best price prevails. So that would be your answer to this one?

Mr. ROUSE. Yes.

Representative PATMAN. About the competition among the dealers, do you feel you always have complete and perfect competition among the dealers, or have you felt that at times some of the dealers were putting up a kind of united front in their bid and offer prices?

Mr. ROUSE. I have never felt the latter. I would like to consult my associates.

Representative PATMAN. The same answer?

Mr. ROUSE. The same answer.

Representative PATMAN. Do you know whether or not it is true as I have sometimes heard, that many of the dealers have direct telephone lines in and among themselves?

Mr. ROUSE. I assume that they would.

Representative PATMAN. With reference to the dealer bidding on the Treasury bill auction, do they give you just before the bids close pretty good estimates as to what the average bid price will be or what the to-be-sure price will be?

Mr. ROUSE. Each of them that talked with us about it, and a good many of them do, give us an estimate of sorts, and there is a great deal of variety in what they think will come out, I might say.

Representative PATMAN. After the bids close, do some of the dealers pretty regularly inform you what the composite bids of all the dealers or a substantial number of dealers are? In other words, can one dealer tell you what prices all the other dealers have bid and the quantity at each price?

Mr. ROUSE. Yes.

Mr. LARKIN. That information would be available at any rate from the actual tenders. It just happens that it comes through this way more quickly.

Representative PATMAN. How many minutes after bidding closed have you received such information by telephone?

Mr. ROUSE. I would think about 20 minutes.

Mr. LARKIN. Maybe shorter.

Mr. ROUSE. Fifteen or twenty minutes.

Representative PATMAN. Have you had an opportunity to compare these reports on composite bids of the dealers with the actual bids?

Mr. LARKIN. Yes, I have.

Representative PATMAN. They conform pretty well to the actual bids?

Mr. LARKIN. Yes.

Mr. ROUSE. Not always. I have seen some reports that did not conform with the total of dealer bids.

Mr. LARKIN. The question was directed toward price. Amount and price; not toward the aggregate.

Representative PATMAN. Could you supply for the record the composite of the dealer bids which have been furnished you by the dealers and also show what the actual composite bids of these dealers were?

Mr. ROUSE. Would you be good enough, sir, to address that question to Secretary Anderson?

Representative PATMAN. He would be the one. You are acting as an agent in that respect?

Mr. ROUSE. That is correct.

Representative PATMAN. If he is willing for you to answer you would be very glad to answer?

Mr. ROUSE. We are just his agents, sir.

Representative PATMAN. With reference to the Treasury auction, when you have bills maturing and you know that you want to maintain your portfolio at a certain level you exchange the maturing bills for new bills directly with the Treasury, or do you sometimes purchase part of your needs from the open market?

Mr. ROUSE. Generally speaking we exchange our bills directly with the Treasury. However, to do so we have to enter a competitive ten-

der and sometimes we have not been successful when we meant to be and have had to buy some bills in the market in order to replace them fully.

Representative PATMAN. On this question, if you could supply for the record the composite of the dealer bids which have been furnished you by the dealers and also show what the actual composite bids of these dealers were, and you asked me to refer that to Secretary Anderson, Secretary Anderson doesn't actually have this information himself. I assume that is correct. You are the only one who has the information.

Mr. ROUSE. Unless dealer bids were submitted elsewhere in the country. They might be submitted in Chicago. By and large I think most of them are submitted in New York. I might also say that I would question whether we would have in our files any record as far as these composite reports the desk gets from one or two or three of the dealers concerned.

Representative PATMAN. Your point is that you are reluctant to give it out since you are in that respect acting as an agent of the Treasury?

Mr. ROUSE. Yes as to the actual bids. This is confidential information of the Treasury. It belongs to it.

Representative PATMAN. If Secretary Anderson so instructs, you will be glad to give the information and put it in the record in connection with extension of remarks?

When you exchange bills for maturing bills, how do you make your bid? Do you bid average of the market, or do you bid several different prices or a noncompetitive bid, or what?

Mr. ROUSE. It varies. There are times when we want to be absolutely sure of having a successful tender in toto. In that event we quote a price that we judge will do it, based on our general knowledge of the market, the demands, current Treasury bill prices, and so forth.

There are times when we don't want any bills. We feel a certain obligation, if you will, to the Treasury to enter a tender at some reasonable price which we don't expect to be successful, and we do put in the tender.

Then again there are times when it is marginal from a Reserve standpoint as to whether we wish to replace or not replace. In that event we might put in a price on a series and lose some and not others.

Representative PATMAN. Do you receive reports from the dealers on their profits?

Mr. ROUSE. No, sir. Not as a general thing. We get no income statements from dealers. The only ones that we get are those that are published.

Representative PATMAN. Is there a recognized fee or commission that is customarily charged in the handling of Government securities by dealers like brokerage fees?

Mr. ROUSE. By and large they are acting as principals, so that they buy and sell at a quoted price and they are not acting as a broker.

Representative PATMAN. Could you give us an estimate based on your experience as to what percentage of the dealers' profits they make from their price spreads and what percentage they make by speculation for their own account?

Mr. ROUSE. No, sir.

Representative PATMAN. You would have no information on that?
Mr. ROUSE. No, sir.

Representative PATMAN. With reference to short sales, does it sometimes happen that an individual dealers' net position is on the short side rather than on the long side?

Mr. ROUSE. Rarely.

Representative PATMAN. The report on the Treasury-Federal reserve investigation indicates that as a group the dealers did not make a large amount of short sales during 1958. Would it be your judgment that the report on this question is substantially accurate, or that the dealers actually make much larger amounts of short sales than their report would indicate?

Mr. ROUSE. I think it would be substantially accurate.

Representative PATMAN. Substantially as reported?

Mr. ROUSE. Yes.

Representative PATMAN. Substantially as reported by them in their report?

Mr. ROUSE. Yes. You know the report.

Mr. LARKIN. I would have no reason to doubt the accuracy of their figures.

Representative PATMAN. What methods do the dealers use in making short sales; do you know?

Mr. ROUSE. In quoting the market they sometimes are quoting a market with respect to securities they don't own. They may have 3's of 46 or 48, but not 2½'s of 48, and they sell 2½'s of 48.

So they are short and they must borrow in order to make delivery. Borrowing is difficult, I might add.

Representative PATMAN. In a case like that.

Mr. ROUSE. It is difficult and expensive.

Representative PATMAN. What about other large operators in the market? Do they also make short sales of Government securities? If so, could you give us a picture of this?

Mr. ROUSE. This I have no information on.

Representative PATMAN. I want to ask you about your expert knowledge of the market. I wonder if you have felt that the dealers have ever picked up inside information somehow concerning changes in Federal Reserve's credit policy.

Mr. ROUSE. Authoritative information you are speaking of?

Representative PATMAN. Information upon which they rely.

Mr. ROUSE. If the implication is that there is an official leak, no.

Representative PATMAN. I beg your pardon?

Mr. ROUSE. If the implication is that there is an official leak, the answer is "No." On the other hand, you have situations where they might think that a report or some story published in the press or weekly magazine or monthly magazine might be authoritative, but I would not think they would rely on it myself.

I know as a dealer I would not.

Representative PATMAN. You have never known a case where you felt that the dealers have picked up accurate information on the inside?

Mr. ROUSE. No, sir.

Representative PATMAN. You have never known a case.

Do you find that the dealers with whom you trade are usually better able to sense or dope the direction of the Fed's credit policy before the market generally becomes aware of a change in policy?

Mr. ROUSE. They make a business of it, and sometimes they are successful, just as some of the more shrewd newspaper people are.

Representative PATMAN. Of guessing what is going to happen?

Mr. ROUSE. Yes. As I said earlier in response to one of Senator Douglas's questions, as to personnel—perhaps it was you.

Representative PATMAN. That sixth sense you are talking about?

Mr. ROUSE. Yes. The people who do this business are extremely well informed, and shrewd, and you would expect that they would be able to do the type of thing you suggest. Perhaps they have to do it more often than not, to be successful.

You have me in an intangible area, and I cannot go beyond that.

Representative PATMAN. Some of them are not so good and they take losses accordingly?

Mr. ROUSE. Yes. That is right.

Representative PATMAN. You are probably the best expert in all phases of the money market. On the basis of your experience, what is the most usual origin of a reduction in interest rates? In other words, does a reduction usually come first from commercial banks, the insurance companies, the savings banks, or what? Can you describe how a reduction in interest rates most usually arises?

Mr. ROUSE. I would say fundamentally it would arise out of a slackening in the economy.

Representative PATMAN. Slackening of the economy?

Mr. ROUSE. Yes, sir.

Representative PATMAN. Have you found that some of the dealers are frequently in the position of opposing an increase in interest rates? In other words, doesn't it sometimes happen that a dealer has a large inventory of bonds, perhaps municipal bonds, which he wants to unload prior to reduction of bond prices?

Mr. ROUSE. You mean he would be resistant in his market operations? I don't think I follow that question, sir.

Representative PATMAN. In other words, are they in a position frequently of opposing an increase in interest rates because they have an inventory?

Mr. ROUSE. No one dealer is in a position to do that.

Representative PATMAN. How much of the dealer's trading is among and between themselves? Do you have any idea of that?

Mr. ROUSE. I don't really have an idea, except going back to my own experience in the late thirties, and I would say it is quite small.

Representative PATMAN. It is quite small?

Mr. ROUSE. I would say something under 10 percent.

Representative PATMAN. Under 10 percent?

Mr. ROUSE. Yes. Probably smaller than that.

Representative PATMAN. It has been said that at one time the Government securities dealers had a custom whereby one could call another and ask his quotation on a particular security and the dealer who made the call could then force the giver of the quotation to either buy or sell a certain quantity at that quotation.

Do you know about that custom and how it worked, what its purposes were and when or why it was abandoned, if it had been abandoned?

Mr. ROUSE. Yes. I don't remember when it was abandoned but it was in effect during the late 1930's. It was abandoned partially after the war. There may still be some bilateral agreements in effect. Of that I am not sure.

The purpose of it in theory was that by swapping of quotations and the dealing that would result, you would have an evening out of the market so you might have a situation come out of it that everybody who was working was making the same quotation. It didn't really work very well.

Representative PATMAN. There is no requirement like that of a recognized security dealer?

Mr. ROUSE. No, there is no requirement of that sort. In fact, most of the dealers have abandoned it.

Representative PATMAN. After the first action was taken to ease credit early in 1958, some time passed before the banks reduced the prime rate and some of the newspaper statements were to the effect that the bankers were holding out for another reduction in required reserves.

I wonder if you would give us your expert appraisal of that situation and indicate how the banks were prevailed upon to reduce the prime rate?

Mr. ROUSE. I don't think I can answer that question.

Representative PATMAN. All right, sir.

You obtain daily reports from the dealers, do you not, showing the position of each dealer? That is, the amount of their inventories, the amount of their long sales, and the amount of their short sales; is that correct?

Mr. ROUSE. We receive that information from some of the dealers. I might add from most of the dealers, but not all of the dealers.

Representative PATMAN. Of the 17 dealers why would you require it of some and not require it of the others?

Mr. ROUSE. We don't require it at all.

Representative PATMAN. They voluntarily submit it?

Mr. ROUSE. Yes.

Representative PATMAN. How many do you get it from, approximately? Two-thirds of them; half of them?

Mr. ROUSE. Three-quarters, at least.

Representative PATMAN. In other words, they consider it to their advantage, I assume, to do it or they would not do it?

Mr. ROUSE. I don't think they consider it to their advantage, sir. I think they feel it is the kind of information that the Treasury and the Open Market Committee should have if they are to carry out their responsibilities.

Representative PATMAN. I can't understand why three-quarters of them would feel that way about it and the other quarter would not. It occurs to me that it should be a recognized policy of requiring or not requiring. If it is good it should be required.

Mr. ROUSE. We think it is helpful.

Representative PATMAN. Why don't you require it of the other quarter?

Mr. ROUSE. Some of the dealers feel that it is private business and it is their business and part of their trade secrets.

Representative PATMAN. They don't want to furnish it to you.

In your experience, have you found over the past 5 years that the dealers substantially all increase their inventories of long positions in a rising market and do the opposite in a declining market?

Mr. ROUSE. Increase their position in a rising market and decrease in a declining market, yes.

Representative PATMAN. Has the New York bank made any tabulation of dealer positions by week? In other words, it would be very helpful if you would submit for the record any tabulations or charts you may have which would show what the dealer positions have been week by week over the past 5 years. In addition it would be helpful to have an analysis as to what extent all of the dealers have behaved in the same way. That is, going long on a rising market and reducing their long position in a declining market.

I am not suggesting that you reveal individual dealer data, but if you can supply an analysis it would be helpful to know how the different groups of dealers behaved on these quotations.

Mr. ROUSE. We receive this information, as you know, on a voluntary and confidential basis. We have not made any such charts as you suggest. On the other hand, I am quite willing to ask those who furnished the information if they would mind if we attempted to do that and provide it at least on a confidential basis to you.

Representative PATMAN. For the committee.

Mr. ROUSE. Not for publication. That I will do.

Representative PATMAN. We will accept it that way, I assume, Mr. Chairman, and not make it a part of the record, but subject to inspection by the chairman and members of the committee.

The CHAIRMAN. I don't quite see why you don't want to have it published if they are totals and do not identify individual firms.

Mr. ROUSE. It is their information, and I will put it up to them. It is not ours.

Representative PATMAN. I would appreciate it if you would. Of course, we should not identify individual firms but the census has the same problem.

Mr. ROUSE. Sure. Mr. Larkin may want to comment.

Mr. LARKIN. Congressman, this information is available in the joint Treasury-Federal Reserve study covering a shorter period of time. It covers part of 1957 and 1958.

The CHAIRMAN. Could you indicate the pages in this study?

Mr. LARKIN. It is in the appendix of part 2.

Mr. ROUSE. If that is the case, we will skip this.

Representative PATMAN. Thank you.

If we need additional information we will request it on the basis you suggested.

Mr. LARKIN. You will find that also covers 17 dealers.

The CHAIRMAN. I think one defect in this particular material is that it does not cover a sufficiently longer period.

Representative PATMAN. If you could expand on that under the same conditions, it would be appreciated, Mr. Rouse.

Mr. ROUSE. Very well, Mr. Patman.

Representative PATMAN. At the conferences you have with the dealers, will you tell us about those? Who participates in these conferences, what is discussed, what the main items of interest are to the dealers, and the Reserve banks, and so on?

Mr. ROUSE. The interviews with the dealers which occur each morning—

Representative PATMAN. Each morning before the market opens?

Mr. ROUSE. Each morning before the market opens. Two dealers. One comes at 9:30 and the other comes at 9:45. Each remain approximately 15 minutes. They comment on the market. The officers of the bank who participate are we three and two junior officers in the same function. Not all of us are there at one time. Sometimes one; sometimes two. Rarely more than that.

Sometimes a representative from the Board staff, or perhaps the president of another Reserve bank who might happen to be in New York, or senior officer of such a bank, or a Treasury representative might be present.

The dealer usually would be commenting on the type of business that was going on in the market since he had been there the preceding week.

Representative PATMAN. You alternate each day?

Mr. ROUSE. A different dealer each day. Some come every week. We have not space enough for all of them, so some are on a biweekly basis. I think two or three are on a biweekly basis. It is generally a review of the market that they give us as they see it. There is frequently quite a difference in their point of view one as against the other.

It affords us as observers to the market and operating as far as the System open market is concerned and as advisors to the Treasury with, I think, a very helpful cross index, if you will, of opinion as to what is going on in the market; for example, whether the type of buyers, as we heard recently, are a great number of small investors buying these 4¾ percent notes. This has been a rather unusual situation.

That is the type of information we get. We usually ask questions along that line.

As you can imagine, we have no information to volunteer unless it should be a technical question in response to Treasury finance or the like.

Representative PATMAN. You state you don't have room for any more. That is the part I couldn't answer. I thought you had all the buildings in the country that you wanted.

Mr. ROUSE. There are only five of us, and we are not all there all the time. If there were more dealers we would find a way, you can be sure of that.

Representative PATMAN. You have 17 dealers and two a day—that would take about 8 or 9 days.

Mr. ROUSE. As I say, there are two or three who come biweekly.

Representative PATMAN. One of the business magazines, Business Week, on July 12 last year, reports that during these conferences the New York Reserve bank avoids telling a dealer when his estimate of your policy is correct, but that you do give him a tip when he is way off target.

Would you agree that report is correct, and, if so, could you give us illustrations of the kinds of situations that have existed where you have given a dealer a hint that he is off target?

Mr. ROUSE. I think I will just laugh that one off, sir. It is on the ridiculous side.

Representative PATMAN. You don't want to seriously regard that one because you think it is ridiculous?

Mr. ROUSE. Obviously I don't take it seriously.

The CHAIRMAN. Then do I understand the witness to say that the article in *Business Week* was incorrect?

Mr. ROUSE. Yes, sir.

Representative PATMAN. And ridiculous, you said?

Mr. ROUSE. Yes, we just don't do that.

The CHAIRMAN. Is there a reporter from *Business Week* here?

FROM THE FLOOR. Yes, sir.

(Subsequently the following statement was received for the record:)

BUSINESS WEEK,
New York, N.Y., August 18, 1959.

The Honorable WRIGHT PATMAN,
House of Representatives,
Washington, D.C.

MY DEAR Mr. PATMAN: In response to your kind invitation, I am enclosing a statement that I would like included in the record of the hearings of the Joint Economic Committee in New York.

The statement has been approved by *Business Week*.

Sincerely yours,

M. J. ROSSANT.

"The dealers feel that they get some guidance from the discussion. 'They never tell you if you are on the right track,' says a weekly visitor, 'but they sometimes drop a hint that you're way off target. * * *'"

The quotation above, cited by Representative Patman and referred to by Mr. Rouse appeared in an article reported and written by me in the July 12, 1958, issue of *Business Week*. In the course of preparing the story, I interviewed many dealers, and the precise quotation was given to me by one of them, with the understanding that I could use it if I did not identify my source by name. I did not in fact consider using the quotation until I had checked with other dealers who confirmed it; I might add, moreover, that its substance was also supported by officials of the New York Federal Reserve Bank with whom I talked.

May I add, however, that the quotation is best read and understood in context. I trust that the committee will see fit to publish the article in full, or at least those portions that bear on the question raised by Representative Patman.

I consider that the following passages are particularly relevant:

"There's a shroud of secrecy over the Fed's operations. It never reveals the reasons for its operations, lest it tip off the dealers on its intentions. The dealers are free to interpret whether any sale or purchase is defensive or dynamic, but they do so on their own. Like a good poker player, the New York Fed—which dealers call 'the big house'—always conceals its hand.

"This discretion has sometimes been misinterpreted. Patman has pointed an accusing finger at what he calls 'the under-the-counter kind of trading' conducted in the Government market. Patman's main enemy is the Fed itself, but he has also attacked the dealers as accomplices. In his eyes, 'the biggest money market in the world' is 'the most closed market that was ever invented.'

"The dealers dispute the notion that there is anything secret or underhanded in their trading. They accept the Fed's close-mouthed attitude but they make clear that their own operations depend on their ability to do business with a great variety of accounts.

"The dealers operate in a market so competitive that R. S. Sayers, the British monetary authority, describes it as 'near perfect competition.' Whenever a dealer's prices are out of line, he is sure to be 'hit'—either by another dealer or an acute customer. If his price is too high, everyone will sell to him; if it is too low, they will all buy from him. * * *

"In some firms, policymaking is a one-man affair. In others, small committees make most of the major decisions. Childs, for instance, has a three-man group—Murray F. Borwn, manager of its New York branch, Robert Van Cleave, the firm's research chief, and Cantwell—which operates in New York but checks its decisions with Childs in Chicago.

"Most dealers acknowledge the importance of making policy decisions on a basis of economic analysis, but Lanston is the only one boasting a staff of trained economists. It is probable that he has set a trend.

"In taking positions, most dealers say that they don't 'go against the policy of the big house.' As one explained, 'You're just asking for losses if you load up on bonds when the Fed is tightening credit.'

"The heads of most firms meet with senior Fed officials, usually weekly. From the Fed's viewpoint these meetings, which last no longer than 15 minutes, are a way to find out what dealers are thinking and to check the market.

"The dealers feel that they get some guidance from the discussion. 'They never tell you if you are on the right track,' says a weekly visitor, 'but they sometimes drop a hint that you're way off target. * * *'

"The Fed's own traders follow a 'nonfraternization' policy. Recently, a Fed trader was given a retirement party attended by outside traders who had been in almost daily telephone contact with him for over 20 years but were meeting him face to face for the first time.

"Some dealers feel that the Fed occasionally makes mistakes. In those situations, if a dealer is willing to take a risk and buck the Fed, he stands a chance of coming out way ahead."

Representative PATMAN. What is your experience as to what the main advantages are that the dealers have gained, or have not gained, from your conference, and what are the main benefits that the Open Market Account has gained from the conference with the dealers?

Mr. ROUSE. I think I have already answered that.

Representative PATMAN. Yes.

Do you feel that the benefits which the Open Market Account gains from the conferences with the dealers outweigh the risks, if there are risks, that the dealers can read your minds to an extent and gain an undue advantage?

Mr. ROUSE. Of course, there may be mindreaders among the dealers, sir.

Representative PATMAN. You don't deliberately or on purpose do it?

Mr. ROUSE. I would say this; I would say that the officers in this function certainly lean backwards in trying to avoid giving any hint of system policy.

Representative PATMAN. What effect have changes in a discount rate have on bill prices? In other words, is the effect immediate, if there is any effect, and do bill prices increase or decrease so as to change the yield in proportion to the change in the discount rate?

Mr. ROUSE. I think there is a tendency for bill prices to adjust to the discount rate in time. Actually you have a situation currently where the Treasury bill prices after tending to adjust to the discount rate have now declined so that they are at 3 percent instead of 3.30 percent with a discount rate of $3\frac{1}{2}$ percent, representing to a large degree the investment of liquidity, I believe, of business corporations. There is also a certain amount of storm cellar financing, interest in a short Treasury bill.

Representative PATMAN. Some of the directors of the Reserve banks are also directors or officers of private banks as well as some of the other financial institutions. Do you know if that is correct?

Mr. ROUSE. Some of the directors?

Representative PATMAN. Yes, sir. Directors of the Reserve banks are also directors and officers of private banks?

Mr. ROUSE. Yes. We have three directors that may be and we have three other directors that are elected, one by large banks, one by medium size banks, and one by small banks, as you know.

Representative PATMAN. Although they cannot be officers, they can be stockholders in banks?

Mr. ROUSE. They can be, but the stockholdings of the directors—the bank stockholdings of the directors of the Federal Reserve banks—I think you will find are negligible.

Representative PATMAN. Are what?

Mr. ROUSE. Are negligible.

Representative PATMAN. We went into that one time. Mr. Martin made the statement before a congressional committee when I was interrogating him that they did not own stock. I challenged that statement. I asked him to interrogate each one and ask certain questions, which was done, and the information disclosed that a majority of them were stockholders in banks. So that is a matter of public record.

Mr. ROUSE. I have not seen the figures, but I think I stick to my story that I think they are negligible.

Representative PATMAN. I think if you will examine that information you will find that the majority of them are owners of stock.

Mr. ROUSE. That may be true, but the holdings would be negligible.

Representative PATMAN. We did not interrogate them as to the extent of their holdings.

Mr. ROUSE. I see.

Representative PATMAN. The directors of the Federal Reserve bank know, of course, when they have recommended a change in the discount rate. Have you ever learned that word of a recommended change in the discount rate has reached any of the dealers before the change in the rate was announced?

Mr. ROUSE. No, sir.

Representative PATMAN. Never have.

When you buy or sell a large quantity of bills, do the dealers know within a matter of minutes or an hour or so what the total amount of your purchase or sale has been?

Mr. ROUSE. This I can't answer with any authority.

Representative PATMAN. In the joint report of the Treasury and Federal Reserve Board on the investigation of the market, much is said about improving the flow of information to the market and providing better statistical data. I wonder why when you make a sale or purchase you do not announce it immediately and state what quantity you have traded and at what price. What would be the effect of such a practice?

Mr. ROUSE. I don't know. It might have some effect. It would seem to me that the information that is released weekly as to the net of our transactions is adequate, and I judge from market people that they feel so, too.

Representative PATMAN. Since this was brought up and since you have not considered it, would you mind bringing it up with the people who are concerned with this work?

Mr. ROUSE. I think this may have come up in the consultations and they were to consider and prepare paper on the need for statistical information, and that is to be a subject of active study in the near future.

Representative PATMAN. Some of the newspapers, the New York Times and perhaps the Wall Street Journal, carry quotations on the

market price of Treasury bills. Do you find these a pretty reliable source of information about these prices?

Mr. ROUSE. Yes.

Representative PATMAN. Is it true that you obtain quotations from a number of dealers and make up an average of the market price each day?

Mr. ROUSE. Excuse me, may I revert to the preceding question?

Representative PATMAN. Yes, sir.

Mr. ROUSE. Mr. Larkin points out that these quotations that are published vary. I think it is logical that they would, because they are obtained from different sources and there are apt to be minor changes.

I would be glad to show you this if you come down to our trading room.

Representative PATMAN. That is the average of the market. You think it is a good thing the way it is done?

Mr. ROUSE. I think the market should be published so that people have points of reference.

Representative PATMAN. Why do you not make this average of the market price public each day so that the general public has access to the information? Why don't you do it?

Mr. ROUSE. We do. We make it available.

Representative PATMAN. Each day?

Mr. ROUSE. Each day.

Representative PATMAN. And it is published in the New York Times and the Wall Street Journal, and what other papers?

Mr. ROUSE. We make it available. To what extent it is used, I don't know.

Representative PATMAN. You make it available to all papers?

Mr. ROUSE. If they wish it. It is there for them to get.

Representative PATMAN. Has anyone in the New York Reserve Bank ever informed any of the dealers what its average on a market quotation was on a current basis?

Mr. ROUSE. You mean the composite for any one particular issue?

Representative PATMAN. What the average market quotations on a current basis is.

Mr. MARSH. I don't think we have ever told them the composite. We may give them an idea in general how we see market prices.

Representative PATMAN. What would be the effect on the dealers and also the effect on the market if, when the Open Market Committee makes a change in its credit policy, it announced that policy to the public immediately?

There is lots of talk about that, Mr. Rouse, and I wish you would answer that as fully as you can, if you please.

Mr. ROUSE. I find that difficult to deal with, sir. I can conceive of times when it might be done. There are times when it would be unwise to do it. I think the present method of letting it work out from the facts is the most effective method.

Representative PATMAN. What is the purpose of the open market operation? Is it merely to maintain a certain degree of ease or stringency on bank reserves, or is your ultimate purpose to bring about a certain level of interest rates?

Mr. ROUSE. The primary purpose, as you know, is to deal with reserves.

Representative PATMAN. That is the primary purpose. What percent of that, if you can break it down percentage-wise, would you consider was intended to have a certain level of interest rates?

Mr. ROUSE. I would say that the normal operation dealt only with reserves.

Representative PATMAN. Beg pardon?

Mr. ROUSE. One hundred percent normally.

Representative PATMAN. One hundred percent dealing with reserves?

Mr. ROUSE. Yes, sir.

Representative PATMAN. Without consideration of the level of interest rates?

Mr. ROUSE. That is right.

Representative PATMAN. What is the main thrust of the Federal Reserve monetary policies? Is it the amount of credit available or the interest rate at which the credit is available?

Mr. ROUSE. The preceding answer takes care of that.

Representative PATMAN. The reserves. Have you found that interest rates vary to a significant extent without respect to changes in the amount of bank reserves available or that the amount of bank reserves can be changed to a large extent without affecting interest rates?

Mr. ROUSE. We have found that in the money market rates can move without a movement in reserves.

Representative PATMAN. Interest rates can move without a movement in reserves?

Mr. ROUSE. Yes. We have the situation which I described a few minutes ago of movement of bill prices away from the discount rate.

Representative PATMAN. Beg pardon?

Mr. ROUSE. I described the movement of bill prices a few minutes ago, and I think that is an actual instance of that.

Representative PATMAN. In other words, would that be the general rule or would that be exceptional?

Mr. ROUSE. I think it would be exceptional based on a long period of time.

Representative PATMAN. In other words, it could move up and down without reference to reserves?

Mr. ROUSE. We see that it does.

Representative PATMAN. But it is an exceptional case?

Mr. ROUSE. It is exceptional, yes, I should say. It does not happen frequently.

Representative PATMAN. Do you find that you have a rather wide latitude for interpreting the Open Market Committee's directives? In other words, these directives as they are published seem to me to be extremely general. Do you have any trouble in interpreting these directives, Mr. Rouse?

Mr. ROUSE. I have the privilege and the duty, I might add, of sitting with the Open Market Committee at each meeting and I hear the whole discussion. I have opportunities of asking questions, if necessary, so that I don't have the difficulty that a casual reading of these directives might suggest.

Representative PATMAN. Won't you admit, Mr. Rouse, that if you just took these directives as they appear in the annual report of the

Board of Governors that it would be impossible for you to intelligently interpret them?

Mr. ROUSE. I found out some years ago—I wanted to make a talk to some of the officers in the bank about Federal Reserve policy, and I went back and studied these directives over a long period of years, and I found you could darn near chart a line and determine what the policy was going to be.

Representative PATMAN. But you had to become an expert to do that. You had to go back over a period of years.

Mr. ROUSE. I got interested in public finance a good many years ago and perhaps I was better qualified than some.

The CHAIRMAN. It so happens I was adjutant of a combat division in the field, and we would get directives from our headquarters in Washington so ambiguous in nature that you could not make out what they wanted you to do.

I finally concluded that they operated on the basis that they would give ambiguous directives and then if you did something that turned out wrong they could court-martial you. If it turned out right, they could take the credit.

This is the eternal struggle between the linemen out in the field who have to do the dirty hard work and the deep thinkers or, as Hymie Kaplan would say, the "dip thinkers," who sit in isolation either in an ivory tower or an architecturally beautiful building and hand out directives.

On this point I have a great deal of sympathy with the New York Federal Reserve Bank.

Mr. ROUSE. Perhaps I can say that there is a trace of what you are suggesting in my area of responsibility.

On the other hand, we have worked out a basis of communication with the members of the Open Market Committee which is effective. We provide them with current information steadily. We talk with them on the telephone. If there is any suggestion of our varying from even one member's concept of what the current policy is, he has the opportunity of calling one of the three of us and saying, "Rouse, you are getting out of line here." It doesn't happen very often.

Representative PATMAN. My next question bears on that.

Have disagreements between you and the staff in Washington sometimes arisen as to how to apply the Open Market Committee's policy at a particular time?

Mr. ROUSE. No, sir.

Representative PATMAN. You have the benefit of information that we as Members of Congress do not have. You sit on the conference where the policy is agreed upon, and then you have the privilege of calling over the telephone to make sure you are in accord, and everything.

That is not a comparable situation to Senator Douglas' position in the field of battle. He did not have the privilege of sitting in with these masterminds in Washington and the Chief of Staff and the rest of them, and knowing what they had in mind when they issued this directive. He did not have the privilege every time of calling them up and finding out what they meant. You do have that privilege.

Mr. ROUSE. Yes. I said I had an advantage over him.

The CHAIRMAN. That suggests a policy that these directives are used for public consumption, not for internal direction.

Mr. ROUSE. It necessarily must be couched in general terms, I think, Senator. As I said earlier, I have found in going back over the period I could plot it.

Representative PATMAN. The Open Market Account does a substantial volume of trading as an agent for foreign central banks and also for agencies of the Federal Government; is that correct?

Mr. ROUSE. Yes, sir.

Representative PATMAN. Do you have an estimate of the amount of trading you did for foreign central banks last year and also amounts you did for agencies of the Federal Government?

Mr. ROUSE. I believe so. Mr. Larkin, I think can provide it.

Representative PATMAN. Mr. Larkin, would you furnish that information, please?

Mr. LARKIN. The total was around \$8 billion.

Representative PATMAN. How much?

Mr. LARKIN. Roughly \$8 billion.

Representative PATMAN. Foreign governments?

Mr. LARKIN. Foreign central banks and international organizations.

Representative PATMAN. And the other was about agencies of the Federal Government.

Mr. LARKIN. Slightly less than \$2 billion.

Representative PATMAN. Some of the foreign central banks give you purchase or sales orders for \$10 million of Treasury bills, or \$25 million or so on, without specifying the minimum or maximum price; is that correct, Mr. Rouse?

Mr. ROUSE. I think most orders would be at the market.

Representative PATMAN. And leave it up to you?

Mr. ROUSE. Yes, sir. They are too far away.

Representative PATMAN. When you are trading for a foreign central bank or for a foreign agency you could, if you cared to do so, give the dealer a break pricewise or you could also beat the dealer's price down somewhat, could you not?

Mr. ROUSE. We do such transactions, as well as transactions for the System Account, on a competitive basis.

Representative PATMAN. What have you done in such situations? Have you sometimes given the dealers a break and at other times given the foreign central bank a break?

Mr. ROUSE. We do it on a competitive basis, sir, completely, I think. Would you agree with that?

Mr. LARKIN. Yes.

Mr. ROUSE. Best price.

Representative PATMAN. Why do foreign central banks trade with the open market rather than the dealers? Why is it that they trade with your Open Market Committee rather than trading with the dealers?

Mr. ROUSE. If we were buying Treasury bills in the market we would not want to execute contrary orders of the foreign account.

Representative PATMAN. In other words, it is more to their advantage.

Mr. ROUSE. Let me see just how to word this. If we are buying bills from the market for System Account we would not want to sell bills to the market for a foreign account and nullify what we were doing. We would be buying in order to put reserves into the market. If the foreign account operation was to take them out, we would be nullifying what we would be doing.

Representative PATMAN. I know, but I am asking you about why the foreign central banks prefer to deal with you, the Open Market Committee, rather than dealing with these 17 dealers.

Mr. ROUSE. They have their principal accounts with us. It is a central bank to central bank proposition.

Representative PATMAN. That is not anything against the private enterprise system, is it?

Mr. ROUSE. Not a thing. It is our general policy where it doesn't conflict with System policy, to execute these orders on the market at the competitive basis.

Representative PATMAN. Why is it that none of the member banks trade with the Open Market Account?

Mr. ROUSE. We want to deal only through the market. The member banks, aside from these five who have become dealers and actually make markets, do not make markets. That is the reason.

Representative PATMAN. Who pays your expenses for handling the trading in Government securities of the foreign central banks? Do you charge any fee or commission?

Mr. ROUSE. No.

Representative PATMAN. The Federal pays that?

Mr. ROUSE. The Federal would pay that, I assume.

Representative PATMAN. Does that amount to much money?

Mr. ROUSE. No, sir.

Representative PATMAN. Whatever it is, the Fed pays it?

Mr. ROUSE. There are no commissions involved.

Representative PATMAN. We have been told that the Open Market Account is dealing presently with only 17 dealers. You state that is correct. All these 17 dealers are active in trade with you all times you are trading, or are some of them just in-and-outers?

Mr. ROUSE. For the most part I would say we are trading with all of them. When we do other than these go-arounds that you spoke of, we keep track in a general sort of way of the group from whom competitive prices are gotten on a given transaction, and we use a different group or a mixed group on the next transaction, So every effort is made to treat the dealers fairly.

Representative PATMAN. Is your trading all by telephone or do you also do trading in person?

Mr. ROUSE. All by telephone.

Representative PATMAN. Do all the dealers have direct telephone lines to the Open Market Account? If so, how many, if any, do or do not?

Mr. ROUSE. All but one. That is the Continental in Chicago.

Representative PATMAN. Who pays the expenses of the telephone calls to and from the dealers?

Mr. ROUSE. We do.

Representative PATMAN. The Federal?

Mr. ROUSE. Yes, sir.

Representative PATMAN. What does a securities dealer or a bank have to do in order to be able to trade with the Open Market Account? You have explained that a while ago in answer to Senator Douglas.

Mr. ROUSE. Yes.

Representative PATMAN. What has been done to publicize the existence of the Open Market Account and the methods of trading with the account?

Mr. ROUSE. I meant to bring—I am sorry—a copy of Mr. Roosa's book so you would all have copies. That is a publication of the Federal Reserve Bank of New York and is completely descriptive of the U.S. Government securities market, I should say.

Representative PATMAN. I think I read that book. Is that the book where he said that these dealers, being professionals, and doing what you have done, reading back in the past on all these directives and analyzing them, that they can pretty well tell what is going to happen?

Mr. ROUSE. Maybe you got that from me.

Representative PATMAN. I think it is in this book somewhere.

Mr. ROUSE. You have a copy. Good. There are some 65,000 copies of that which have been printed, and I think almost entirely distributed.

Representative PATMAN. I think he in effect says that the dealers pretty well know what is going to happen if I interpret his language. His language seems rather plain.

Mr. ROUSE. This has been pretty well publicized, I should say.

Representative PATMAN. What is the Open Market Account's policy with respect to this question? Is it to try to make the most profit you can to the extent that making a profit does not conflict with your monetary objectives, or do you have profit in mind at all?

Mr. ROUSE. As the chairman said the other day, we are not concerned with profit.

Representative PATMAN. The chairman tried to pin him down on that, and I am mighty glad he did, that all things being equal he should favor bringing the most money to the Treasury. I share the chairman's view.

Would it be incorrect to say that the Open Market Account operates to a certain extent, at least on occasion, as a support market to the dealers? Have you ever lost any dealers, have any dropped out or gone broke?

Mr. ROUSE. I answered that as best I could.

Representative PATMAN. I don't believe you said he was a dealer. I think you said he was connected with a dealer; is that correct?

Mr. ROUSE. As a dealer he lost his capital.

Representative PATMAN. He lost his capital?

Mr. ROUSE. Substantially all of his capital.

Representative PATMAN. Was it by reason of any rulings of the Fed?

Mr. ROUSE. No, sir.

Representative PATMAN. It was not by reason of the Fed?

Mr. ROUSE. I think you would have to say poor judgement.

Representative PATMAN. Who decides whether and to what extent you will enter into repurchase agreements with dealers?

Mr. ROUSE. That is decided by the management of the account in accordance with the instructions of the Open Market Committee.

Representative PATMAN. There is no law permitting that, is there?

Mr. ROUSE. There is section 14 of the Federal Reserve Act, with which you are familiar, subsection 3(b).

Representative PATMAN. What part of 14 that you are talking about would give you permission to engage in the repurchase agreements?

Mr. ROUSE. To purchase securities.

Representative PATMAN. Purchase securities. You are talking about buying. This is a loan. This is a repurchase.

Mr. ROUSE. This is a purchase of securities, in my judgment.

Representative PATMAN. I know, but it is tied with an agreement to reverse the transaction, is it not?

Mr. ROUSE. We agree to resell them.

Representative PATMAN. It seems to me that is essentially a loan.

Mr. ROUSE. It is a purchase of Treasury bills or other short-term issues.

Representative PATMAN. I am not arguing with you on the definition.

Mr. ROUSE. The Comptroller of the Currency rules that some of these repurchase agreements are loans.

The CHAIRMAN. What is the difference between that and a buy-back?

Mr. ROUSE. These take all sorts of forms, and we will have to give you a paper on that subject.

(The material referred to was not received at the time the hearings were printed.)

Representative PATMAN. In my limited experience and knowledge, I would say that repurchase agreement is not buying securities. It is a loan. That is the way it looks to me, Mr. Rouse. I don't have the power of decision on this.

Mr. ROUSE. I would say that from the standpoint of the seller of the securities he probably regards it as a loan. From the standpoint of an investor or a particular type of investor which the system of Open Market Account is, it is an investment and a very useful way of inserting and withdrawing reserves from the market which facilitates our operations very materially.

Representative PATMAN. Of course, there is no meeting of the minds if it is like you say. One has one thing in mind and another has another thing.

Mr. ROUSE. Yes.

Representative PATMAN. Under what circumstances do you enter into repurchase agreements with dealers?

Mr. ROUSE. Usually in a period when we wish to insert reserves for a temporary period.

Representative PATMAN. Temporary period, just like the banks?

Mr. ROUSE. At a time when we are impressed with the needs from a reserve standpoint for funds in the market.

Representative PATMAN. You know the Federals brag about it being a banker's bank. Here is a case where you are dealing with dealers without authority of law. You are going out of your way to accommodate these dealers and they are not banks. There is nothing in the law that provides that you can do it. I am just offering that for your consideration.

Who decides what interest rate will be charged the dealers on repurchase agreements, and how is this determined?

Mr. ROUSE. The basis of the decision is that the Open Market Committee has given us authority to charge a rate which shall be no lower than the discount rate or the latest average issuing rate on 91-day bills, whichever is lower.

Representative PATMAN. You have a definite policy on that?

Mr. ROUSE. By and large it is the discount rate.

Representative PATMAN. Have you entered into repurchase agreements with any of the bank dealers or have the repurchase agreements been only with nonbank dealers?

Mr. ROUSE. They have been only with nonbank dealers.

Representative PATMAN. Has any one of the New York banks made any studies or any estimates as to the amount of profits which the dealers have made on their carry? If so, I ask that it be submitted for the record.

Will you submit the data on a monthly basis over the past 5 years, showing first, the volume of repurchase agreements outstanding, next the average interest rate charged, and the average interest yield of the market price of the securities and bonds involved in the agreement?

Did I lose you in reading that?

Mr. ROUSE. Yes, you did.

Representative PATMAN. Has anyone in the New York bank made any studies or any estimates as to the amount of profits which the dealers have made on their carry?

Mr. ROUSE. No.

Representative PATMAN. They have not?

Mr. ROUSE. We have no basis for that.

Representative PATMAN. The information is not furnished to you?

Mr. ROUSE. No.

Representative PATMAN. It is sometimes said you enter into repurchase agreements with the dealers only on your own initiative. Is that correct, or have you also responded to the dealers' request for repurchase agreements?

Mr. ROUSE. It is only on our own initiative.

Representative PATMAN. On your initiative?

Mr. ROUSE. Yes, sir.

Representative PATMAN. On these occasions when you have taken the initiative to make repurchase agreements with the dealers, what has been your purpose in initiating the repurchase agreements?

Mr. ROUSE. To insert reserves into the market.

Representative PATMAN. Affecting the reserves of the market?

Mr. ROUSE. Yes.

Representative PATMAN. It is always more reserves?

Mr. ROUSE. If we are making them, yes, sir.

Representative PATMAN. It would have to be that way.

Mr. ROUSE. It would have to be that way.

Representative PATMAN. We have been told that when the Treasury offers a new issue the Government securities dealers can make the best estimate as to what the total subscription will be. Has it been your experience that these dealers can offer about the best advice available on this subject?

Mr. ROUSE. I put it this way: They offer as good advice as anybody. Sometimes they are about as far off as the next fellow.

Representative PATMAN. Do you know whether or not the advice of the Government securities dealers is pretty widely sought by investors on the question of what the subscription to an issue will be?

Mr. ROUSE. I believe it is.

Representative PATMAN. Has the Treasury frequently sought your advice concerning rates and terms of proposed Treasury issues?

Mr. ROUSE. It usually consults the New York Reserve bank.

Representative PATMAN. Have you maintained a record as to the advice you gave?

Mr. ROUSE. No, sir.

Representative PATMAN. With reference to the bills-only policy, what has your experience been?

First, the advantages; second, the disadvantages.

The next question will be, Do you think the advantages outweigh the disadvantages, or the reverse?

Mr. ROUSE. I am debating with myself whether this question would not be better addressed to the Open Market Committee rather than to me.

Representative PATMAN. You are an agent of the Open Market Committee. You are doing the work. You are in a position to know more about it than they are. That is the reason we would like to have your opinion.

Mr. ROUSE. I would say this, sir: Generally speaking I think our operations ought to be carried on in short-term securities, and it would be the very occasional situation when there would be a reason for going into securities other than short-term securities.

I myself—I will answer this question—would prefer that the record indicate that we could execute or that there was current authority, to execute transactions in other than short-term securities. There would not be any occasion ordinarily for doing it.

I think a public prohibition against doing it is inadvisable. That is my personal opinion.

Representative PATMAN. I will not press you any further.

Do you think that the market for Government securities would be improved by public regulation of margin requirements? You discussed that in part in answer to the Senator's question, I know.

Mr. ROUSE. I do not think it would be necessary.

Representative PATMAN. You do not think it would be necessary?

Mr. ROUSE. I would reserve the right to study this study that has been made by the Federal Reserve, where data has been assembled for our discussion in the determination of a conclusion.

Representative PATMAN. Mr. Rouse, you have been very nice to answer the questions. I appreciate them very much. Many interesting questions remain however, and I would like to reserve the right, if it is satisfactory with you, to submit any of these questions or any other that I would like to, for you to answer for the record in writing.

Mr. ROUSE. I will do my best.

Representative PATMAN. Thank you very much, sir.

The CHAIRMAN. I want to thank the witness. I notice that there is one very important point covered by one of the last questions of Congressman Patman which I know raises a very delicate matter in relationships between the New York bank and the Federal Reserve Board.

But after the Senator from Illinois succeeded in forcing the publication of the 1952 report of the ad hoc committee, it then became public knowledge what was already known to some of us, that there was a difference of opinion between the New York Federal Reserve Bank and Chairman Martin on the so-called bills-only policy.

The Chairman of the Federal Reserve Board adhered very strictly to the doctrine that open market operations should only be in bills or short-time certificates. The New York bank first under Mr. Sprowl and others taking the position that this should not be an inflexible rule.

Has the New York bank changed its position in this matter?

MR. ROUSE. The New York bank is represented on the Open Market Committee by its president, and the president at the annual meeting, as we call it, in March of this year, affirmed his preference for the insertion in the operating resolution of the term, "as a general rule."

The CHAIRMAN. Therefore, did not favor the bills-only policy?

MR. ROUSE. I have gone as far as I can, sir. He is not here.

The CHAIRMAN. I believe words should mean something, and that they should not be used to conceal thought. If the president of the New York bank merely wants this as a general rule, then he does not want it as an invariable rule. Is that not true?

MR. ROUSE. It would seem to me to be so.

The CHAIRMAN. Yes. It would seem so to me. Therefore, the New York bank has not changed its position. I want to congratulate the New York bank, and will you convey my appreciation to Mr. Hayes?

MR. ROUSE. I shall do so.

The CHAIRMAN. Parenthetically the New York bank is opposed to inflation, is it not?

MR. ROUSE. Yes, sir.

The CHAIRMAN. It has been charged that anyone who is opposed to the bills-only policy is an inflationist. Don't you regard this as an unfair charge when leveled against the New York Federal Reserve Bank, of Mr. Hayes?

MR. ROUSE. I don't know about this charge.

The CHAIRMAN. The charge has been made that anyone who is opposed to the bills-only policy is an inflationist. Let me say I want to defend Mr. Hayes. I don't think he is an inflationist at all. I think he believes in the soundness of the American dollar. I would defend him against any attacks coming either from the Secretary of the Treasury, the Chairman of the Federal Reserve Board, or financial pundits.

MR. ROUSE. Good.

The CHAIRMAN. Don't you think a similar tolerance should be extended to those Members of Congress who do not subscribe to the bills-only policy?

Representative PATMAN. I share your views on this.

The CHAIRMAN. Since we come to the aid of the Federal Reserve Bank in New York, will not the Federal Reserve Bank of New York come to the aid of the beleaguered Members of Congress who against the heavy fires of opposition are trying to point out some of the absurdities in the bills-only policy?

Aristotle said that reciprocity should be one of the fundamental bases of life.

Representative PATMAN. Senator, this book has been pictured as an outstanding publication, and I agree with everything that has been said about it, by Mr. Robert V. Roosa, on Federal Reserve operation in the Government security market, and I want to read one paragraph here that I mentioned a while ago. It is on page 104:

The student interested in knowing what policy is and prepared to analyze the complex of all daily and weekly published data can generally come fairly close to knowing in a short time, close enough to justify the well-imbedded maxim of all central banks, that detailed explanation of each policy steps as taken are unnecessary and create rigidities that may handicap the full flexibility needed for close adaptation of action to quickly changing money market conditions.

Characteristically, a detailed annual review of the record published by the Board of Governors and most Federal Reserve banks and monthly Federal Reserve Bulletin and New York Reserve Bank's monthly review provide enough analyses of what was done and why soon enough after the events to permit the specialist to acquire a body of knowledge which can equip him to make informed judgments of later data and developments.

This does not mean, however, that the interpretation of central bank action and the evaluation of its influence has become like many other things in the modern day, a zone reserved for the specialist. That need not be harmful so long as those who try to interpret and evaluate can appreciate the full nature of their task, and so long as there are enough who will make the effort to give assurance that the mistakes of some will be corrected by others.

The CHAIRMAN. But not for the general public.

Thank you very much, Mr. Rouse. May I say that I have tried to study the subject for a good many years and I think that the inquiry this morning has thrown light on many issues which were completely unknown to the general public.

I want to thank you for your cooperation and coming to us. We appreciate your testimony very much.

I know that a congressional committee is frequently an awesome body to the layman, but we have only kindness in our hearts even though our questions at times may seem pointed.

I thank you very much for coming.

This afternoon we meet at 2:30, in this room, and the witness will be Mr. Girard L. Spencer, partner of Salomon Brothers & Hutzler.

(Whereupon, at 1:15 p.m., the hearing recessed, to reconvene at 2:30 p.m., the same day.)

AFTER RECESS

The committee reconvened at 2:30 p.m., Senator Paul H. Douglas (chairman of the committee) presiding.

The CHAIRMAN. The hour of 2:30 having arrived, the committee will come to order.

We appreciate very much the willingness of Mr. Spencer to take time out from his busy life to testify. As we all know, Mr. Spencer is a partner in the firm of Salomon Bros. & Hutzler, with a lot of experience in the Government securities market.

I believe you were here this morning, Mr. Spencer, and listened to the questions which were addressed to Mr. Rouse, and his replies. I understand you do not wish to submit a preliminary statement, but proceed directly to questions and answers.

STATEMENT OF GIRARD L. SPENCER, PARTNER, SALOMON BROS. & HUTZLER, NEW YORK, N.Y.; ACCOMPANIED BY JOHN BROWN, OFFICE MANAGER AND SENIOR CASHIER

Mr. SPENCER. If you will, sir.

The CHAIRMAN. Thank you very much.

You heard the questions which I addressed to Mr. Rouse on the subject of margins on Government securities. Is it your understanding that on bills, the margin is nonexistent?

Mr. SPENCER. The margin is practically nonexistent, it might be 5 or 10 basic points on a short bill which amounts to nothing.

The CHAIRMAN. You mean 5 points of 1 percent?

Mr. SPENCER. Yes. It is practically nothing. I would say, for all intents and purposes, it is nonexistent.

The CHAIRMAN. That would apply to the 182-day bill as well as to the 91-day bills?

Mr. SPENCER. Actually, it applies to all of the Treasury bills.

The CHAIRMAN. To a year?

Mr. SPENCER. To a limited extent to all securities which mature within a year. The margin on the securities that mature within a year except for bills is really the accrued interest. In other words, we borrow flat, and do not include accrued interest, which can amount to anything from half a point to perhaps a point and a quarter. The accrued interest is the protection of the lender.

The CHAIRMAN. When you say "half a point," what do you mean?

Mr. SPENCER. Five dollars a thousand. One-half of 1 percent is probably a better way to put it.

The CHAIRMAN. So you discount the Government issue by at least the amount that you would have to pay in interest?

Mr. SPENCER. Yes, sir. That is on certificates and notes. A discount bill carries no interest, as you know.

The CHAIRMAN. The discount is the interest?

Mr. SPENCER. The discount is the interest; yes.

The CHAIRMAN. Plus the profit to the dealer?

Mr. SPENCER. Yes, sir.

The CHAIRMAN. This applies on the 182-day bills, too?

Mr. SPENCER. As far as I know, it does.

The CHAIRMAN. On all under a year?

Mr. SPENCER. On all of the bills under a year.

The CHAIRMAN. On the 2-year bills, what would it be?

Mr. SPENCER. Two-year securities would be notes, not bills.

The CHAIRMAN. No margin?

Mr. SPENCER. No. They would be notes, as I say. The margin there is 2 percent, isn't it Mr. Brown?

Mr. BROWN. That is correct.

The CHAIRMAN. A margin of 2 percent?

Mr. SPENCER. Yes, sir; really 2 points.

The CHAIRMAN. Do you have any notes on which you pay only 1 percent?

Mr. SPENCER. No, sir. You go from 1 year, which is no margin except the accrued interest, right into 2 percent or 2 points, really. In other words, \$20 per thousand.

The CHAIRMAN. On the 3-year?

Mr. SPENCER. The same thing.

The CHAIRMAN. Four-year?

Mr. SPENCER. Same.

The CHAIRMAN. Five?

Mr. SPENCER. Same.

The CHAIRMAN. Ten?

Mr. SPENCER. Same.

The CHAIRMAN. Only 2 percent on 2- to 10-year?

Mr. SPENCER. Yes, sir.

The CHAIRMAN. Then the witness was wrong when he said it was 5 percent.

Mr. SPENCER. He was not talking about dealers. At least he was not talking about, shall I say, the major dealers. I do not know about the others. He was not talking about us. I believe he was talking about the individual who purchased securities on margin and purchased Government securities.

The CHAIRMAN. Not the dealers?

Mr. SPENCER. Not the dealers.

The CHAIRMAN. This requirement is imposed upon you by the stock exchange?

Mr. SPENCER. Yes, sir.

The CHAIRMAN. I thought the stock exchange required a 5-percent margin.

Mr. SPENCER. I wanted to correct that, too. That was an impression you got from Mr. Rouse this morning which was not correct. As members of the stock exchange, we have, rather than margin requirements, what they term capital charges. In other words, we are charged on our position a certain percentage of the value of the security. That is against our capital. While that has nothing to do with our borrowings at the bank at all, we must maintain our capital at a point which fully covers all of our capital charges.

That applies to the corporate bonds that we deal in, to the municipal bonds we deal in, and to preferred stocks in varying amounts. On Government bonds the capital charge is nothing for 1 year; 1 percent from 1 to 2 years; 1½ from 2 to 3; 2 from 3 to 4; 2½ from 4 to 5; and 3 percent on anything longer than that.

In corporates, it is 5 percent on AAA and 10 percent on AA, and so forth. They go from that point up. In other words, against our capital we have to maintain at all times these charges not only on our Government securities which we have in our account, but on all other securities that we are long, and in addition to that, on all future commitments which we have in the way of bidding for new issues of utilities or municipals or whatever they are.

That is the way the stock exchange regulates our business rather than margin.

The CHAIRMAN. Let me come back to governments. Even the stock exchange does not require you as a dealer to have a 5 percent margin in governments which you hold?

Mr. SPENCER. No, sir. But we do have to allocate capital to it which is for all intents and purposes the same thing.

The CHAIRMAN. If you allocate capital to it, what would be the combined margin in allocation of capital?

Mr. SPENCER. The allocation of capital would be just as I gave it to you a moment ago. That is, running up to 3 percent. When we go to the banks, that has nothing to do with our allocation of capital at all. At the banks we borrow in the way I explained to you a moment ago, from zero up to 2 percent.

The CHAIRMAN. I think you heard my questioning of Mr. Rouse in which I raised the query as to what arguments, if any, were there against (a) Federal regulation of margin requirements; and (b) higher margin requirements.

What are the arguments against that?

Mr. SPENCER. I would like to differentiate there between dealers, whether there are more than 17 dealers or less, and the speculator or the nondealer purchaser of Government securities.

In order to maintain a market of the size and breadth that is important and necessary in Government securities business, if we had to put up 5-percent margin on our entire portfolio at all times, it would very definitely limit our ability to serve our customers.

After all, our position squares off pretty much. We may be long on one security, which we have purchased from one customer. Within 10 minutes we are not necessarily going to find a buyer on the other side. We would like to match them off. That is the ideal.

But we will find a buyer of a different issue perhaps somewhere in the same maturity category. In our opinion, that evens out our position to a certain extent. For that reason, we really are not nearly as extended at any time as you would get from the figures of the volume that were published in section 2 of the report this morning.

We also move in and out of our securities with great regularity. Of course, the major part of our portfolio anyway, or inventory, if you will, is in extremely short issues because that is where the greatest part of the activity is.

If you will glance again at that second part of the study in which for about a year and a-half the volume of trade, day by day or week by week, rather, was given, you will find that somewhere between 50 and 75 percent as a minimum, and sometimes more than that, is activity in securities under 1 year. Our percentage of the business is exactly that way.

The CHAIRMAN. Is this really an argument against requiring of margins?

Mr. SPENCER. It is an argument against requiring of margin for people in our industry; yes, sir.

The CHAIRMAN. Let me ask you this: Would you be opposed to the requirement of higher margins for nonprofessionals?

Mr. SPENCER. No, sir; I would not.

The CHAIRMAN. You would not be?

Mr. SPENCER. I would not be opposed to it.

The CHAIRMAN. At present there are no such requirements?

Mr. SPENCER. The only requirement is that which is set either by the stock exchange for customers of stock exchange members, or whatever the banks themselves decide is adequate protection for them.

The CHAIRMAN. Am I right in thinking that the specialists on the New York Stock Exchange do not have margins required of them?

Mr. SPENCER. They have certain exemption, I believe. We do so little in stocks that I am really not particularly familiar with it, but my understanding is that they do have an exemption; yes, sir.

The CHAIRMAN. Are you saying that a similar exemption should be granted to you since you are in a sense specialist traders in Governments?

Mr. SPENCER. We are the market, sir. Without us I do not think there would be a market. We are a necessity to the distribution and the redistribution of Government securities.

The CHAIRMAN. But so far as the outsiders are concerned, you think it would be proper for them to have margins?

Mr. SPENCER. Let me qualify that a little bit. A very small percentage of the Government security business in normal times is done by people of the type of whom you are thinking, who borrow money to carry these securities.

The CHAIRMAN. I admit that I have not analyzed each and every sentence in these three volumes, but certainly the implication is that the trouble was caused by the outsiders.

Mr. SPENCER. As I recall it, \$1.2 billion out of the total of the 2½ went into the hands of the type of speculator you are talking about. An additional \$2 billion went into the hands of people perhaps who should not have owned them.

The CHAIRMAN. What do you mean by that?

Mr. SPENCER. Here is what happened in this particular instance. You had two issues in that refunding. You had a 1-year 1¼ percent maturity, and you had this 6-year-odd-month, 2½. The 1¼ percent rate was fairly unattractive at the time. So a number of corporations and a great many banks, too, that eventually wanted to move into the 1¼, and wanted to stay in the short-term area, decided that because of this great spread in yield and because of the outlook for the market as they saw it at that time, they could afford take the longer issue and retrade it in the market later to get into the position they wanted to get into.

This had nothing to do with margin requirements. It had nothing to do with borrowings. It simply had to do with a market judgment that turned out to be incorrect. That was a great part of the liquidation and speculation.

The CHAIRMAN. Were these nonfinancial corporations?

Mr. SPENCER. Some of them, sir; and a good many of them were the commercial banks.

The CHAIRMAN. Do I understand that what they did was not to invest their idle cash, but to use a portion of that idle cash as a thin margin upon which they bought many multiples of Government securities?

Mr. SPENCER. No, sir; that is not quite correct.

The CHAIRMAN. Is it approximately correct?

Mr. SPENCER. This was a refunding. So the only way you get these securities was in exchange for the maturing securities. There were two issues. There was a 2¾ percent and a 2⅞. I have forgotten the exact dating. They were due June 15 of that year.

These banks held the maturing security. They wanted to keep in short-term securities, but they felt they could make a profit by turning in their maturing rights. There was no cash involved in this in any way and no margin. They just felt they could take in the exchange the longer of these two securities and, in turn, trade it in the market at a profit to themselves to buy in their place the short-run securities.

The CHAIRMAN. I know there is frequently approbrium attached to the word "speculation" which is undeserved and about which speculators are properly skittish. These transactions were speculative, rather than investing.

Mr. SPENCER. Yes, they were. The eventual idea was to keep their investment portfolio in shorter maturities than the one which they exchanged their maturing obligations for.

The CHAIRMAN. This study says that the narrow margins led to overpurchase.

Mr. SPENCER. That is true.

The CHAIRMAN. Then when the hopes began to collapse, the declines which swept away the margins led to distress selling causing prices to fall still more, and therefore, the narrow margins accelerated both the upswing and the downswing.

Mr. SPENCER. I do not think it accelerated the upswing as much as it did the downswing.

The CHAIRMAN. It did accelerate the downswing?

Mr. SPENCER. Yes. That \$1,200 million was on comparatively thin margins.

The CHAIRMAN. Didn't this on the whole hurt the reputation of the United States to have these securities fall to the degree to which they did? The foreign banks followed this closely and shortly after this in September Chairman Martin made a trip to New Delhi and came back and reported that the heads of the central banks of the various countries were very distressed about the American financial position—that we had not balanced our budget, that the balance of trade was turning against us, and the price of Government securities was going down.

Didn't this hurt the United States in the eyes of the world?

Mr. SPENCER. I did not recall he said anything about Government securities, sir.

The CHAIRMAN. Wasn't that part of the general picture?

Mr. SPENCER. I wouldn't think so. After all, I can't conceive of—and I have never heard anybody even give a second thought to the basic quality of U.S. Treasury issues.

What it is worth between the date it is offered and the date that it matures is simply a question of the going interest rates at the time. I do not believe anybody, domestic or foreign, ever questioned the basic soundness of any issue.

The CHAIRMAN. I should have kept the clippings. Perhaps my memory is at fault. I felt that some of the foreign journals commented on this.

Mr. SPENCER. They may have withdrawn their money because they felt that for the time being perhaps we were going to have a chaotic condition. I am just guessing now, very frankly. They may have felt the situation was going to become even more chaotic.

The CHAIRMAN. Is it good for the Government to have a sharp fall in the prices of bonds? Does this encourage future purchases of bonds?

Mr. SPENCER. I would say it would be preferable not to have them.

The CHAIRMAN. Doesn't it discourage them, as a matter of fact? People see values in Government bonds melting away before their eyes. Doesn't this discourage their purchasing these bonds in the future?

Mr. SPENCER. It would as far as individuals are concerned; yes, sir. The CHAIRMAN. Isn't the whole made up of individuals? You are not going to give me the platonic abstraction that the whole is different from and greater than the sum of its parts?

Mr. SPENCER. No, sir. I want to say that savings in this country become more and more institutionalized. Certainly since my early days in the business, when I went around peddling bonds from door to door they have. As a result of that, it is the professional investor today who is the main purchaser of high-grade securities in this country.

I cannot be convinced that the manager of a portfolio of a life insurance company or a savings bank or a savings and loan association, or what you will of that kind, is at all concerned as to his portfolio in the long run because of fluctuations in the market in Government securities.

The CHAIRMAN. You would not oppose the imposition of trading margins in trading of Government securities other than professionals?

Mr. SPENCER. That is correct.

The CHAIRMAN. You see some advantages to it?

Mr. SPENCER. I think it might have a very definite advantage. If I may say something else for the moment, I think the Treasury has realized that.

The CHAIRMAN. I cannot get them to adopt it. I cannot even get them to consider it. If you have inside information, will you be willing to give it to me?

Mr. SPENCER. They certainly must have some thoughts along those lines when, as they do now, they require different downpayments from the different types of subscribers to their new cash securities. That certainly is in a sense requiring margins on subscription.

The CHAIRMAN. You say that this opposition may be melting slowly?

Mr. SPENCER. I can only tell you what I see. I cannot promise you any more than that.

The CHAIRMAN. Would you explain the so-called repurchase agreements to me, because these are connected with the question of margins.

Mr. SPENCER. A repurchase agreement from the point of view of the dealer is a means of borrowing money. From the point of view of the grantor of the repurchase it may be considered a short-term investment.

The CHAIRMAN. Let us take your firm, which is one of the largest and most respected firms in the business.

Mr. SPENCER. Thank you.

The CHAIRMAN. Describe how the repurchase agreement works in connection with your firm.

Mr. SPENCER. All right, sir. We have, we will say at this particular moment, a block of \$10 million bills.

The CHAIRMAN. Which you have purchased from the Treasury.

Mr. SPENCER. We may have purchased them from a commercial bank. They are in our inventory. We have to finance that inventory as long as it is in our possession. A nonfinancial corporation has \$10 million that he will use to pay the taxes or his current expenses or something similar we will say some 4 days from now.

He cannot find an exact investment security due in 4 days so he is perfectly willing to make a repurchase agreement with us which means

that he takes our securities at a rate of interest and returns them to us at the end of 4 days. He has earned interest on his money for those 4 days.

The CHAIRMAN. What do you agree to repurchase?

Mr. SPENCER. We agree to repurchase the securities at a fixed rate of return to him. In other words, we grant him X percent rate of return on the investment, from his point of view, or on the loan we make from our point of view.

The CHAIRMAN. You agree with Congressman Patman that is a loan from your point of view.

Mr. SPENCER. From our point of view it is a loan, definitely. We carry it on our books as such and when we make our annual statement, that is shown as a loan.

The CHAIRMAN. Does this mean, in effect, that the so-called non-financial corporation is able to purchase these securities without risk to itself?

Mr. SPENCER. There is a minimum of risk, I suppose. If he makes a repurchase with a dealer whose capital was not adequate or whose financial condition was not.

The CHAIRMAN. Does this do away with the need for margin requirements?

Mr. SPENCER. Actually, there is a small amount of margin in these transactions.

The CHAIRMAN. Does the existence of the repurchase agreement reduce the margin which would otherwise be required?

Mr. SPENCER. No, sir. As a matter of fact, in many instances it increases it a little bit beyond what we would have to pay at commercial banks.

The CHAIRMAN. How so? The margin requirement is supposed to be a hedge against the risk of a decrease in the value of the principal.

Mr. SPENCER. The reason we make repurchases is because it is a cheaper way to borrow. From that point of view this is what happens in many instances. Let us say that we have a security due in 8 months which is selling at par or 100. We will make a repurchase agreement and we will price them in the repurchase agreement, we will say, 99 $\frac{3}{4}$. Therefore, there is a quarter of 1 percent margin against the market at that time for a period of 4 days, which is certainly more than adequate, and which many corporate treasurers now request.

They did not request it last year. They learned their lesson. Because of last year's experience they now request it, and we are very glad to grant it. The same thing is true with repurchases with the Federal. If a bill is selling in the market bid at 3 percent, they will value it at a 3.10 or 3.15 discount in the repurchase that we make with them.

I am trying not to be technical here, sir. I hope I am not being too technical.

The CHAIRMAN. Do you think the repurchase agreement is a sound method of financing?

Mr. SPENCER. I think it is an excellent method. I think it is an excellent method both from our point of view and from the point of view of the corporation or the out-of-town bank.

The CHAIRMAN. Of course, in all this there is a conflict of interest that is involved. Members of the New York Stock Exchange were

bitterly opposed to the imposition of margins and have been opposed to any increase in margins because they said it would reduce turnover, which probably is true.

But isn't there a good deal of turnover, speculative in nature, which does not represent real savings or real investment? Isn't it desirable to squeeze as much of this out of the market as you can, so that the market will be confined primarily to investment of surplus funds, together with such hedging operations as may be necessary?

Mr. SPENCER. I think that the repurchase agreement is exactly that. It is the investment of surplus funds for temporary periods. Eventually, of course, we as dealers hope to dispose of those securities. We are not investors. We do not want to hold them until they mature. We are not particularly interested in holding them.

We want to make a little profit out of them if we can. If we have to take a loss, we want to get out as fast as we can. I think you have to differentiate between the sort of thing we are talking about and stock exchange margin requirements.

The members of the New York Stock Exchange, after all, are brokers. They are not dealers in the sense we are. They make their living by commissions. I do not want to seem unfair here; but as is perfectly human, they want to see as much activity as they possibly can.

I do not see how that sort of thing applies in the dealer arrangement of which we are talking where it is necessary, in order to maintain this market, for us to finance our position. The stock exchange broker is not financing his position. He is financing his customer's position.

The CHAIRMAN. You led up to a point that I have been very reluctant to ask because I like to respect the privacy of witnesses and do not believe in Members of Congress probing too deeply into the personal affairs of those who appear before them. But since you have led with your chin, I think perhaps you will not resent it if I ask this question:

What proportion of your gross income comes from your commissions as a broker, so to speak, and what proportion of your profits as a dealer?

Mr. SPENCER. I wouldn't have the faintest idea, sir, but I will say there again, where we trade securities between two investing institutions, we frequently trade them for a commission. I wouldn't have any idea how we can break that down.

The CHAIRMAN. What is your normal margin when you act as a broker?

Mr. SPENCER. Are you talking about Governments?

The CHAIRMAN. Yes.

Mr. SPENCER. We never act as a broker in Governments. We always act as a principal. We trade on spreads. Our commission business is in corporate securities primarily, and to some small extent in municipal securities. But in Governments we act as a dealer.

The CHAIRMAN. That is a sideline with you?

Mr. SPENCER. No, sir. It is a major part of our business.

The CHAIRMAN. That is what I thought. You always deal for yourself.

Mr. SPENCER. In Governments we always act as principal, yes, sir; never on commission.

The CHAIRMAN. This is a relatively small society to which you belong. Would you be able to state on the basis of your general knowledge whether most of your 16 associates deal for themselves or not?

Mr. SPENCER. I can only answer to Salomon Bros., sir. I do not know anything about any of the others.

The CHAIRMAN. It is never mentioned in the club?

Mr. SPENCER. There is no club.

The CHAIRMAN. There is no club. You never meet?

Mr. SPENCER. We may meet at lunch with a couple of gentlemen.

The CHAIRMAN. You never meet together?

Mr. SPENCER. No, sir. I would say very rarely. Possibly at the convention, but that is about all.

The CHAIRMAN. Conventions are an important part. You remember Adam Smith, who said gentleman of the same trade never met for merriment or otherwise, but the meeting results against the public good. You are not going to be against free enterprise, are you?

Mr. SPENCER. No, sir.

The CHAIRMAN. Let me shift the questioning to another point. You heard me question the witness this morning on the manner of using the auction system as a means of floating the initial issues of longtime Governments. In other words, applying the same method to Government securities of over 5 years' duration that is now applied in the case of bills, notes, certificates, and so on.

What is your judgment? I think this is very important.

Mr. SPENCER. Let me state my position, sir. In the first place, Mr. Rouse did mention this morning that this had been attempted in the middle 1930's. It was actually in the summer of 1935.

At that time, forgetting guaranteed issues, there were five offerings made by Secretary Morgenthau of direct Government obligations. Two of them were in the 3's of 46/48, and two of them in 2 $\frac{7}{8}$ of 55/60.

The auctions of the 2 $\frac{7}{8}$ which are the last three give some insight into the problems. In each case \$100 million was offered. In the first of the auctions they received overall subscriptions for \$530-odd million, I believe. In the second, which came some 2 weeks later, they got subscriptions for \$320 million.

In each of these cases they allotted \$100 million. In the third instance they got subscriptions for only \$148 million, or just barely covered the offering of \$100 million. In addition to that, in the third one the average price that the Treasury received was almost a full point under the then going market for the 2 $\frac{7}{8}$ of 55/60. I do not know whether that is indicative of anything or not, to be perfectly honest with you.

The CHAIRMAN. The market was not prepared by the Treasury for what was coming.

Mr. SPENCER. The thing that bothers me is not whether it is good for the market, because I think the market might very well like it. When I say the market, I am talking about the professionals, but it is still a question whether it is good for the Treasury. There are two sides to this thing. In a market such as we have had since the end of June of last year, we have had, I think, the investor shying away from making a full bid.

In other words, he would be rather concerned that he was overbidding for the security. I think there is this possibility—and this is all subject to trial and error and I think perhaps it should be tried; I am not saying it should not, but this is what we have to think about.

The CHAIRMAN. You mean we should be thoroughly prepared?

Mr. SPENCER. These are the things we have to think about. Under those circumstances, whether it would react to the benefit of the Treasury or not, I do not know. If the bidders were very cautious, you might find that the Treasury would wind up paying an interest rate higher than they do with their current methods.

I can see the possibility of it. Another possibility bothers me particularly. I think we have to think of this in a rising market. In a rising market, how you can keep the securities out of the hands of the type of speculator that went into the 2½% I do not know. They would take the initiative away from the true investor and run bids up to a point where you have a very large percentage of them in the hands of the kind of people you do not want.

The CHAIRMAN. If you required margins—

Mr. SPENCER. There is an awful lot of money that will be willing to speculate at full margins. These are the questions I have been thinking about. Very honestly, I am not at all sure it might not be a good idea to give it a try. But these are some of the things that have to be thought through before we go too far.

The CHAIRMAN. Thank you. I have taken more than a half hour. Congressman Patman?

Representative PATMAN. Mr. Spencer, it was testified here this morning that we have an aggregate transaction of about \$200 billion of Government securities a year. How does that compare with the amount of business dollarwise done on the New York Stock Exchange?

Mr. SPENCER. I cannot answer that any more than Mr. Rouse could this morning. I would guess—and I think there is a figure in the report if I remember correctly, because I glanced through it very hurriedly over the weekend—that said this is either three or four times the amount of business that is done on the stock exchange, but I am just guessing from memory. I believe it is in there somewhere.

Representative PATMAN. I have an estimate here from one of the members of the staff that it is \$10 to \$20 million in the stock markets. That means that the Government securities would be about 10 times as much.

Mr. SPENCER. Yes.

Representative PATMAN. Isn't it rather unusual in our country where we believe in some golden rule of business or some standard whereby you have some limitations and restrictions upon people in order to give everybody a fair and equal chance and opportunity and prevent injustices, that this market which is several times as big as all markets for all purposes—New York Stock Exchange, American Exchange, the commodity markets and all the rest—has no regulation of any kind whatsoever? No supervision, no guidelines, no guideposts, no margin requirements, no nothing.

Doesn't it seem kind of unusual to you that the Congress would let that go by unnoticed for such a long time?

Mr. SPENCER. Sir, in talking about a \$200 billion market, as I mentioned before, about \$150 billion of that, and possibly a little bit more, is in such very short securities that you would not regulate it

any way. Secondly, this is a market which I think we who are in it can say very proudly has never been questioned as far as ethics are concerned. It is the most highly competitive business of any I know; certainly much more competitive than anything else in the financial field, and one in which most, in fact all but a very minor percentage of the business, is done by professional investors.

I think that they in themselves are enough of a brake on the participants in this business to keep it on at least as high a level as any other financial business in the world.

Representative PATMAN. That is the operators themselves. I am not questioning them. How can you say that there is never any question raised about it when there was no investigation of it? I do not know any investigation of the market on Government securities. If there has been one, I do not know when it has been done. I do not think that an investigation by the Treasury and the Federal represents a real investigation. They would be investigating themselves

I do not think that is the kind of investigation you want any more than you would want an audit of your own people doing the auditing. It is not that kind of investigation that we need. It occurs to me that facts themselves disclose a need for some regulation.

Last June, I believe it was, when we had such an awful situation develop in the market, that is liable to happen any time. That is a warning that we should do something about it. I think something should be done about regulating the Government securities market. If you deduct the securities that are not in the marketable class like savings bonds and public trust funds, special issues, they aggregate about \$90 billion. If you deduct that from the amount of the national debt, you have less than \$200 billion trade today that could possibly be traded. That means the entire national debt turns over at least once each year.

Mr. SPENCER. Yes.

Representative PATMAN. In truth and in fact, certain parts turn over several times a year, and some of it does not turn over at all. But the average would be that the entire national debt would turn over at least once.

Mr. SPENCER. Some \$25 billion of it turns over automatically every 90 days.

Representative PATMAN. That is on account of the bills. I would not want to ask for any trade secrets, but do you have any particular way that dealers can figure out what the Fed is going to do in the market?

Mr. SPENCER. Nothing more than the published statements of the Fed which come every Thursday afternoon, and what we can judge of the basic economic picture at the time. We have no information and we have no access to any information that is not available to anybody who wants to be a student of the market.

Representative PATMAN. The statement has been made that reserves cannot be increased very rapidly through dealers. It takes time to get the reserves out over the country. About how many towns and cities in the country do you deal with as a firm?

Mr. SPENCER. I would say there is not a city in the country with inhabitants of 100,000 or more, and it may be 50,000, that we do not do business with.

Representative PATMAN. Most of that business is very fast, done by telephone?

Mr. SPENCER. It is all done by telephone with either the main offices or the branch offices we have throughout the country.

Representative PATMAN. That means that if the Fed is buying securities that the reserves would be pretty well evened out over the country very rapidly.

Mr. SPENCER. I cannot answer that, sir. I do not know. In the first instance I would say it would go either to the central reserve cities or to the major reserves cities, because we would be paying off loans which are generally made with the larger banks or paying off repurchase agreements with major corporations who, in turn, would put their funds principally in the major banks.

I cannot answer how quickly it would spread out through the financial community. I do not know. I have a suspicion it would not get out as immediately as perhaps you infer.

Representative PATMAN. Any questions that I would like to ask you before you correct your testimony, I assume it will be all right to ask you in writing and you will answer them for me.

Mr. SPENCER. I will try to do so, sir.

Representative PATMAN. Roughly what percentage of your business is done in notes and long-term governments?

Mr. SPENCER. I can only guess on this again because we do not break it down. I would say that between 60 and 70 percent of the various securities that mature within 1 year. It decreases very rapidly as we go out.

Representative PATMAN. What percentage of your business is done with customers who are located in New York City?

Mr. SPENCER. That I haven't the vaguest idea of. I am sorry. I would like to answer if I could.

Representative PATMAN. You have been with this firm a long time, I assume.

Mr. SPENCER. Since 1921, sir.

Representative PATMAN. Do you have many of your officials or employees who formerly worked in the Federal Reserve Bank of New York?

Mr. SPENCER. I do not believe we have any. No, sir.

Representative PATMAN. None of them from the Open Market Account?

Mr. SPENCER. No, sir.

Representative PATMAN. Do you have any from the Treasury of the United States?

Mr. SPENCER. No, sir.

Representative PATMAN. Do the dealers generally hire people who have had experience in the Treasury and with the Fed?

Mr. SPENCER. Again, sir, I cannot answer that. I can only answer as to our own firm.

Representative PATMAN. You have not hired any?

Mr. SPENCER. No, sir.

Representative PATMAN. What do you consider the advantages and disadvantages of the bills-only policy, Mr. Spencer?

Mr. SPENCER. I have to talk about this from my own point of view.

Representative PATMAN. Yes, sir.

Mr. SPENCER. From my own point of view, we feel that the bills-only policy is a considerable assistance to the market. We would be very concerned as dealers, or fearful perhaps is a better word, of having the largest portfolio and the only organization in the country that has perhaps unlimited funds moving in and out of all of the maturity categories of the market at any time.

It would tend in our case, and I will not talk for anyone else, to limit our willingness to take the positions which we now do in order to service our customers. That does not mean, of course, that there are not times when the Federal Reserve should move into the other markets, but as a basic general policy, I think that the market benefits from a bills-only policy.

As far as the bills-only policy as differentiating from a short-term policy, I would like to make one little point which I think is of some value. That is, that in the Federal Reserve portfolio, if they hold bills they can, as Mr. Rouse explained this morning, permit them to mature, roll them over or roll them over partially.

If they have certificates and notes, even very short ones, and they mature, I cannot conceive of any situation in which the Federal would under any circumstance let them run off instead of accepting the refunding from the Treasury. That would to a certain extent interfere with the monetary objectives of the Open Market Committee.

This does not mean that a bills-only policy is something that is sacred and we must live with forever. I do think that a bills-only policy as a basic concept is helpful to the market in general and if it is helpful to the market, I think it is helpful to the Treasury, and to the entire financial community, except under only extraordinary circumstances.

Representative PATMAN. Do you believe support should be given at some point to the long-term Government obligations by the Fed?

Mr. SPENCER. Only under the most unusual circumstances.

Representative PATMAN. Do you know of any country in the world having a central bank where the central bank does not help its parent in its financing?

Mr. SPENCER. I am not sufficiently familiar to answer that, sir. The two or three instances, I can think of, I know there is some assistance rendered, but I cannot answer beyond that.

Representative PATMAN. Do you know of any country that fails to render assistance except our own?

Mr. SPENCER. No, I do not, sir. There again it is a question of what you mean by "assistance."

Representative PATMAN. I understand. Does the Fed ever ask you to engage in repurchase agreements?

Mr. SPENCER. With them?

Representative PATMAN. Yes.

Mr. SPENCER. Yes, sir.

Representative PATMAN. What is the reason for it?

Mr. SPENCER. The reason for it is that they wish at that particular time to put temporary reserves into the market. If they buy for a portfolio account, those reserves remain in the market for an unlimited period of time, that is, until such time as they decide to dispose of them by sale.

On the other hand, if they give us repurchase agreements for a fixed number of days and their projection—indicates that in that

period of time additional reserves are required in the banking system, this method gives them the means of pinpointing the period of time that those reserves stay on the market.

Representative PATMAN. Do they make the offer attractive sometimes by letting you have an interest rate that is below a discount rate?

Mr. SPENCER. I remember exactly twice in all the years since I have run our Government bond department, which is since 1941, that that happened.

Representative PATMAN. Do you actually deliver the bonds to the Federal Reserve?

Mr. SPENCER. Yes, sir. If we do not, they raise the dickens. I can tell you that. They are after you at 3 o'clock that afternoon. The actual securities are delivered.

Representative PATMAN. You actually deliver the bonds themselves to the Federal Reserve?

Mr. SPENCER. Yes, sir.

Representative PATMAN. And you enter into this repurchase agreement which you consider to be a loan?

Mr. SPENCER. Which we consider to be a loan, and which we, in turn, in the case of the Federal, have the privilege of terminating at any time, although they do not. That is not the case with other types of repurchase agreements. In other words, we may make a repurchase agreement for a period of 4 days with the Federal. If we have sold some of the securities involved on the following day, we are permitted to pull them down and pay off that part of the repurchase agreement.

Representative PATMAN. That is all. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Javits?

Senator JAVITS. In terms of the idea of regulation of these markets, I assume that the reason for regulation would be to keep these markets honest. Is there any problem about these securities and the representations with respect to them?

Mr. SPENCER. No, sir; this is quite different from uranium stocks.

Senator JAVITS. Or to avoid manipulation?

Mr. SPENCER. That is correct.

Senator JAVITS. What is your own view as to the insurance which perhaps ought to be considered against manipulation? Do you think there is any particular need for that?

Mr. SPENCER. I do not see how an industry which I described a minute ago as the most highly competitive of any I know, that there could be any manipulation that could be successful.

Senator JAVITS. At the same time, you do agree and it is manifest that this involves an enormous amount of the economic interest of the United States?

Mr. SPENCER. Yes

Senator JAVITS. Would you say that any regulation would be required on that ground alone, because there is so much tied up here?

Mr. SPENCER. I do not think so. I feel that the industry has demonstrated its ability to conduct itself on the highest possible level. I think it has demonstrated—and this applies to the debacle of last summer, too—its ability to service the financial community under the most trying of conditions.

The only thing that I do believe, as far as information or anything else concerning the Government security industry, is that it should be available, to both the Federal Reserve and the Treasury, because I feel it is vital for them to know the picture in the market, and the amount of activity in the various maturity categories. This is something which we furnish to them and have furnished, as long as I can remember, every single day of the week.

Senator JAVITS. Is there some index or some clue that we could find if there were manipulation other than regulation?

Mr. SPENCER. I would say that the Federal Reserve could spot it in a minute.

Senator JAVITS. The Federal Reserve itself?

Mr. SPENCER. Yes.

Senator JAVITS. What do you say to Congressman Patman's point, however, that if they did they would be spotting something on themselves?

Mr. SPENCER. No. "Manipulation," as I am interpreting the word here today, means that some group in the market is manipulating a security or a group of securities for their own benefit and not in accordance with the market dictates at the moment.

Senator JAVITS. In other words, a false version of the market would be created?

Mr. SPENCER. Yes.

Senator JAVITS. You say the Federal Reserve could spot that?

Mr. SPENCER. I do not see how they could avoid finding it in a moment. As a matter of fact, I do not see how the rest of the dealers could miss it for very long.

Senator JAVITS. Would you say the alternative to regulation because of the enormous economic interest involved is some way to be sure that the Federal Reserve would be our policeman? Would that be an alternative to regulation? Perhaps we are now.

Mr. SPENCER. I think if they were willing to do it and I think to a certain extent they are now, I would say that might be a solution. It certainly should be pursued a little further.

Senator JAVITS. Picking up from what you said about your ascertaining for the governmental authorities the market situation, I would like to ask you the same questions I asked Mr. Rouse this morning about the impact of a more lively absorption of savings bonds. I call them peace bonds for obvious reasons.

I am looking for a way in which to promote their sale and looking for somewhat higher interest rates and perhaps some other more advantageous conditions, but the essence is the same.

Could you see, as a person who is engaged in judging markets, any impact upon the long-term Federal bond market if, for a change, the sales of this type of bond to the individual saver was exceeding materially the redemptions? Suppose it went the other way. Suppose instead of \$200 million or \$300 million a month excess redemptions, you had savings.

Mr. SPENCER. I think it could only help it. It would not harm it in any way. It would not absorb money that would go into the long-term Government market whether the sale of savings bonds was increased that much or not.

I go back to the same thing I said before. The Government security market for marketable issues is so largely institutionalized that the individual is not in the market under normal circumstances for investment at all. I think that anything that could be done to stimulate the sale of savings bonds would be an excellent thing for the community as a whole and, if anything, would be helpful rather than harmful to the long-term Government bonds.

Senator JAVITS. What about the factor, if there be a factor—and we are here to find out, however provocative our questioning may be—is the sheer psychology of the individual investor being willing to risk more of his money in savings bonds than he is now? What effect will that have on the institutional buying?

Mr. SPENCER. I would simply say it would increase the overall amount of savings without decreasing in any sense and to a very slight extent the amount of savings that are now institutionalized.

Senator JAVITS. It would be good?

Mr. SPENCER. Yes, sir.

Senator JAVITS. And would be helpful to the general appraisal of what these bonds are really worth and what interest rate they ought to really pay?

Mr. SPENCER. I think there is a very interesting thing that happened here in this list issue of $4\frac{3}{4}$ percent notes. I do not know whether Mr. Rouse remarked this morning about it or not, but I believe he did. We have found an amazing number—these come through banks to us or possibly stock exchange houses or others—of buyers of \$2,000, \$3,000, \$4,000, \$5,000 worth of these $4\frac{3}{4}$'s because they have found a rate of interest that will pull their money into this form of capital savings.

For the uninitiated, if the rate on savings bonds could be made adequate, and that does not mean it has to be the full market rate, I think it would be a great thing.

Senator JAVITS. Thank you very much, Mr. Spencer.

The CHAIRMAN. Congressman Patman?

Representative PATMAN. It has been suggested that there was no evidence of manipulation in the Government bond market.

Mr. SPENCER. Yes, sir.

Representative PATMAN. I want to invite your attention to the fact that in 1953 when bonds went down for some reason or no reason, and the banks purchased the bonds, in 1954 when they went up in price they sold the bonds at the right time and they earned \$424 million during that year which was several times as much they had ever made before on transactions of that type; 10 to 15 times as much, depending upon the year you pick out.

That was rather shocking at the time. I remember that 2 percent of the banks made $66\frac{2}{3}$ percent of those profits. That was not understood. We had a repetition of that performance in 1957 when bonds again for no reason or some reason went down and the banks bought them up again. In 1958, when they went up, and here is only a short period there, they could sell them and make big profits. They happened to sell them exactly at the right time. They made \$681 million profit in the early part of 1958. Two percent of the banks made two-thirds of those profits, \$681 million.

To some banks that meant \$12 million or \$1 million a month on an annual basis, but obviously it could not be on an annual basis because

there was a short period of time when they had to be sold. It happened that they sold them at exactly the right time.

Don't you think that is a little evidence of some manipulation of some kind when enormous amounts like that can be made in a short period of time in Government operations?

Mr. SPENCER. I do not call that manipulation

Representative PATMAN. What is it?

Mr. SPENCER. If I may say so, I would say that is very astute portfolio management.

Representative PATMAN. Just being very astute with the money?

Mr. SPENCER. Yes, sir. The 2 percent were unquestionably the larger banks who had the personnel best equipped to take advantage of the instability in the Government security market which I think we will always have.

Representative PATMAN. Senator Javits suggested that the Federal Reserve could probably be a good policeman. I want to invite your attention to the fact that the Federal Reserve is not in a position to be the kind of policeman, I believe, that we should have.

Senator JAVITS. If the Congressman will yield, I want to be clear that I was not suggesting that they would be a good policeman. I was trying to ascertain from the witness what were our alternatives.

Representative PATMAN. I accept the gentleman's explanation of it. The Federal Reserve, to my way of thinking, has gotten off into almost a fourth branch of Government. Instead of having a back door approach to the Treasury, it has both front and back door approaches to the Treasury. They consider themselves off to themselves somewhat.

I think they are clearly wrong, and I think the Executive is wrong when he says the Federal Reserve is an independent branch of the Government, because the law imposes upon the Executive the duty to see that the laws are faithfully executed and the Federal Reserve Act is a law just like any other law.

I think it is clearly wrong, but that is the way it is. There is no control over the Federal Reserve as far as public control is concerned. The Federal Reserve doesn't go to Congress for appropriations like all other agencies go to Congress for appropriations. The Federal Reserve is given the privilege of just issuing money, creating money, on the credit of the Nation, to buy Government bonds which they have done to the extent of about \$25 billion. They collect the interest on the bonds from the taxpayers every year, at least the Treasury does, and turns it over to the Federal Reserve and they use that for any expenses they want to use it for and turn 90 percent back to the Treasury.

It happens it is a pretty good source of revenue to the Treasury right now, about \$500 million a year. But the Federal Reserve is even objecting to that. Chairman Douglas has been trying to impress Mr. Martin, the Chairman of the Federal Reserve Board, how desirable it is for the Fed to buy bonds instead of lowering reserves, but he does not seem to be getting anywhere with it.

I do not think the Federal Reserve is the right kind of policeman

I would want to have in this matter. I would like to make that observation and tell my reasons why I did not think so.

Mr. SPENCER. I followed the reasoning of Senator Javits a moment ago and said this was possibly one.

Representative PATMAN. Yes, sir; I got his explanation.

Mr. SPENCER. I followed it in the same sense.

The CHAIRMAN. There are one or two final questions I should like to ask.

In connection with the bills-only policy, the majority of the ad hoc committee in their 1952 report advocated the bills-only policy because it would in their words "result in an increase in the depth, breadth, and resiliency of the Government securities market," and presumably they meant the long-term maturity sector of that market.

As a dealer and as one of the great authorities on this subject in the country, do you think the bills-only policy has resulted in an increase in the depth, breadth, and resiliency of the long-term Government securities market?

Mr. SPENCER. I have to answer that in reverse. I think it has prevented the market from contracting even further than it might have. That is, if we had not had the bills-only policy.

I do not think it has added anything to it.

The CHAIRMAN. You don't think the bills-only policy has added any depth, breadth, or resiliency?

Mr. SPENCER. No, sir; I do not.

The CHAIRMAN. This is a very interesting statement, because that is the direct opposite of the chief argument used for the adoption of the bills-only policy by Chairman Martin.

Mr. SPENCER. The only thing I would like to add to that, sir, is that I do think any other policy might have even decreased the breadth and resiliency of the market as I said earlier. As a help to the market I think there are many other factors which affect the Government security market much more than the bills-only policy.

The CHAIRMAN. In other words, it has not been of any benefit?

Mr. SPENCER. That is right in a negative way only.

The CHAIRMAN. I think you probably answered this question. For the sake of the record I will put it in a different way.

Do dealers such as yourself now typically carrying larger inventories of longrun bonds under present conditions of the bills-only than they did prior to the adoption of this policy? That is, do you carry a larger proportion of longrun bonds now than you did prior to 1952?

Mr. SPENCER. Since we have had a considerable expansion of debt in the intermediate field, I feel that we do carry a larger proportion of issues maturing over 1 year under the bills-only policy. And, yet, as somebody said, "I can go home and sleep at night."

The CHAIRMAN. You don't worry about shortrun fluctuations?

Mr. SPENCER. That is correct, sir.

The CHAIRMAN. This has not been the result of reserve policy?

Mr. SPENCER. No, sir.

The CHAIRMAN. All New Yorkers know Gilbert and Sullivan. You know the lines from *The Mikado*, "The flowers that bloom in the spring," have nothing to do with the case. In other words, the bills-only policy has nothing whatsoever to do with this matter.

Mr. SPENCER. I had a little thought myself a moment ago while I have been talking here. It reminded me of *Candide*.

The CHAIRMAN. You read *Voltaire*.

Mr. SPENCER. To Candide's tutor, Pangloss, his was "the best of all possible worlds." I do not want you to think I believe the Government security market is just that. But, it is nevertheless a pretty good one.

The CHAIRMAN. But not the best of all the world.

Mr. SPENCER. There is always room for improvement.

The CHAIRMAN. And it is the duty of Government to try to improve things.

Mr. SPENCER. Yes.

The CHAIRMAN. Including the Federal Reserve Board, don't you think?

Mr. SPENCER. I think that applies to probably every phase of life.

Representative PATMAN. I have just one other question.

The dealers do business among themselves, too, do they not?

Mr. SPENCER. Yes, sir, we do. It is a very small percentage of our business.

Representative PATMAN. I believe Mr. Rouse testified this morning that you have telephone connections between the dealers.

Mr. SPENCER. We have direct wires with all of the major dealers. We also have direct wires with most of the major banks in New York, whether or not they are in the Government security business.

The CHAIRMAN. But you do very little business with one another?

Mr. SPENCER. It is comparatively small.

The CHAIRMAN. Thank you, Mr. Spencer.

We meet tomorrow at 10 a.m.

(Whereupon, at 3:40 p.m., the committee recessed, to reconvene at 10 a.m., the next day, Thursday, August 6, 1959.)

EMPLOYMENT, GROWTH, AND PRICE LEVELS

THURSDAY, AUGUST 6, 1959

U.S. CONGRESS,
JOINT ECONOMIC COMMITTEE,
New York, N.Y.

The committee met at 10 a.m., pursuant to recess, in room 110, U.S. Courthouse, Foley Square, New York, N.Y., Senator Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas and Bush; and Representatives Patman, Reuss, and Widnall.

The CHAIRMAN. The hour of 10 o'clock having arrived, the committee will come to order.

The witness this morning is the executive vice president of C. F. Childs & Co., of New York, Mr. Murray F. Brown. We are very glad to welcome you, Mr. Brown. The home office of your company is, I believe, in Chicago.

STATEMENT OF MURRAY F. BROWN, EXECUTIVE VICE PRESIDENT, C. F. CHILDS & CO., NEW YORK; ACCOMPANIED BY TIMOTHY CANTWELL, VICE PRESIDENT, TRADING OPERATIONS; ROBERT VAN CLEAVE, VICE PRESIDENT FOR RESEARCH; AND CHARLES GIAMONDI, ASSISTANT TREASURER AND CASHIER

Mr. BROWN. That is correct.

The CHAIRMAN. New York is a branch office?

Mr. BROWN. That is what they like to call it.

The CHAIRMAN. The home office is in Chicago?

Mr. BROWN. That is correct, sir.

The CHAIRMAN. Your company has a very excellent reputation in Chicago, and we are very glad to welcome the New York branch here this morning. I wonder if you would be willing to identify your associates for the record.

Mr. BROWN. Yes, sir. On my extreme right is Mr. Charles Giamondi, assistant treasurer and cashier of our organization. Then Mr. Robert Van Cleave, vice president for research in the company, and Mr. Timothy Cantwell, vice president in charge of trading operations.

The CHAIRMAN. Mr. Brown, do you have a prepared statement or do you wish to proceed by question and answer?

Mr. BROWN. I have no statement to make, Senator.

First, I would like to present the committee with some books that are regarded in our business as the bible of our business.

The CHAIRMAN. Thank you very much. If the understanding is that this is a donation to the Government and not to the chairman, I

will accept it, because I make it a rule never to accept any gift worth more than \$2.50. When my term of service is up, it will be returned to the library of the Joint Economic Committee.

Mr. BROWN. There is no market for those books now.

The CHAIRMAN. They are very valuable. You have presented us with this book. May I ask if you have had time in your busy life to look over this three-volume report of the Federal Reserve and Treasury?

Mr. BROWN. We received those volumes only last week.

The CHAIRMAN. But you read them?

Mr. BROWN. I have read a good part of them; not all of them.

The CHAIRMAN. Unlike the vice president of the Federal Reserve bank, you found time to read these volumes?

Mr. BROWN. I did not read all of them, sir.

The CHAIRMAN. No, but you did read some of them?

Mr. BROWN. I read some of them.

The CHAIRMAN. You are familiar with the general nature of the contents?

Mr. BROWN. I have a general idea.

The CHAIRMAN. Thank you very much.

How many branch offices besides the New York office do you have?

Mr. BROWN. Including the home office, we have six altogether.

The CHAIRMAN. Six?

Mr. BROWN. Yes, sir.

The CHAIRMAN. In what cities are those located?

Mr. BROWN. Chicago, New York, Boston, Cleveland, Pittsburgh, and St. Louis.

The CHAIRMAN. That is, generally east of the Mississippi, with the exception of St. Louis?

Mr. BROWN. That is correct.

The CHAIRMAN. With how many banks do you do business?

Mr. BROWN. I cannot give you the exact number, but it runs into many thousands.

The CHAIRMAN. Many thousands of banks?

Mr. BROWN. Yes, sir.

The CHAIRMAN. And a great number of insurance companies?

Mr. BROWN. Yes, sir.

The CHAIRMAN. Is your business exclusively in Government securities?

Mr. BROWN. No. We also deal in municipals, corporates, and agency issues.

The CHAIRMAN. You are a bond house, not a stock house?

Mr. BROWN. We are a bond house.

The CHAIRMAN. What proportion would you say of your business is in Federal securities?

Mr. BROWN. You mean U.S. Government securities?

The CHAIRMAN. Yes.

Mr. BROWN. I would say 90 percent.

The CHAIRMAN. How much?

Mr. BROWN. Ninety percent.

The CHAIRMAN. In other words, the vast preponderance of your dealings?

Mr. BROWN. That is the principal value.

The CHAIRMAN. Do you have any estimate of the total value of Government securities in which you traded for the year 1958?

Mr. BROWN. That is regarded as a trade secret. I know what it is, yes. I would prefer not to give that information to the committee except in full confidence and in private.

The CHAIRMAN. Very well. I may say we are handicapped by the fact that we are trying to get at the totals of dealings in Federal securities and yesterday the representative of the Federal Reserve bank said that the totals could only be obtained with the permission of the Secretary of the Treasury.

We are not interested in figures of individual companies except insofar as they throw light upon the question of the total. In response to questioning yesterday, the vice president of the Federal Reserve bank of New York, I think the record will show, replied affirmatively to my question as to whether the total figure of \$200 billion in dealings in Government securities was approximately correct, and I understood his answer to be "yes." You understood the answer to be "yes"?

Mr. BROWN. Yes. That is what I read in those reports. Our guess is that it might even be larger than that.

The CHAIRMAN. The chairman of this committee likes to be conservative in any figures he gives. You think this is an approximately correct conservative estimate?

Mr. BROWN. I do.

The CHAIRMAN. It might be more?

Mr. BROWN. It might be more.

The CHAIRMAN. This only takes into account the tradings which finally come into the market. It does not take into account the local balancing of sales and purchases.

Mr. BROWN. It takes into consideration—

The CHAIRMAN. This is what comes to the New York market.

Mr. BROWN. It does not include any new emissions by the Federal Government.

The CHAIRMAN. It does not include the \$60 billion of new stuff?

Mr. BROWN. No, it does not. Not in my opinion.

The CHAIRMAN. So that when that is added it would be at least \$260 billion. Does it include the quarterly turnover of the \$25 billion in 91-day sales?

Mr. BROWN. No, I do not think it would. We are counting the sales and purchases that we make directly with the street, so-called, with other dealers, and with our customers.

The CHAIRMAN. I respect your feeling that the figures about your individual company are confidential. I am not pushing you on that point. I am trying to get at the total figures which have been given as \$200 billion.

You make the point that this does not include the new issues and refundings which amounted last year to approximately \$62 billion of Governments. You say this \$200 billion figures does not include that. If included that would make \$260 billion.

As I understand it, about \$25 billion of 91-day notes are almost perpetually in the market which are turned over four times during the year. These are not included in the \$62 billion figure.

The next question is whether your estimate of \$200 billion includes these bills?

Mr. BROWN. I would say it does not include them.

The CHAIRMAN. So adding in the 91-day notes which are turned over about four times per year would bring the total figure to about \$350 billion.

Mr. BROWN. I want to make a slight correction. When we purchase new issues of bills directly from the Federal or directly from the Treasury through the Federal, we include those in our volume.

The CHAIRMAN. So the \$60 billion would be included in the \$200 billion?

Mr. BROWN. Not the entire \$60 billion. Only that proportion of the dealers.

The CHAIRMAN. Which last year amounted to about \$12 billion. About \$50 billion consisted of refundings. I think that is approximately correct.

I want to ask a general question. This is obviously an enormous market, much larger in volume than people believe. I would like to correct one of the morning papers in the city which said that the volume of transactions amounted to \$200 million. This was either the typewriter which made a slip, the author made a slip, or the typesetter made a slip. It is at least \$200 billion, and in your judgment appreciably more.

Do you not think it would be well if we had figures indicating the total volume of transactions?

Mr. BROWN. I do.

The CHAIRMAN. Yet you heard the Federal Reserve Bank of New York yesterday declare that they saw no need for a publication of total figures?

Mr. BROWN. I do not recall it just that way.

The CHAIRMAN. It was about that way. Congressman Patman has to leave. If he has any questions, I would like to have him inquire now.

Representative PATMAN. I would like to say that for a long time Childs was the only dealer I ever heard about. I received your publications. I still have them in my files for 30 years back. I looked upon you as the original dealer in Government securities and for a long time I did not know there was any other dealer in Government securities.

I am sorry I cannot stay here. I feel we are fortunate in having you as a witness. I know the testimony you will give will be helpful to us.

The CHAIRMAN. I may say that your company and you, yourself, and your associates, have been most cooperative and courteous with our staff in the preliminary arrangements for this hearing. We appreciate it very much.

Mr. BROWN. Thank you, Mr. Patman.

The CHAIRMAN. You believe that total statistics without identifying individual firms would be very valuable?

Mr. BROWN. I do.

The CHAIRMAN. I felt that, and I have been puzzled at the reluctance of the Reserve System to issue such figures to the general public. In other words, you do not want these figures merely for yourself. You believe the general public is entitled to them; is that not true?

Mr. BROWN. Yes, sir.

The CHAIRMAN. You know pretty well by the fraternization in the trade what the total volume is; is that not true?

Mr. BROWN. We can guess at it.

The CHAIRMAN. You do not want these figures for yourself. You do not believe that this is the exclusive province of a limited group of traders. You want this information to be available to the public?

Mr. BROWN. We have no objection.

The CHAIRMAN. That is right. Because you believe that the Government security market is charged with the public interest. It is not purely a private affair.

Mr. BROWN. That is correct.

The CHAIRMAN. I want to congratulate Mr. Brown and the company which he represents for this very public-spirited attitude. It is extraordinary to see a member of the industry taking the position that this information should be published and to find a governmental agency holding back on the idea.

Senator BUSH. The figures you are talking about are the total volume of transactions in Government securities annually or monthly or whatever.

The CHAIRMAN. Annually; that is right.

Senator BUSH. Does anybody have those figures?

The CHAIRMAN. They are not published.

Senator BUSH. Is there any accumulation of such figures?

The CHAIRMAN. I imagine they are in the files of the Federal Reserve.

Senator BUSH. How would the Federal Reserve Board have such figures? I am asking for information. I do not know that they have them.

The CHAIRMAN. If the Senator from Connecticut had been here yesterday or had been able to read the transcript for yesterday he would have found that the witness for the Federal Reserve Bank said they got returns from all except a few of the smaller dealers.

You furnish figures to the Federal Reserve Bank in New York, do you not?

Mr. BROWN. Yes, we do, daily.

Senator BUSH. Do all of the 17 dealers?

Mr. BROWN. I understand that not all of them do it.

The CHAIRMAN. The bigger firms do, I think.

Mr. BROWN. I cannot answer that question.

The CHAIRMAN. In any event, it would be possible for the Federal Reserve to require the dealers to submit totals with the understanding that no dealer would be identified, just as is the case on census figures. The identity of the individual manufacturing concerns or commercial concerns is not betrayed, but the global totals are given.

I agree with you that this is very important information and I think the Federal Reserve has been negligent in not requiring this from all dealers and not publishing totals and still more negligent in resisting the efforts which we made yesterday.

Senator BUSH. Did the Federal Reserve indicate a reluctance to publish figures? Did they think it was a bad idea?

The CHAIRMAN. I think the testimony was to that effect.

Mr. BROWN. We give these figures to the Federal Reserve System on a confidential basis and that is the way we have always submitted

them. They have no right to give out these figures, according to my way of thinking, unless they consult us and other dealers and get their consent.

The CHAIRMAN. I tried to make it clear to Mr. Rouse that we do not believe that the confidence of individual concerns should be betrayed unless the individual concern is willing, but we do think the global totals are important.

Now, if we may turn to another subject, do you have a keen memory of the events in the Government bond market of June, July and August of last year?

Mr. BROWN. Fairly good.

The CHAIRMAN. I refer to that period as the debacle in the Government securities market. Someone overnight approached me with using an excessively strong term. Would you agree that I had put too much strain on the English language in referring to it as a debacle?

Mr. BROWN. That term has been used many times.

The CHAIRMAN. So that the Senator from Illinois was merely following well established usage in this respect?

Mr. BROWN. I believe so.

The CHAIRMAN. I am glad to have this confirmation because I have been subjected to a very severe tongue lashing by certain people for referring to it as a debacle.

I wonder if, for the sake of the record, you would briefly review the history of the upswing in the price of Government securities and then the downswing.

I take it that we are referring to the refunding issues by the Treasury of bonds, not of notes or certificates. Is that not true?

Mr. BROWN. You want me to review the history of the market from the beginning of the rise to the beginning of the decline?

The CHAIRMAN. Yes, in your own words, and then I will interpolate as you go along.

Mr. BROWN. Toward the end of 1957, it became fairly evident to observers that business conditions were beginning to deteriorate. Accordingly, those who were professionals in the business began to clean the decks for the next move by the Federal Reserve System.

The CHAIRMAN. You anticipated that the Reserve would move?

Mr. BROWN. Yes. The business statistics so indicated.

The CHAIRMAN. By creating member bank reserves?

Mr. BROWN. That is correct.

The CHAIRMAN. Either by reducing reserve requirements or by open market operations?

Mr. BROWN. Or changing the discount rate which they did. It is our business to try to discern what the signposts say, and, interpreting it in that manner, we naturally get ourselves on the right side of the fence, or try to.

Those things did happen and the public, having become much more sophisticated relative to the use of monetary means for accomplishing objectives toward easing money or aiding the economy, started to purchase Government securities.

At that time the Treasury made several refundings and admissions of securities which these so-called speculators that finally wound up as the sellers in the June debacle, plus banks, insurance companies,

dealers, and anybody that had commonsense and good judgement to know what the Federal was going to do.

The CHAIRMAN. You are now describing events in June 1958.

Mr. BROWN. No. I am describing the late 1957, the approach to the 1958 situation.

During that period the Federal Reserve did alter its policy to help the economy, creating more bank reserves and the market continued upward until approximately April 1958, when it started to recede somewhat. I do not think the ordinary investor, speculator, professional had yet decided that—

The CHAIRMAN. The April dip was a slight dip, was it not?

Mr. BROWN. There was a change in the price of securities during that period or around that period.

The CHAIRMAN. I wonder if you would now concentrate your discussion upon the refundings of the Treasury in June and what happened to their price.

Mr. BROWN. During the period just prior to the June refunding, there had been no short-term issue made available for the use of corporations for the payment of their income tax. Consequently, they took on two maturing issues, $2\frac{3}{8}$ and $2\frac{7}{8}$ coming due June 15, 1958, and these were used by corporations and others.

At the same time there was a tax gimmick situation for wealthy investors who had losses that they could take. I cannot go into the intricate details. I can get it for you.

The CHAIRMAN. You mean the carry-losses-back provision?

Mr. BROWN. No. It is a question of buying bonds at a premium. If they purchased bonds at a premium, they could take the loss from the time they purchased to the maturity date. There was a great deal of that. It started out in that manner. Mostly stock exchange houses sold that idea to their clients. They began to get other ideas, that is they could exchange these securities for a new issue and in an easing monetary market they could make further profits.

This built up pretty rapidly. We did not have any idea of the amounts. We could account for around \$500 million at the time which we reported in our discussions with the Federal Reserve System—weekly discussions, I mean. We, too, participated in the purchase of those securities because we had not yet come upon the idea that the economy was in an upswing until statistics began to indicate that something was afoot.

Some newspaper articles appeared at the time threw a scare into those speculative holders that were in on small margins and we began to wonder where we were going to sell the securities.

The CHAIRMAN. May I ask this question: When the Government refunded their bonds, they were issued at par; is that not true?

Mr. BROWN. The exchange took place at par.

The CHAIRMAN. At par?

Mr. BROWN. Yes, sir.

The CHAIRMAN. The bidding was in terms of amounts rather than in terms of price.

Mr. BROWN. It is not a question of bidding. It is a question of exchanging.

The CHAIRMAN. The subscribing was in terms of amounts rather than in terms of price?

Mr. BROWN. Just an exchange of par for par.

The CHAIRMAN. After the issue, to what point did these bonds rise?
Mr. BROWN. Roughly around par and $1\frac{1}{32}$ or $1\frac{1}{32}$, my memory tells me.

The CHAIRMAN. That is, half a point?

Mr. BROWN. Half a point and slightly more. Right in that area.

The CHAIRMAN. It did not rise above this?

Mr. BROWN. No, sir. Not that I recall. That is about right.

The CHAIRMAN. Then what?

Mr. BROWN. When it was realized that there were so many speculators in the market, both speculators of the type that go in on a shoe-string, plus those banks and others who had extended maturities when they should not have done so, and other corporations who took the new longer term securities because the Treasury put out a low-rate short-term obligation and they felt there was a possibility of a profit, when it became realized that there were so many in that fix, and the business statistics began to give some indication of an improvement in the economy, and these newspaper articles came along which indicated that the Federal might change its policy, that scared some people. It did not scare everybody. There were a great many people, banks and others, who did not believe that the turn had come.

It disturbed enough of the holders of the securities so that there was a tremendous number of offerings coming into the market.

The CHAIRMAN. You mean sales.

Mr. BROWN. Yes, sales. Offerings by the holder.

The CHAIRMAN. What effect did this have on price?

Mr. BROWN. The price immediately started to decline, gradually.

The CHAIRMAN. As the price declined, what about the margins on the basis of which purchases had been made?

Mr. BROWN. We do not know very much about margins. We do not have very much to do with margin buyers. We sometimes sell securities to stock exchange houses and others. We do not generally come much into contact with individual speculators in Government securities.

The CHAIRMAN. Would you agree with the statement in the study by the Federal Reserve and the Treasury, pages 37 and 38 of the second volume, the paragraph at the bottom of the page:

Most borrowers, however, were asked to put up 3 points or less of collateral and many of those were not required to commit any of their own funds. Even under the maximum margin which was most characteristic of loans to stock exchange firms—

I believe only two dealers, the Salomon Bros. and Quincey Bros. are members of the stock exchange—

because of the 5 percent minimum margin required, each change of 1 percent in the price of securities results in a 20 percent gain or loss in terms of the borrower's original equity. The extent to which this high leverage combined with overly optimistic price expectations attracted participants into the June refunding cannot be determined, but it is clear that the relatively low initial margins increased the buying potential of those who did participate.

And then there was the passage which I quoted yesterday from pages 90 and 91 of the same volume:

Because the narrow margins on some credit financing of the $2\frac{1}{8}$ percent bonds were, in fact, quickly wiped out, lenders were forced to make margin calls almost immediately to keep the value of collateral backing their financing from falling below loan value. In many instances, borrowers were unprepared to

meet these calls. Although many had the financial resources to meet the calls—and many did so in the hopes of recouping their potential losses in a subsequent market rally—others were unwilling to put more margin and moved quickly to sell out. Because of their lack of experience in Government securities trading, such sellers tended to adopt distress selling tactics in liquidating positions and in so doing, exaggerated the pace of the decline. Each significant new drop in prices elicited new margin calls which, in turn, prompted further liquidation and led to further decline.

Would you agree with that statement?

Mr. BROWN. I do.

The CHAIRMAN. In other words, the narrowness of margin led to a cumulative decline in the prices of Government securities; is that not true?

Mr. BROWN. I think so.

The CHAIRMAN. How far did that decline go?

Mr. BROWN. The decline continued until very recently.

The CHAIRMAN. Lets us take the period to late August.

Mr. BROWN. My colleagues say it was approximately 97½ at that time.

The CHAIRMAN. I thought I noticed in the report of the Federal Reserve that the decline had been 6 percent or 6 points. May I ask the staff if they have examined the Federal Reserve report?

The report of the Board and the Treasury is not indexed so it is somewhat hard to find the desired information. This record can be corrected, but it is my impression, as I remembered the study, it shows a 6-point decrease by the last week in August or the first week in September.

On a 3 percent margin, that would be more than twice the margin; is that not true?

Mr. BROWN. Yes, sir

The CHAIRMAN. That would completely wipe out the margin and before it had fully occurred would have caused distress selling.

Mr. BROWN. That would be so, sir. I do not quite agree with you on the extent of the decline up to that time.

The CHAIRMAN. Even a 2½ percent decrease would have virtually wiped out a 3 percent margin; is that not true?

Mr. BROWN. That is correct.

The CHAIRMAN. Before the margin has been completely wiped out, the distress signals began to come from the banks; is that not true?

Mr. BROWN. Yes.

The CHAIRMAN. And demanded, "You better put up more margin to protect your 3 percent," is that not so?

Mr. BROWN. Yes.

The CHAIRMAN. I think you have already answered the question that the low margins contributed to the cumulative decrease in bond prices of Government securities.

Mr. BROWN. I believe so.

The CHAIRMAN. I congratulate you on the honesty of that testimony. Do you think this decrease in the prices of Government bonds is properly a matter for congressional concern, or whether this is simply a matter for the trade?

Mr. BROWN. I do not think the fluctuations in Government bonds are of any concern to the public.

The CHAIRMAN. Not any concern for the public?

Mr. BROWN. Not particularly. I have reasons for saying that.

The CHAIRMAN. You mean the market is more or less insulated from the general financial situation and the reputation of the Government?

Mr. BROWN. I do not think the price of Government securities has anything to do with the reputation of the Government, which is involved only inasmuch as it spends more than it takes in, or finances in the wrong way. I would say that everybody knows that Government bonds are going to be paid at par. What the value of the money at maturity is, is what the public is concerned about.

Senator BUSH. But those items you mentioned would have an effect on the opinion on Government bonds.

Mr. BROWN. I believe so.

The CHAIRMAN. I find that my memory was not at fault. I will submit this to the Senator from Connecticut so he may audit my statement.

Senator BUSH. I do not question it.

The CHAIRMAN. I do not say you question it. I want you to audit the accuracy of my comment. I take the insert chart between pages 90 and 91 of the report showing the prices of the 2 $\frac{5}{8}$ and the 3 $\frac{1}{2}$ bonds. In early June it was at par or slightly above. By the end of August it was slightly below 94. By the end of October, about 93 $\frac{1}{2}$.

Would the Senator from Connecticut say whether the Senator from Illinois has read the chart correctly?

Senator BUSH. Yes.

The CHAIRMAN. In the case of the 3 $\frac{1}{2}$ percent bonds, in June the price was about 103, and by the first part of September it was below 93, and by the end of October it was about 93 $\frac{3}{4}$. May I ask the witness if that is correct?

Mr. BROWN. That is correct, sir.

The CHAIRMAN. In other words, Senators can sometimes remember these prices better than dealers. I do not want to rub it in.

Mr. BROWN. You are right.

The CHAIRMAN. I think that is all that I want to ask.

Senator Bush?

Senator BUSH. Mr. Brown, does C. F. Childs or any of these Government dealers publish a statement for the public to see their financial condition?

Mr. BROWN. I believe only one dealer publishes a statement.

Senator BUSH. Does the Federal Reserve Board receive your financial statement? Do you disclose your financial statement to any of the Government authorities?

Mr. BROWN. We do. We give our statement to all our lending banks. We give it to several State agencies, and also to the Federal Reserve System.

Senator BUSH. So it is not a tight secret by any means. There are a great many people who might have reason to want to know about it who do know about your financial condition; is that right?

Mr. BROWN. Yes, sir.

Senator BUSH. Why do you not publish your statement, then?

Mr. BROWN. It is something that we have never done.

Senator BUSH. You mean it has become so general in the last 25 years, I would say, that I wonder why a firm like yours does not publish it.

Mr. BROWN. It is a family corporation. Perhaps the family does not care to have that information divulged.

Senator BUSH. Is it a secret as to how much capital there is in your firm? Would you prefer not to state that?

Mr. BROWN. The information is available. I would say it is approximately \$4½ million, at the present time.

Senator BUSH. I beg your pardon?

Mr. BROWN. At the present time.

Senator BUSH. Do you happen to know whether that is larger or smaller than other dealers in the same line of business?

Mr. BROWN. I could only compare it with the one that is published. I do not know about the others.

Senator BUSH. Who is that?

Mr. BROWN. I understand it is the Discount Corp.

Senator BUSH. Who?

Mr. BROWN. The Discount Corp.

Senator BUSH. They publish their statement?

Mr. BROWN. Yes, sir.

Senator BUSH. What do they show?

Mr. BROWN. I think they show, going by memory now——

Senator BUSH. We will ask them. They are coming up here tomorrow. We will ask them that question.

A decline like the Senator from Illinois was talking about is an unusually sharp decline in the market; is that not right?

Mr. BROWN. Yes.

Senator BUSH. It was a really sharp break which lasted, or as you say, it still has not corrected itself very much, but it lasted certainly in a very sharp way pretty much into the late autumn of 1958, did it not?

Mr. BROWN. And has still kept going. As a matter of fact, only recently those securities have hit new low levels.

Senator BUSH. The prices are better?

Mr. BROWN. They have recovered slightly; yes.

Senator BUSH. The break, according to your testimony and the Senator's questioning, no doubt began with the forced selling or accelerated once underway by the forced selling of borrowing accounts?

Mr. BROWN. Yes, sir.

Senator BUSH. My point I am coming to is this: One has breaks like that from time to time in markets such as yours, but other things being equal, stable conditions in the mortgage market and other markets, in employment and that sort of thing, a break occasioned by over-borrowing and forced selling would likely correct itself in time, would it not?

Mr. BROWN. Yes, sir.

Senator BUSH. In other words, if the market was forced down by forced selling, it would no doubt rebound and find its level again in relation to other securities which had not been involved in the breaks, corporate bonds, municipal bonds, and other securities; is that right?

Mr. BROWN. Yes, sir.

Senator BUSH. It would find its level in the long-term money market again; is that right?

Mr. BROWN. That is correct.

Senator BUSH. Were these breaks in bonds last summer confined to Governments?

Mr. BROWN. No, sir.

Senator BUSH. Were there similar breaks in corporate bonds?

Mr. BROWN. All bond markets.

Senator BUSH. Municipal bonds, State bonds, and so forth?

Mr. BROWN. Yes.

Senator BUSH. They all joined in the procession, did they not?

Mr. BROWN. That is correct.

Senator BUSH. While I am not attempting to deprecate the importance of the margin selling that the Senator has brought out here, I think it is fair to assume that there must have been other conditions besides the margin selling that brought about this extended decline in long-term and in short-term bonds.

Mr. BROWN. That is correct. The speculation was only the fuse that set this off.

Senator BUSH. In your judgment, what was the cause of this continued decline that we have been talking about?

Mr. BROWN. I believe the cause of the continued decline was the change in Federal Reserve policy and the change in the direction of the economy and a realization on the part of investors that if business became better, money was going to get tighter.

Senator BUSH. Do you think that the lenders anticipated the needs of the borrowers by firming up interest rates before there was a demand or did the demand begin to take hold pretty rapidly and cause interest rates to rise?

Mr. BROWN. The holders of Government securities always anticipate.

Senator BUSH. That would be true of Government securities. It would not necessarily be true in other forms of borrowing.

Mr. BROWN. I am sorry, sir; I didn't quite hear you.

Senator BUSH. I agree that they certainly try to, and I think properly should try to anticipate. That would not necessarily be true of other borrowers such as those in the mortgage market and corporate issuers and so forth.

Mr. BROWN. I believe everybody in the financial business tries to anticipate. The corporate borrower, as well as the municipal borrower or any others, if they can, unless they are hampered by some factors beyond their control.

Senator BUSH. Do you think that the deficit that we incurred in the Federal budget, which was anticipated at that time, had anything to do with this sharp decline in Government bond prices?

Mr. BROWN. It most certainly did.

Senator BUSH. It had an adverse effect on the psychology of long-term investors in your opinion?

Mr. BROWN. Yes, sir.

Senator BUSH. In this report here, I observe on the opening page it is said:

The opinion was almost universally held—

This is among the people that were consulted by the inquisitors here—

The CHAIRMAN. May I say I do not think the Federal Reserve and the Treasury should be designated as inquisitors. I do not think they are comparable to the members of the inquisition.

Senator BUSH. What would you like to call them?

The CHAIRMAN. I would prefer to say investigators. I do this out of justice to the Federal Reserve.

Senator BUSH. I know the Senator always tries to treat the Federal Reserve as gently as possible.

The CHAIRMAN. Not gently, but fairly.

Senator BUSH. I am sure of that. They say that the opinion was almost universally held among those consulted that Federal fiscal policy was an overriding influence in the market for Government securities in 1958 and has been the single most important factor depressing the market in recent months. Do you agree with that?

Mr. BROWN. I do.

Senator BUSH. There has been some question from time to time, and even a slight difference of opinion between my distinguished chairman and myself regarding the extent to which this unfortunate condition of our fiscal affairs should be discussed in public. I understand in a way his position on that, but I rather hold to the view that the people should know.

The CHAIRMAN. I quite agree with you.

Senator BUSH. Wait a minute. You have not heard what I was going to say. How do you know you agree?

The CHAIRMAN. I think the people should know and have a right to know.

Senator BUSH. I was going to bring that out and ask you if you did not agree.

The CHAIRMAN. I did anticipate what you were going to say. I say I prefer it.

Senator BUSH. I would prefer to make my statement and then let you come in when you properly should.

The point is if we are going to bring about more stability and better management of our fiscal affairs, it is really important for the people to know the facts about them so that they may make known their wishes in that respect to the Members of Congress.

Do you agree with that?

Mr. BROWN. I do.

Senator BUSH. I will not ask any further questions at the moment. I would be glad to yield to the Senator.

The CHAIRMAN. I quite agree that the people should know about the deficit. I think they should also know the responsibilities for the deficit. Of the \$12½ billion deficit, between \$6 billion and \$7 billion came from a decline in revenues. That was due to the recession which a good many people tried to pretend did not exist.

Senator BUSH. What was the balance due to?

The CHAIRMAN. The balance was due to military expenditures, to the farm program, to foreign aid.

Senator BUSH. Increased expenditures.

The CHAIRMAN. Yes. But not by appropriations by Congress. This is the important point. Congress had cut the President's budget by \$8 billion in the 4 preceding years.

Senator BUSH. Is the Senator suggesting that Congress has lost complete control of Government spending which it is charged with having in the Constitution?

The CHAIRMAN. I would say that to a large degree we have. It is largely in the hands of the Executive. We now find our powers diminished.

Senator BUSH. Would the Senator like to join me in recapturing that control? I think we have lost a large measure of it, too.

The CHAIRMAN. Under legitimate circumstances. We are going to cut the President's budget this year. The foreign aid appropriation will be cut when it is finally put through. That is a large reduction. It was cut in this year between \$500 million and \$1 billion. As far as the open-end appropriations are concerned, or back-door financing is concerned, the Senator from Illinois has tried for 2 or 3 years to provide that farm price supports shall not be given on commodities for which there are no production controls. He failed in connection with the corn and feed bill.

The party to which I have the honor to belong failed in connection with the wheat bill. The biggest back-door financing that we have indulged in in this session has been at the urgent request of the administration for \$4½ billion for the World Bank and the Monetary Fund, which is back-door financing par excellence, and an additional portion of the back-door financing for the Inter-American Bank.

Since the Senator from Connecticut started this Donnybrook, I will reply in kind and say I believe in the public's right to know, but their right to know all the facts.

Senator BUSH. I wish they could get at them a little better, Senator. I agree with you about that. I wish that those who feel as you do, that we ought to get better control and balance our budget, which you have said we should, and would come up with a program that would make it possible legislatively by getting these matters before the taxation committees of the Congress, on one of which the distinguished Senator is an able member—

The CHAIRMAN. Which I did, and failing before the Finance Committee because of the opposition of the administration and the bipartisan coalition, we then brought it to the floor.

Senator BUSH. What was before the Finance Committee?

The CHAIRMAN. The plugging of tax loopholes.

Senator BUSH. Did the Finance Committee hold hearings on this?

The CHAIRMAN. Yes. This year. I demanded hearings.

Senator BUSH. You usually do.

The CHAIRMAN. It is wise. Have we terminated our passage of arms?

Senator BUSH. I yielded to you.

The CHAIRMAN. Congressman Reuss?

I want to say Congressman Reuss comes from an old banking family. I do not want to betray all his banking connections, but his family, I believe, have the controlling interest in one of the oldest and best established banks in what used to be the Northwest, and is now the Middle West. So for the benefit of the financial writers and financial community of New York who believe that all Congressmen and Senators from the Middle West are ignoramuses, I give him this introduction.

Representative REUSS. Would the part about the controlling interest be true?

Mr. BROWN. Did I hear you correctly when I thought you said in your opinion the public did not have any interest in the fluctuations in the U.S. securities?

Mr. BROWN. I do not believe I said the public had no interest. I think the public is very much interested in the fluctuations of Government securities.

Representative REUSS. Can you recall what your statement was on that? I do not mean to pick at it. I did think you expressed the view that U.S. securities would be paid off 100 cents on the dollar when they matured, and hence, it did not matter very much to the public what the intermediate price was.

Mr. BROWN. Not to the true investor. I do not recall exactly what I said.

Representative REUSS. Let me ask you, then, do you think the public and its representatives in Congress should be concerned with fluctuations in outstanding marketable U.S. securities, particularly the kind of sharp fluctuations which we have had in the last year?

Mr. BROWN. I do not think they should be too concerned about it. They should expect them as conditions in the economy change. You are bound to have fluctuations in the interest rate.

Representative REUSS. Do you not think that sharp fluctuations downward in the market price of longer term U.S. securities make it more difficult for the Treasury, when it either has to borrow additionally or when it is refunding, to sell additional U.S. securities?

Mr. BROWN. It might.

Representative REUSS. Does not that greater difficulty in selling long terms force the Treasury more and more into short terms, and particularly more and more into the sales of short terms to banking institutions?

Mr. BROWN. Yes.

Representative REUSS. Is that not a less than ideal way to manage the national debt?

Mr. BROWN. It is less than ideal.

Representative REUSS. Is not, therefore, the Congress, which is charged with maintaining the national credit, justifiably concerned about sharp fluctuations in the prices of long-term U.S. securities?

Mr. BROWN. I do not know how to answer your question. Of course, we are concerned with all manner of fluctuations, those that are particularly interested, being in the business. If you are an investor or banker, if you have your money invested in securities, you would like to see the price doing all right. However, you are more concerned with what sound monetary practices are than you are with what the interest level happens to be at any one time.

Representative REUSS. I understand perfectly your statement from the standpoint of a member of the financial community, and particularly a dealer. I think if I were a dealer I would subscribe to that statement as regards dealers.

But how about the total public interest which is represented by Congress? Would you not agree with me that sharp downward fluctuations in the market price of longer-term U.S. securities should justifiably concern Congress?

Mr. BROWN. It is an interesting subject. If you are trying to say to me that we should artificially support those securities I would disagree.

Representative REUSS. I am against artificiality financially and elsewhere.

What I asked is whether you agreed with me that Congress, and the Joint Economic Committee, and the public, have a right to be concerned with a situation in the national debt characterized by sharp downward fluctuations in the price of outstanding U.S. securities, particularly longer-term U.S. securities?

Mr. BROWN. I would say that you should be concerned and endeavor to remedy the reason for the concern. You might ask me what would that be.

Representative REUSS. I perhaps will later, but meanwhile let us go to another subject. Suppose I wanted to become a dealer in U.S. securities—and I may assure you parenthetically that irrespective of my desire in the matter it is not particularly that I shall want to exercise it—how would I go about it? How did you become a dealer?

Mr. BROWN. Get enough capital and know-how.

Representative REUSS. That is all that is needed. What I am getting at is, do you need a license, a piece of paper from anyone saying you are a dealer?

Mr. BROWN. You need a good credit standing with the banks of the country, the larger ones particularly. If you have know-how you probably will get that recognition if you have the capital.

The CHAIRMAN. Did you say know-how or know-who?

Mr. BROWN. Knowhow.

Representative REUSS. Obviously in order to be a successful dealer you need capital and know-how.

My question, however, related more to administrative requirements. Suppose you have capital and know-how, do you need anything more? Does anybody have to punch your ticket and say you are a dealer, or are you automatically a dealer?

Mr. BROWN. There are some States in which we may have to register.

Representative REUSS. Does the U.S. Treasury or the Federal Reserve System, the Open Market Committee or any other governmental agency, throwing in the Comptroller of the currency, have to authorize a dealer to become a dealer?

Mr. BROWN. No, sir.

Representative REUSS. He sets himself up himself?

Mr. BROWN. That is right. That is my belief.

Representative REUSS. Can you run through the arithmetic of dealers for me briefly? I think there are 17 dealers of all types in U.S. securities.

Mr. BROWN. That is correct.

Representative REUSS. And none of those 17 has any special license or authorization from any Federal source to be such a dealer. The Securities and Exchange Commission does not have to okay him?

Mr. BROWN. No. There are some firms that may belong to the SEC and be somewhat under the jurisdiction of that body. As far as we are concerned, and as far as those who deal mainly in Government and municipal securities, we don't have to account to the Federal.

Representative REUSS. Could the Federal Reserve System, and particularly its Open Market Committee, refuse to trade with a particular dealer for whatever reason?

Mr. BROWN. They could, but I don't think they do. If we were about to begin an organization we probably would apply to them for some kind of recognition. But there is none needed.

Representative REUSS. Now we are getting to what I am driving at and perhaps my questions have not been clear enough.

How does this application look? Is it on form V-63(b) or is it just a letter somebody writes?

Mr. BROWN. We don't have to make any application.

Representative REUSS. How do you do it?

Mr. BROWN. We hire an office and put some telephones in, put our money in the bank, and start in operating, if we know how to do it.

Representative REUSS. One of the reasons you put in the telephone is so you can call the Federal Reserve Open Market Committee and say, "I want to buy," or "I want to sell"?

Mr. BROWN. We could make that attempt, but our principal reason for going into business would be to service the public, to service the banks and other institutions that need to buy or sell Government securities.

Representative REUSS. Suppose the Federal Reserve either didn't answer your calls or said, "Sorry, but we have our 17 dealers, and they are about enough."

Mr. BROWN. I don't think they would say that. I think they would welcome more dealers. They are not that kind of people.

Representative REUSS. Suppose somebody set himself up with adequate capital, which he had procured by some ill-gotten means—

The CHAIRMAN. Or well-gotten means.

Representative REUSS. Or well-gotten means—and the Federal Reserve System on examining his record felt that he was not a financially responsible person, or someone they would not like to do business with—what then?

Mr. BROWN. I think the banks would know that, too, and they would not extend credit.

Representative REUSS. However, let us assume that this hypothetical dealer, like quite a few, is self-financed internally.

Mr. BROWN. I am afraid I didn't hear you.

Representative REUSS. Let us suppose he doesn't need to rely on bank credit.

Mr. BROWN. He couldn't be in the Government bond business. It requires a great deal of capital to be in the Government bond business, and it requires a tremendous amount of borrowing.

Representative REUSS. So what you are saying in effect is that banks through their credit powers in effect determine who can be a dealer. That is to say unless someone is credit worthy, he cannot really be an effective dealer because his own ante in a world of 3 percent margin is not enough.

Mr. BROWN. I don't know about the margins, but it depends on the banks. If you don't have a good reputation, then you don't get the money.

Representative REUSS. In conclusion on this subject, if the Federal Reserve Open Market Committee wished not to deal with a

particular dealer, it could refuse to do so as far as any law is concerned?

Mr. BROWN. I believe so.

Representative REUSS. Let me turn to the question of the so-called bills-only policy of the Federal Reserve, and ask you whether in your opinion the application of that policy has resulted in a healthier market in the long-term maturity sector over the years since its adoption in, I think, 1953, or whenever it was.

Mr. BROWN. 1951, I think.

Representative REUSS. Or 1952 or 1951, whenever it was.

Mr. BROWN. I think the market has benefited from the bills-only policy. It has more breadth, depth, and resiliency.

Representative REUSS. Those are the three virtues which its proponents ascribed to it when it was first adopted, if I am not mistaken.

Mr. BROWN. I believe so.

Representative REUSS. In view of this depth, breadth, and resiliency which you say the bills-only policy has brought to the long-term maturity sector, how do you account for the wide swings that have occurred in the market prices of bonds in recent years, and particularly the mid-1958 break which has been the subject of discussion earlier this morning.

Mr. BROWN. We are not interested in determining the level of the market. We are interested in if a Government bond can be exchanged from one hand to another. What the price is, we don't care. The breadth, depth, and resiliency of the market in my opinion means that there is a market that you can do the business you want to do. You can always do business in Government securities if you want to give, if you do business at the level where there is a buyer or a seller. You don't have any trouble. It is only those who want the price that they can't get that are kicking about the situation.

Representative REUSS. Of course there is always a buyer at some price, is there not?

Mr. BROWN. I believe so.

Representative REUSS. If the market for U.S. securities went down to 20, there would be buyers at 20?

Mr. BROWN. We think so.

Representative REUSS. But this would not be a healthy condition from the standpoint of the public interest or congressional interest for the reasons that I have described before, would it?

Mr. BROWN. I don't recall all your reasons, sir.

Representative REUSS. I will recall them to you. My reasons were that as the market price of U.S. securities fluctuates sharply downward, it becomes much more difficult for the Treasury to consummate current financing on a sound basis, and it is tempted inexorably to go more and more into short-terms and more and more to load the banks with U.S. securities. If you disagree with me, that those are not good conditions, I will be glad to give you my reasons for them. But it seems to me rather widely accepted that those are not good ways to manage the debt.

Mr. BROWN. I believe that is correct. If the Treasury is in difficulty or the country is in difficulty and the price of the bonds is down, the Treasury has to resort to short-term security sales. That is not a healthy situation.

Representative REUSS. What you mean, then, by saying that the bills-only policy has brought depth, breadth, and resiliency to the long-term bond market, is that at some price you are able to find buyers for U.S. bonds?

Mr. BROWN. That is part of the answer; yes. There is more to it than that, however.

Representative REUSS. Before we go on to the "more to it," I would pick out a difference of view between yourself and myself. I do think it is a matter of public concern at what price U.S. securities sell, and particularly the sharpness and depth of the fluctuations of U.S. bonds.

Be that as it may, let me ask you now the other attributes of depth, breadth, and resiliency which you feel the bills-only policy has brought about.

You said, one, that you have always been able to find buyers at a price.

What other good things come about from a bills-only policy?

Mr. BROWN. In the breadth of the market there are more individuals holding long-term bonds today than there were a year ago. I don't recall the exact figures, but I think it must be somewhere in the neighborhood of $2\frac{1}{4}$ billion or $2\frac{1}{2}$ billion. The public has been interested in the bond market recently and the higher rates have brought them in. We recently had a $4\frac{3}{4}$ percent issue on which we made more sales which we can account as going to individuals than in any issue within my memory.

Representative REUSS. This is within the last year. The period we are comparing is pre-bills-only days with post-bills-only days.

Is it true that since the adoption of the bills-only policy around 1952 that long-term bondholdings have increased? Just the contrary is the fact, is it not? Is it not a fact that the average maturity of the entire marketable area of U.S. securities has declined from on the order of 5 years 8 months, to on the order of 4 years 7 months?

Mr. BROWN. That is correct.

Representative REUSS. Do you point to that as a great achievement?

Mr. BROWN. We have been in a period of rising interest rates for many years past. We can trace the trend in interest rates upward back to the days of the peg, back to 1951 when the Federal Reserve and the Treasury made their agreement.

Since then the Government securities market has been allowed to seek its own natural level. It has been affected by supply and demand factors which previously were not allowed to take place.

Representative REUSS. The result has been, among others, that the public holds more U.S. bonds than it did, and the average maturity has gone down on the order of more than 20 percent; is that not so?

Mr. BROWN. That is so, because the Government securities were not as attractive as other forms of investment, and because of the fiscal policy being followed by the Government, money was attracted into other forms of investment.

Representative REUSS. Does your firm carry a larger inventory of U.S. bonds under present conditions than it did prior to the adoption of the bills-only policy? If you object to answering that for your firm for any reason, just tell me what your impression is of dealers generally.

Mr. BROWN. I would say that under the bills-only policy we would be much more willing to maintain a substantial position than otherwise.

Representative REUSS. In long-term bonds?

Mr. BROWN. That is correct.

In all areas of the market, but particularly in long-term bonds. We may not want those anyhow. We would probably carry a larger inventory on the theory that we could more nearly figure out what might happen than if the Federal Reserve were instructed or followed as a policy a manipulation of the long-term Government securities market by purchases and sales.

Because what might seem logical to us at one moment might seem logical to the Federal who might try to offset the very things that you might figure to happen, and we would very quickly be out of business.

Representative REUSS. Do you have figures on the inventories of U.S. bonds by the dealers for the last 10 years?

Mr. BROWN. We have no knowledge of that. Those figures are not public.

Representative REUSS. Can you suggest any way whereby this committee could get hold of figures on the holdings of U.S. bonds by dealers in inventory over the last 10 years? This, of course, is very significant to this committee because if it turns out that the adoption of the bills-only policy has produced a greatly increased inventory of U.S. bonds by dealers, we would like to know this, or if the contrary, we would like to know.

Mr. BROWN. I know of no figures concerning dealer inventories except those possessed by the Federal Reserve Bank of New York, to which we report every day. We cannot speak for other dealers, but if you want to get the figures from the Federal Reserve bank and publish them in the aggregate and can get permission of all of the dealers, we will go along.

The CHAIRMAN. They declined to furnish those figures yesterday, except upon their being released by the Secretary of the Treasury for whom they act as agent, and by the dealers.

Would you be willing to give your consent to having the Federal Reserve Bank of New York publish the global totals?

Mr. BROWN. Yes, sir.

The CHAIRMAN. Thank you very much. This is in keeping with the public and cooperative spirit which your firm has shown.

Representative REUSS. Would you be willing in the event that the Federal Reserve feels itself constrained not to publish the global totals because it can't get the asset of each one of the 17 dealers, would you be willing that your own firm's totals be published?

Mr. BROWN. We would not.

Representative REUSS. Thank you.

The CHAIRMAN. Congressman Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Unfortunately I was not able to be here yesterday, so I didn't hear the testimony at that time. But I understand that there is considerable talk about the contributing factors to the 1958 violent fluctuation in prices. Much of that is attributed to excessive speculation. Do you feel that there should be margin requirements in connection with dealings in Government bonds?

Mr. BROWN. I don't think they are necessary. Personally, I would have no objection unless they were put on dealers. You would hamper the operation of the dealers if you put on margin requirements that were excessive.

Representative WIDNALL. In what way would it hamper operations?

Mr. BROWN. A dealer has to borrow a great deal of money. I do not think that any dealer has capital sufficiently large to take care of the tremendous flow of Government securities that is going through the market. You must keep in mind that the Government dealers are aiding the Federal Reserve in the distribution of reserves or the contraction of reserves.

Every bank in the country is settling its balances by the sale of Treasury bills or certificates or other short-term paper. There is a constant flow. It would be impossible for any dealer or any bank, as a matter of fact, I believe, to finance without the ability to borrow very large sums of money on very short-term paper.

Representative WIDNALL. If there had been margin requirements on nondealers, do you think that would have had a marked effect on the price fluctuation?

Mr. BROWN. Yes, sir.

Representative WIDNALL. If margin requirements were put into effect, what do you think would be a safe margin to be asked of a non-dealer?

Mr. BROWN. It would depend on the circumstances. If you would put a 5 percent margin you may invite more speculators than you have today because you would be publicizing the fact that a fellow could make 1 dollar work 20 times. You should leave that to some authority like the Federal Reserve System and give them sufficient latitude so that they can operate and make any margin requirements that are necessary to the times.

Representative WIDNALL. But you feel if this was imposed upon the dealers it would materially handicap the Government bond market?

Mr. BROWN. I believe so.

Representative WIDNALL. On the basis of your own experience, could you give us any idea as to how profitable over the long pull dealings are in Treasury issues as compared to operation by the bond dealers in other types of securities?

Mr. BROWN. I would say it is pretty poor. That is probably one reason why you don't have more Government security dealers. There is not enough money in the business.

Representative WIDNALL. Why is that so; and the charges are made that you make such excessive profits.

Mr. BROWN. We do not make excessive profits.

Representative WIDNALL. Are there any figures available that can be placed in the record to make those comparisons between profits of the dealers in bonds in non-Government securities as against those who deal in the Government securities?

Mr. BROWN. I don't know of any way you can do it except if you got the statement or balance sheet of every firm in the business.

Representative WIDNALL. This next question has four parts to it. In your opinion, what would be the implications of a move by the Treasury toward auction marketing of long-terms, first on interest costs to the Government?

Mr. BROWN. It might cost them more and it might cost them less. It all depends on what kind of market you are in.

If you are in a bear market, or down market, and interest rates are increasing, you will pay more for the money. If you are in an up market, you will attract more speculators. You will find folks who are anticipating and who would cause the cost to the Treasury to drop. It will work two ways.

Representative WIDNALL. In other words, it will be comparable to our present experience. It will cost more or less, depending on the nature of the demand at the time.

Mr. BROWN. I believe so.

Representative WIDNALL. What about the auction marketing of long-terms as to the breadth of the market? Would it increase the market or lessen the market?

Mr. BROWN. I think it would be inclined to keep the public out more than the present system.

Representative WIDNALL. On what do you base that?

Mr. BROWN. An auction is for professionals, banks, sophisticates in the market. They have more knowledge of what to bid and how to bid. The general public wouldn't know what to do. So the professionals would simply put in bids, depending on the trends of the market, and figure on a lower market or putting in throwaway bids and things of that sort.

In a higher market, we figure the market is going higher so we pay a good price to unload on the public at a higher price.

Representative WIDNALL. What effect do you think it would have on access by long-term investors in the market?

Mr. BROWN. The auction?

Representative WIDNALL. Yes.

Mr. BROWN. I don't think long-term investors could act rapidly enough to take advantage of an auction if they knew enough to take advantage of it. I am only giving you my personal opinions.

Representative WIDNALL. That is all I am asking you for. The other is as to the stability of the market. Do you think an auction marketing program would give more stability or less stability than the present?

Mr. BROWN. My personal opinion is that it would give less stability to the market.

Representative WIDNALL. Earlier Representative Reuss amazed me by saying that he was against artificiality. I would like to ask you a couple of questions. Maybe I should ask them of Congressman Reuss.

Do you think if the Government lends money at 2 $\frac{3}{8}$ percent and borrows it at 4 percent, that is artificial?

Mr. BROWN. It seems so.

Representative WIDNALL. The reason I ask that question is that I think Representative Reuss is for a number of those programs where we lend money at less than we borrow the money for our Government purposes.

Do you think it is artificial if the Government exercises the par purchase requirement of mortgages in the FNMA program?

Mr. BROWN. Please restate your question.

Representative WIDNALL. In the FNMA program—the Federal National Mortgage Association program—the Government is required

to purchase mortgages at par and not through operation of the market. Do you think that is artificial?

Mr. BROWN. If your statement is correct that they are obliged to purchase mortgages at par. I don't believe they are. They may be obliged to purchase some types of mortgages at par. FNMA buys mortgages at a discount.

Representative WIDNALL. Perhaps this is an unfair question to ask you, because you are probably not familiar with that program.

Mr. BROWN. I am not.

Representative WIDNALL. There is a type of program where the Government is required to purchase mortgages at par. It doesn't reflect the operation of supply and demand at all. I am merely trying to point out that there are a number of programs that Congress has enacted that are completely artificial as to operation, and I am rather amazed at the statement that Representative Reuss made earlier that he is against artificiality because they are as artificial as anything.

Representative REUSS. Would the gentleman yield?

Representative WIDNALL. Yes.

The CHAIRMAN. Before the gentleman yields, I would like to say for the benefit of the audience that they have discovered what attendants to congressional hearings commonly realize, that there tends to be a running battle between members of the committee during the examination of witnesses.

Representative REUSS. Yes. I don't want to prolong it because I think Mr. Brown is being most helpful and generous by coming here, and I would not want to embroil him in the great Republicans versus Democrats controversy. I would ask the gentleman, my friend Mr. Widnall, is he against FNMA purchases of securities which permit housing for the elderly?

Representative WIDNALL. I am against the type of program that is being suggested in the present Congress and was included in Senate bill 57, vetoed by the President, where there is direct lending by the Government at an artificial pegged interest rate. This is classed as social legislation, and therefore you are supposed to be able to do this. This is the philosophy where you can't in other circumstances.

There are always other roads that can be taken where the facilities are furnished just as well without cost to the taxpayer. We have that going on right now in the housing program.

The CHAIRMAN. Congressman Reuss.

Representative REUSS. I would just say in conclusion that the gentleman has opened up a whole field of subsidies and some other time, without taking the time of the witness, I hope we can discuss subsidies to magazines, and the carrying of them at a subsidized rate; subsidies to the airline industry, subsidies to shipbuilding, subsidies to shipping lines, each one of which, it seems to me, has to be considered on its own merits.

I unblushingly am entirely willing to use the power of the Federal Government to make possible housing for the elderly as one example.

Representative WIDNALL. My point was artificiality.

Thank you very much.

The CHAIRMAN. We came to the question of margins. I take it you are not opposed to the imposition of margins on purchases of Government securities, other than the 17 specialists?

Mr. BROWN. I won't say we are for it. We are not against it.

The CHAIRMAN. You say you are not opposed to it?

Mr. BROWN. That is correct, sir.

The CHAIRMAN. I understood you to say that you would be opposed to the imposition of excessive margins upon the 17.

Mr. BROWN. Yes, sir.

The CHAIRMAN. Would you be opposed to the imposition of adequate but not excessive margins?

Senator BUSH. Tell me what adequate means.

The CHAIRMAN. Wait a minute.

Mr. BROWN. It all depends on what you mean by adequate.

The CHAIRMAN. That was the next question. What do you regard as an adequate but not excessive margin for insiders?

Mr. BROWN. I think it must be determined by the lender. I think our banks are doing a remarkable job. I think they are quite capable.

The CHAIRMAN. It was testified that the margin on short-time Governments was virtually nonexistent. Two or three hundredths of a point, as I remember it. Evidence seems to indicate that margins of 1 or 2 percent on notes or certificates, 3 percent or a little over on bonds of 5 years' duration. Do you regard those as adequate but not excessive?

Mr. BROWN. Yes.

The CHAIRMAN. Would a 5 percent requirement be adequate but not excessive?

Mr. BROWN. Under certain circumstances.

The CHAIRMAN. This is not the universal rule now.

Mr. BROWN. It all depends on the lender. Banks have been dealing with Government security deals for a long while and they have learned by the evolutionary process what they can do.

The CHAIRMAN. You can trust the lenders to protect the public interest. I think you minimize the public interest in these fluctuations. That is, you do not regard the public interest as being greatly involved?

Mr. BROWN. I do not.

The CHAIRMAN. Therefore, you feel this is a private matter primarily between lenders and borrowers and the lender can be trusted to protect himself and not have margins which are too low?

Mr. BROWN. I think so.

The CHAIRMAN. Do you feel the same way about margins for noninsiders?

Mr. BROWN. Yes, I do.

The CHAIRMAN. That the banks can be trusted. So there is no need of any public regulation in your judgement?

Mr. BROWN. I do not believe so.

The CHAIRMAN. Yet in the absence of this resolution you had the cumulative decline in the prices of Government securities which, as we have seen, amounted to approximately 10 points or 10 percent in the case of the 3½'s last year in the space of 2 months, and approximately 6 to 7 percent in the case of the 25/8's.

You have testified that the sharpness and extent of this decline was intensified by the low margins, have you not?

Mr. BROWN. Yes, sir; I have.

The CHAIRMAN. But you say this does not require public action.

Mr. BROWN. I wouldn't say it has done any particular damage except to the speculators themselves, and they have learned their lesson. The lenders came out fine.

The CHAIRMAN. The profits of the banks last year were quite adequate in their dealings with Government securities.

Mr. BROWN. They operated at a profit, so I understand, but I can't tell you what it is.

The CHAIRMAN. I think the hearings will reflect that the profits of the bank last year amounted to \$641 million, I think it is about \$641 million.

Mr. BROWN. I am sorry, sir, I did not hear you.

The CHAIRMAN. Congressman Patman introduced figures based on the monthly reports of the Federal Reserve Board that the profits of banks last year in dealings with Government securities amounted, if the memory of the Senator from Illinois is correct, to approximately \$641 million.

I will again ask the staff to see if my memory is correct.

I want to say that the Senator from Illinois does not pretend in this instance to be correct within a few millions of dollars. He will allow for a margin of 5 percent for error in his memory.

Senator BUSH. The Congressman did not relate his figures to any other figures.

The CHAIRMAN. That is right.

Senator BUSH. He just pulled it out of the hat.

The CHAIRMAN. No, it was not pulled out of the hat. It was pulled out of the report of the Federal Reserve Board. I want to say that the Federal Reserve Board is not in the business of selling hats.

Representative REUSS. Though they sometimes wear two of them.

The CHAIRMAN. They do.

Mr. BROWN. I have some figures, Senator, if you would like to hear them.

The CHAIRMAN. First I want to check the accuracy of my memory.

Senator BUSH. Would the Senator yield for a question while the research is in process?

The CHAIRMAN. Yes, with the understanding that the remarks of the Senator will come at the end of the examination by the Senator from Illinois.

Senator BUSH. Listening about this colloquy about the declines in bonds has been very interesting. But is it not true that when people come into the government market and buy Government bonds they buy bonds that will be paid off at maturity, and nobody doubts that?

Mr. BROWN. That is right.

Senator BUSH. So the important thing, it seems to me, to have in mind when we are considering these matters, is that the fluctuation as far as the public interest is concerned is a very minor matter, because if you buy a bond that is due in 2½ years from now, a Federal security, you know you are going to get it. You should not buy it unless you are willing to hold it through possible declines and maybe it will go up and maybe it will go down. If it goes down you need not worry because you will get your money back 2½ years hence, with interest. I think that is the important thing to remember. As far as the public interest is concerned, people who trade in the market for profits, capital gains, or whatever, they do that at their peril.

But if they are bona fide investors, which is what we really need, especially in the long-term market, they invest to hold to maturity. If they do not want to do that, if they change their minds, they know at the outset when they buy the issue that there is risk in it. But there is no risk so far as dollars are concerned if they hold to maturity.

Do you agree with that?

Mr. BROWN. I do.

Representative REUSS. May I comment while the research is going on?

The CHAIRMAN. Yes.

Representative REUSS. I suggest to my colleague, Senator Bush, that one of the troubles with the U.S. bond market right now is that investors are aware of the risk of downward fluctuation, and that is why they are to a lamentable degree staying away from it, and that is why we have the crisis in debt management which has been exercising Congress.

I am sure the gentleman would feel as strongly as I do that anything that can be done to make U.S. securities more attractive to investors should be done because it is important that we have a strong and continuing market for new securities.

We may disagree as to how to do it, but I am sure we agree on the end result.

Senator BUSH. I am not so sure that we do agree, because my recollection is that the gentleman has been imposing the removing of the interest ceiling, which I would favor very strongly. You are not agreeing with me on that point.

Representative REUSS. Yes, sir, I do. You have me all wrong. I am for taking the 4¼ percent ceiling and accompanying it by some advice from the custodians of the national credit, for example, the Congress, to its deputy, the Federal Reserve, on how to minimize the chances that it will be necessary to use this power to any very great extent, this power to put a coupon greater than 4¼ percent out.

Senator BUSH. I am very glad to be corrected on the gentleman's position, and apologize for having a mistaken impression.

Representative REUSS. I hope the gentleman will go along with me on the matter of advice to the Federal Reserve.

Senator BUSH. I assure the gentleman I certainly will not.

The CHAIRMAN. If we may revert to the question of profits on dealings of insured commercial banks, published in the Federal Reserve Bulletin for June, page 695, total profits on dealings in all securities, \$681.5 million. The one stuck in my mind, the six stuck in my mind, but I had the four. I had \$641 million. I was in error of \$40 million, or something like 6 percent, and exceeded the limit which I tried to set for myself of 5 percent.

I would like to point out that this covers all securities, not merely Government securities. It is somewhat hard to differentiate, but on interest and dividends on U.S. Governments, \$1,544 million, and others, 501, 502. So at least three-quarters of the earnings came from Governments.

Therefore, I do not think it is too far off to say that three-quarters of the profits possibly came from the Governments, which would make net earnings on the sale of Governments on this basis not far from \$500 million rather than \$641 million.

In any event, what you are saying is that the lenders did not do badly in 1958.

Mr. BROWN. That is right, sir, in 1958.

The CHAIRMAN. Then who took it on the chin in 1958?

Mr. BROWN. The lenders also took it on the chin.

The CHAIRMAN. Not as a whole. Some of them did.

Mr. BROWN. As far as they reported or as far as these figures are concerned. Banks operate on two types of years. They have a profit year or a loss year. A bank will operate one year to make a profit and the other year to take a loss.

The CHAIRMAN. I am speaking of 1958, which was the year of the debacle. Apparently the banks did all right.

Mr. BROWN. They had established their profits prior to the debacle in most cases.

The CHAIRMAN. This is supposed to be for the calendar year, not for the fiscal year. I suppose such differences as we have, Mr. Brown, come from a question as to whether this is a matter of public concern and interest. If you deny that and say that this is merely a matter of private transactions between buyers and sellers and lenders and borrowers, then you can say the declines in the prices are of no public concern and therefore no proper field for action by Congress so far as margins or other requirements are concerned.

The issue turns simply on that question which I suppose we can't settle this morning but which I think should be discussed in some detail. I agree with Congressman Reuss personally that this is a matter of public concern, and affects the public credit both actually and psychologically.

(Senator Bush subsequently submitted the following for the record:)

All insured commercial banks—Profits (+) or losses (—) on securities

[Millions of dollars]

Year	Profits	Losses	Net	Year	Profits	Losses	Net
1950.....	90.5	38.7	+51.8	1955.....	57.1	221.2	-164.1
1951.....	56.6	83.8	-27.2	1956.....	31.2	317.4	-286.2
1952.....	33.8	97.5	-63.7	1957.....	64.4	237.5	-173.1
1953.....	38.9	156.0	-117.1	1958.....	681.6	93.7	+587.9
1954.....	416.5	66.7	+349.8				

NOTE.—Summary is as follows:

3 profit years.....	\$989,500,000
6 loss years.....	831,400,000
9 years net.....	158,100,000

Source: FDIC 1958 reports.

The CHAIRMAN. Now let me turn to another matter, if I may.

When the accord was negotiated and the obligation of the Federal Reserve to support the Government bond market was removed—and the Senator from Illinois played a leading part in getting that accord through—the Reserve made an exception that in the case of a disorderly market they come in to support the market.

Would you characterize the fall of 10 percent in 3½s, and 7 percent in the price of 2½s occurring in the space of a relatively few weeks as a disorderly market?

Mr. BROWN. Not necessarily.

The CHAIRMAN. How much of a decrease would you have to have in order to have a disorderly market?

Mr. BROWN. As long as there are buyers and sellers there is no disorder, in my opinion.

The CHAIRMAN. Even in the great stock market debacle of fall of 1929 there were buyers. There was never a day, I think, in which all trading dried up on the stock exchange. Every student of economics knows that the demand function is a continuous one, and that there will be a given quantity demand—not a fixed quantity, but a quantity demand—at any price.

You are saying that as long as there are purchasers it is not a disorderly market. Let us use Congressman Reuss's illustration, suppose the market breaks to 20. At that point there will be those who would purchase Government bonds.

Would you say that was a disorderly market?

Mr. BROWN. I would say a disorderly market is one in which there is practically no market at all and no buyers.

The CHAIRMAN. The market has to disappear. The sharpness and degree of price fall has nothing to do with the question of whether it is disorderly.

Mr. BROWN. That is my judgment.

The CHAIRMAN. I congratulate you on your frankness, and I am very glad this is on the record, and I don't hold it against you because you have said this. It raises a very interesting point.

You are saying no matter how sharp the decline may be, as long as there are any transactions it is not a disorderly market and therefore the Federal Reserve is under no obligation to prevent the disorderly market from occurring. Therefore, the Federal Reserve did not make any error in failing to come to the support of the market in the summer of 1958.

Mr. BROWN. But they did come to its support.

Senator BUSH. Will the Senator yield?

The CHAIRMAN. Yes.

Senator BUSH. I think it is fair to say that what the witness is talking about is as a professional about the market.

The CHAIRMAN. I understand.

Senator BUSH. You are talking about something a little different, which is whether it is a good idea for the market to fall to 20 as Congressman Reuss said, or to go down 10 points in 2 or 3 months. What he is saying, as I understand it, it is perfectly possible for that to happen, and it did happen in an orderly market.

In other words, where there are always buyers and sellers and they are making the prices on the way down, but there was always a market and a big market. It was big. I hope you don't mind my making that observation, because I think he is trying his best to cooperate with us, and very ably, as you agree.

But there is a lack of understanding on the word "market". Market is sometimes erroneously spoken of as price. He is talking about it as a marketplace, as I see it.

The CHAIRMAN. I would say I have never noticed any riotous conduct by the dealers in Government securities in the marketplace of Government securities. As far as I am concerned, I think their conduct has been decorous in the extreme. It has been an orderly marketplace.

But I don't think that the Federal Reserve was concerned with the order in the place so much as the sharpness of the decline.

It is true that our trains of thought go somewhat by each other. The witness and his associates are very skilled specialists. It is natural when they discuss these issues they should discuss them in the light of their daily experience. We are not skilled in this field and we betray our ignorance frequently. But we are charged with the public interest. Really this is a very real issue here: The sharpness of decline in these issues which has occurred, is it a matter of public concern or is it something which merely concerns specialists. I am not putting words in the witness's mouth, but has said this is not a matter of public concern.

Congressman Patman.

Representative PATMAN. I would like to ask one or two questions, if you please.

Are you an advocate of the bills-only policy?

Mr. BROWN. Yes, sir.

Representative PATMAN. Suppose the Fed should decide that if the long-term bonds of intermediates should go down to where they would yield more than 5 percent, that their policy would be to support the market? Would that meet with your approval or do you think it would be wrong?

Mr. BROWN. I think it would be wrong.

Representative PATMAN. Is there any point at which you think the Fed should support the market?

Mr. BROWN. In time of emergency, dire necessity. In the case of war.

Representative PATMAN. Suppose it went down to 50. Would you say that the Fed should come in and do something about it?

Mr. BROWN. No; I think Congress should do something about it.

Representative PATMAN. The Fed is our agent.

Mr. BROWN. I don't believe that the Federal needs to do anything in the way of support of Government bond prices excepting in very rare cases, war or some dramatic catastrophe of some kind.

Representative PATMAN. Do you know of any other central bank in the world that fails to come to the aid of its parent government in a case like that?

Mr. BROWN. All I know is that they are all in trouble.

Representative PATMAN. Let us see if they are in trouble. What about Belgium, what about England, what about West Germany?

Mr. BROWN. I cannot give you the individual history of any of the foreign banks. That is not my specialty.

Representative PATMAN. Take West Germany. That is a new country. They have a central bank, and the central bank supports the Government.

What is wrong with that?

Mr. BROWN. I don't think they got so much support since the inflation.

Representative PATMAN. I thought they had considerable support. I was there last year and was impressed with it. Every bank supports their government except in the United States, and they have seceded from the Government.

Mr. Brown, yesterday the testimony was that all the dealers here had interlocking telephone connections. They had telephone con-

nections with one another. Do you have that in Chicago with the New York dealers?

Mr. BROWN. Our telephone connection with other dealers is mainly in New York.

Representative PATMAN. You have a New York Office?

Mr. BROWN. Yes, sir.

Representative PATMAN. But your Chicago office does not interlock with the New York office?

Mr. BROWN. We have a direct connecting wire system with all.

Representative PATMAN. Since this accord has been brought up so many times I want to say something about that. I have refrained out of respect for Senator Douglas, but he understands my views, and I understand his. I have great respect for Senator Douglas.

The CHAIRMAN. I want to say I have similar respect for the Congressman.

Representative PATMAN. Thank you, sir.

We get along fine because we talk frankly and forthrightly. But here is a statement I want the Senator to consider. I accepted the figures for a long time that was given about the great benefit that is supposed to come to the country from the reason of the so-called accord. I don't agree that there is an accord at all. I will call it a so-called accord. An analysis of the growth of the money supply for a 4-year period since 1946 shows that from 1946 to 1950 the money supply as measured by time and demand deposits and currencies, grew by 8.5 percent while the gross national product in constant dollars grew by 12.6 percent in the same period.

After the peg was removed on the other hand, the money supply in the 4-year period following the Federal Reserve-Treasury accord increased by 17.7 percent, while output failed to keep pace, and increased by only 14.1 percent.

As we move to the latest 4-year period of the growth, we find a startling swelling of the money supply by 14.9 percent, while production lagged behind at 9.9 percent growth, representing only two-thirds the growth rate of the money supply.

The accompanying tables illustrate the growth and money supply output and show the increases and the interest rate.

In other words, the money supply increased, but we did not have a comparable growth in our economy.

At the same time, of course, the interest rates greatly increased. I have the table here which I would like to insert with the whole statement in the record, Mr. Chairman, including the tables and the gross national product, and money supplies. It is 3 pages.

(The information referred to follows:)

INFLATIONARY INCREASES IN THE MONEY SUPPLY BEFORE AND AFTER THE FEDERAL RESERVE-TREASURY ACCORD

It is generally recognized that increasing the money supply at a faster rate than increases in output of goods and services is inflationary. But holding down increases in the money supply to less than the rate at which the economy tries to grow restricts that growth. During World War II and up until the beginning of 1951, the Federal Reserve was committed to buy Government bonds whenever necessary to prevent the market prices from falling below par—which meant a maximum interest rate of 2½ percent. The Federal Reserve contended that it had to buy so many bonds to maintain the peg that it increased the money supply too fast and caused inflation.

An analysis of the growth of the money supply by 4-year periods since 1946 shows that from 1946 to 1950 the money supply (as measured by time and demand deposits and currency) grew by 8.5 percent while the gross national product (in constant dollars) grew by 12.6 percent in the same period.

After the peg was removed, on the other hand, the money supply in the 4-year period following the Federal Reserve-Treasury accord increased by 17.7 percent; while output failed to keep pace and increased by only 14.1 percent.

As we move to the latest 4-year period of growth, we find a startling swelling of the money supply by 14.9 percent while production lagged behind at 9.9 percent growth—representing only two-thirds the growth rate of the money supply. The accompanying tables illustrate the growth in the money supply and output and show the increases in interest rates.

Increase in money supply as a ratio of real increase in gross national product

[In percent]

	Currency in circulation, plus—		
	All time and demand deposits (including savings banks and postal savings)	Time and demand deposits in commercial banks	Demand deposits in commercial banks
1946-50.....	67	57	44
1950-54.....	126	89	104
1954-58.....	151	94	67

NOTE.—The above figures are computed from Federal Reserve sources and reflect the Fed's normal adjustments to eliminate interbank deposits, items in process of collection, etc.

Comparison of changes in the money supply and changes in real output, 1946-58

Year	Percent increase in real GNP (1954 dollars)	Percent increase in money supply ¹ M ₁	Percent increase in money supply ¹ M ₂	Percent increase in money supply ¹ M ₃
1947.....	-0.1	4.8	4.4	3.5
1948.....	3.8	1.3	1.0	.5
1949.....	-1	-----	-5	-1.0
1950.....	8.7	2.2	2.1	2.5
1946-50.....	12.6	8.5	7.2	5.6
1951.....	7.5	3.8	4.2	5.1
1952.....	3.4	5.4	5.4	5.1
1953.....	4.4	4.1	3.6	2.4
1954.....	-1.6	3.4	3.0	1.3
1950-1954.....	14.1	17.7	12.5	14.7
1955.....	8.2	4.2	3.9	3.5
1956.....	2.1	2.4	1.9	1.4
1957.....	1.8	3.0	2.8	.5
1958.....	-2.3	4.5	4.3	1.0
1954-58.....	9.9	14.9	9.3	6.6

¹ Data for money supply are based on 13-month averages.

NOTE.—Real GNP: The total gross national product (representing the total national output of goods and services) measured in current dollars has been converted to 1954 constant dollars.

M₁ Money supply as measured by total deposits and currency outside banks. Total deposits include demand deposits other than interbank and U.S. Government, less cash items in the process of collection; and time deposits in commercial banks, mutual savings banks, and the Postal Savings System, excluding interbank time deposits, U.S. Treasurer's time deposits, open account, and deposits of Postal Savings System in banks.*

M₂ Money supply as measured by adjusted deposits of the commercial banking system and currency outside banks. Adjusted deposits of the commercial banking system include demand deposits adjusted and time deposits in commercial banks.*

M₃ Money supply as measured by demand deposits adjusted and currency outside banks. Demand deposits are adjusted to exclude interbank deposits, U.S. Government deposits, and cash items in the process of collection.*

* These data are based on 13-month moving averages and therefore will differ somewhat from money supply data published in the Federal Reserve Bulletins, which are based on end-of-month data.

Gross national product, money supply, and interest rates, 1946-58

[In billions of dollars]

Date	Real GNP (1954 dollars)	Money supply M ₁	Money supply M ₁	Money supply M ₂	Interest yield on long-term Government bonds R ₁	Average rate on short-term bank loans to business, selected cities R ₂
					Percent per annum	Percent per annum
1946	\$282.5	\$157.2	\$137.9	\$105.7	2.19	2.1
1947	282.3	164.8	144.0	109.4	2.25	2.1
1948	293.1	166.9	145.5	109.9	2.44	2.5
1949	292.7	166.9	144.8	108.8	2.31	2.7
1950	318.1	170.6	147.8	111.5	2.32	2.7
1951	341.8	177.1	154.0	117.2	2.57	3.1
1952	353.5	186.6	162.3	123.2	2.68	3.5
1953	369.0	194.2	168.2	126.2	2.94	3.6
1954	363.1	200.8	173.3	127.9	2.55	3.7
1955	392.7	209.2	180.0	132.4	2.84	3.7
1956	400.9	214.3	183.5	134.2	3.08	4.2
1957	408.3	220.8	188.6	134.9	3.47	4.6
1958	399.0	230.8	196.8	136.3	3.43	4.3

NOTE.—Real GNP: The total gross national product (representing the total national output of goods and services), measured in current dollars, has been converted to 1954 constant dollars.

M₁ Money supply as measured by total deposits and currency outside banks. Total deposits include demand deposits other than interbank and U.S. Government, less cash items in the process of collection; and time deposits in commercial banks, mutual savings banks, and the Postal Savings System, excluding interbank time deposits, U.S. Treasurer's time deposits, open account, and deposits of Postal Savings System in banks.*

M₂ Money supply as measured by adjusted deposits of the commercial banking system and currency outside banks. Adjusted deposits of the commercial banking system include demand deposits adjusted and time deposits in commercial banks.*

M₃ Money supply as measured by demand deposits adjusted and currency outside banks. Demand deposits are adjusted to exclude interbank deposits, U.S. Government deposits, and cash items in the process of collection.*

R₁ The series showing long-term interest rates is not a constant series. The securities included are: 1946 to March 1952, bonds due or callable after 15 years; April 1952 to March 1953, bonds due or callable after 12 years; April 1953 to date, bonds due or callable 10 years and after.

R₂ Annual averages of rates of interest (percent per annum) charged on commercial loans maturing in 1 year or less made by banks in 19 large cities.

* These data are based on 13-month moving averages and therefore will differ somewhat from money supply data published in the Federal Reserve bulletins, which are based on end-of-month data.

Representative PATMAN. It occurs to me we fared better under the system of so-called pegged prices. Incidentally, I object to the word "peg" because that indicates that it can move neither up nor down, but the peg was to prevent it from going down—I believe we are in accord with that.

It seems to me like we did a lot better under the pegging procedure than we did in subsequent 4-year periods for the reason that the first 4 years that I have indicated here were among the hardest years in our history, right after the greatest war on earth, World War II, and when there was a built-up demand for all kinds of things like automobiles and everything else, and lots of money, and the greatest inflationary threat we ever had.

During that 4-year period, one of the most trying times I think, in history, our situation looks considerably better under the pegging procedure than it has in the subsequent 4 years.

Senator BUSH. I do not see how you can get that out of these figures.

Representative PATMAN. The way I interpret the figures, interest rates went way up, the money supply went way up, but the growth of our economy did not go up in proportion.

The CHAIRMAN. Congressman Patman and I try to minimize in public the one point on which we differ. I have great respect for the

Congressman, I may say, and these figures that he has produced are very interesting.

I have no doubt, so far as they go, that they are correct. It is my belief, however, that an analysis will show that the money supply since 1952 has increased because of the lowering of reserve requirements by the Federal Reserve System which has permitted the banks upon the same absolute amount of member bank reserves to expand the credits which they extend to their borrowers and hence to increase the money supply rather than through open market operations on the part of the Federal Reserve Board purchasing Government securities and hence increasing member bank reserves.

This brings us to the point, I think, that the Congressman and I agree upon—all three of us I think agree upon—namely, to the degree that the money supply is expanded, at least in the future, it should be done primarily by open market operations rather than by the lowering of reserve requirements because the lowering of reserve requirements gives to the private banks free of charge the full 100 percent of the credit which they create, whereas open market purchases would give to the Federal Reserve System and hence ultimately to the Treasury 15½ percent of the total amount of credit which the banks create.

Since the ultimate effect of lowering reserve requirements and open market purchases will be the same, and since because of your wide network of offices and relationships with banks all over the country there is not any marked difference in the speed with which banks do business, I would say that method is better which yields the greater percentage of income to the Government.

This is, I think, the gravest issue at present which we have with the Federal Reserve System. The Chairman of the Federal Reserve has testified repeatedly that he is not concerned with making a profit either for the Federal Reserve System or the Government. The position of the chairman of this committee, and I think of the other members, is that if approximately the same result can be obtained by open market purchases as by lowering reserve requirements that the open market system is preferable because it would yield on an average growth factor of 3 percent a year, a capital gain for the Reserve System of approximately \$600 million a year which at 4 percent would be an increase in net income of \$24 million a year. This would be cumulative.

So while the net increase would be \$24 million for the first year, it would be \$48 million for the next, \$72 million for the next, \$96 for the fourth, \$120 million for the fifth, and so on. This would be a very important increase of governmental revenues.

Furthermore the purchase of long-time bonds by the Federal and the use of these surplus earnings to reduce the national debt would appreciably steady the long-time bond market. This is a profound question of public policy and it is really whether the Federal Government is to get its present commission of 15½ percent upon the creation of additional monetary purchasing power while the banks get 84½ percent, or whether the private banks are to get the full 100 percent and the Government nothing.

I had not intended to fight this issue out with you because you are not responsible, except as a citizen, in the decision. I think this is the point that the Congressman has really raised, and on action for

the future I think we are united, whatever our views may be concerning the 1951 accord.

Representative PATMAN. Yes, sir; we are. May I proceed just briefly?

The CHAIRMAN. Yes.

Representative PATMAN. Yesterday I made a statement about the Federal Reserve Banking System in which I stated that the 11 regional banks outside of New York served no particular central banking functions. Their principal duties are clearing checks for banks and so forth. The inference was drawn, at least by one newspaperman, that I was against a central bank, which I am not. I am for a central bank, but I believe it should be a real central bank. I do not see any need for these 11 other regional banks because no one can name any important function that they performed since the 1935 act. That is the reason I said we should reevaluate the Federal Reserve Banking System, not for the purpose of making it weaker, but making it stronger as a central bank.

I think we have to have a central bank and a good one. But these other banks do not serve any other particular purpose. That was the impression I wanted to leave instead.

May I say, Senator Douglas, that I am in accord with your point about the method of adding to reserves. I think it is a fine thing that you are demanding and insisting that in order to increase reserves, they should do it by buying interest-bearing securities of the Government, holding these securities and, after paying expenses out of the interest they receive, turning the remainder over to the Treasury.

Ninety percent of the net—which incidentally was \$500 million last year, no small amount—flows to the Treasury and another 10 percent goes into surplus funds and still belongs to the Government since it can be taken at any time that the Congress wants to appropriate it. Such surplus funds have been appropriated in the past and can be appropriated in the future.

The CHAIRMAN. I want to caution some credit on this. I am very proud of this position, but I want to say that Congressman Reuss and Congressman Metcalf deserve a great deal of credit for this because this is the principle which they have been urging in the amendment which they succeeded in getting the House Ways and Means Committee tentatively to adopt, which the Treasury originally more or less expressed its willingness to accept, but which upon the opposition of the chairman of the Federal Reserve Board, Mr. Martin, was later withdrawn.

In view of the fact that Congressman Reuss and Congressman Metcalf have taken a very severe beating from the New York financial press because of their proposal, I think the full nature of that should be known.

Representative REUSS. Thank you, Mr. Chairman. It is a real pleasure for me to hear the Reuss-Metcalf amendment position thus praised in the lower part of Manhattan Island. I would add just one thought to your excellent description of the issue, Mr. Chairman, the issue being whether a policy should be adopted which can save the taxpayers of this country around \$1 billion in the next 10 years, conservatively estimated, or whether the policies and practices of the Federal Reserve Board which would deny that saving to the taxpayers should be continued.

This had not been a political question at all until very recently. It had been a source of disagreement between most Democrats and the Governors of the Federal Reserve Board. However, just recently the Eisenhower administration and a very impressive portion of the political machinery of the Republican Party has come out in strong support of the Federal Reserve's position, so I guess this does become a political question, and if so, so be it. It probably will have to be decided in the political arena.

The CHAIRMAN. I would add one word. I want to make it clear that we are not proposing to increase the present percentage of the split in the purchasing power between the banks and the Government. We are willing to let the banks have 84½ percent of the total increase in monetary purchasing power free of charge. But I think I speak for my colleagues in saying that we do not believe that the present share of the Government of 15½ percent should be further reduced, and it should certainly not be cut to nothing on the additional increments.

Further we do not believe that reserve ratios should be reduced to a general average of 10 percent, which has been declared to be the policy for the Reserve, moving back to the old 10 percent average.

Senator Bush?

Senator BUSH. Mr Chairman, now that the chairman has divided up the credit for those old new ideas, I would like to get back to the purpose of this meeting for a moment, and say to you, Mr. Brown, I think you and your colleagues have been very patient, indeed, while these profound discussions have been going on, and I applaud your patience and indulgence.

The CHAIRMAN. You do not regard them as beneath their consideration, do you?

Senator BUSH. I have not said anything of that kind.

The CHAIRMAN. I am glad you have not said so and I hope you do not think so.

Senator BUSH. I will not comment on that because it is not appropriate to what I was going to say. What I want to ask you, Mr. Brown, is this: Obviously the purpose of this hearing and all these hearings is to try to get helpful suggestions and acquire information that will help this committee in preparing a report which may be useful in formulating legislation dealing with these important matters.

Have you any suggestion voluntarily to make to this committee appropriate to any of the questions that have been raised or that have not been raised with you today? We would very much appreciate, I am sure, any voluntary suggestions that you might wish to make respecting this whole business of the Government bond market and the Government's interest in it or anything at all that you think might be helpful to us.

We need the help and the advice of the practical people in this business and certainly your firm is outstanding among them.

Mr. BROWN. I believe that basically the Government of the United States has got to follow sound fiscal policies. You have to keep your budget balanced and take in as much as you pay out if you want the public to have faith in the dollar, if you want foreign holders of dollars in this country to keep them here.

You have to have a sound dollar. You cannot continually debase its value as has been done in the past. I think that basically is what

you have to do and let the markets go free. They will decide what the interest rate should be.

If you do the first thing, you accomplish all the others. That is my opinion.

Senator BUSH. That is all you have to say on that?

Mr. BROWN. I could get more detailed if you like.

Senator BUSH. We have plenty of time if you think of some helpful observations. That is why we came all the way up here.

Mr. BROWN. Establishing a margin requirement is sort of a fringe benefit to the market, you might say. It might help a little bit. It might help to keep out a certain number of speculators. I think the government securities market, as it has been operating during the past—

Senator BUSH. Has the Federal Reserve Board authority now sufficient within its powers to establish margin requirements for such purposes?

Mr. BROWN. Not that I know of. They have no authority. If I may comment on the sense of Congress amendment, I would like to make a remark.

Senator BUSH. I would like to hear your views on that very much.

Representative REUSS. I would like to hear them, too.

Mr. BROWN. The Federal Reserve System has the privilege or the right or the capability of buying and selling any Government security outstanding that is marketable right now. They do not need that sense of Congress amendment.

If the Congress puts it in, then they are in effect telling Mr. Martin how to steer a ship. If he feels obligated to steer it the way Congress wants it steered, then there is only one thing he can do, and that is to buy bonds. If he buys them, he has to sell them. That creates chaos marketwise. I thought we referred to that a little earlier in our conversation.

If you mean by the sense of Congress amendment that they should only purchase securities, then you are really contributing to inflation. The Federal Reserve has to be able to take out what it puts in. If it deals with bonds, as well as bills, notes and certificates, and other types of securities, then it distorts the market when it comes back to offset.

But if it only buys, then it makes for inflation. It is giving money to those who really should not have the money. When they follow a bills-only policy, the Federal Reserve System can correct any mistakes or miscalculations it makes very easily without any damage or concern to the market.

The fluctuations are small. But in the Government securities market, if you merely buy securities it is only a question of time, in good times, in times of vigorous economy; you simply add fuel to the fire.

When Government bonds go down, you put them up, you make money. You just fall into loose policies that contribute to inflation, by giving money to those who really should not be getting it, is my own personal way of putting it.

An insurance company that has bonds selling at 10 or 15 points discount is less apt to sell them than if at par. If they are selling higher than they should be selling relative to other types of investment, he will dispose of every Government security he can dispose of and put it into something else which might give a false boom to the economy.

When such things happen, you have to be concerned about people who reside outside of our country who have enormous quantities of funds in this country and who can very easily take them out. If any such thing happens, we are really in trouble.

Another thing about the cost of doing all this: I do not say you say it, but it is said that the purchase of Government securities, long-terms especially, might ordinarily give higher interest rates, might contribute somewhat to the income of the Treasury Department. That contribution might cost 10 times that amount.

I am merely picking a figure out of the air. I do not know. If you inflate the cost of everything that the Government has to buy, if you are spending \$80 billion a year to defray the cost of Government and you raise the cost of the products that you have to buy by 10 percent, you just add that to your cost. You might spend \$1 billion more to pay for interest. Now which is better? Those are the comments that I have to make.

Senator BUSH. Thank you very much, Mr. Brown. That is a very fine statement.

The CHAIRMAN. While logically, perhaps, I should call on Congressman Ruess to ask questions in reply to the statement of the witness, I think our Republican friends have not had fully half of the time, so I am going to ask Mr. Widnall.

Representative WIDNALL. Mr. Chairman, I do not think I have any further questions at this time.

The CHAIRMAN. Mr. Reuss?

Representative REUSS. Mr. Brown, you just made—and I am sure unwittingly—such an appalling misstatement of the sense resolution of Congress that I want to get this straightened out right away because if the sense resolution did what you have just said it would do, then indeed, people both here and abroad might be very concerned. However, it does not bear the remotest resemblance to what you have just testified it says.

The sense resolution of Congress says that when the Federal Reserve System in its judgment is engaged in increasing the money supply, that is, increasing bank reserves, it shall do so in a particular way for the 2-year life of the resolution, namely, primarily by the purchase of U.S. securities rather than by a further lowering of bank reserve requirements.

This does not require or tend in the direction of creating one nickel's worth of bank reserves or money that would not otherwise be created if the Federal Reserve, in its wisdom in the next 2 years, during the life of this sense resolution, determines that the money supply shall not be augmented at all, then the sense resolution has nothing to which to attach. It is only as, if, and when, that the Federal Reserve decides that the money supply should be expanded—and they have recently testified before the Congress that in their opinion the money supply ought to be expanded at the rate of around 3 percent a year—it is only when they decide that they should expand it, that this resolution tells them how to expand it.

Indeed, it does tell them how to expand it and the reason it does tell them how to expand it is that the Treasury has recently or the Federal Reserve has recently in its testimony before the Congress bragged and gloated about the practice which it proposes to continue of increasing

the money supply solely by lowering bank reserve requirements, a method which it publicly testified to has the purpose and effect of increasing the earning assets and thus the profits of banks.

Now, I hasten to add that I have no objection whatever to the most healthy profits by our banking system. The sole reason for the sense resolution is that given by Senator Douglas a moment ago, that we who believe in the resolution think that the interests of the taxpayers and interest of sound debt management require that the Federal Reserve, when it increases the money supply, and has two methods available to it of doing it, both identical in their monetary impact, it should adopt that method, that is, purchase of U.S. securities, which has the incidental benefit of helping the taxpayers and helping the Treasury.

In the light of that, I would like your public statement of how you can testify here that the sense resolution of Congress requires the Federal Reserve to create additions to the money supply over and beyond those that the Federal Reserve believes to be necessary to service the needs of an expanding economy.

You have just indicated that this resolution will require the Fed to expand the money supply in some particular amount and if that particular amount is more than the necessity of the economy, this would cause inflation. Where do you get that idea?

Mr. BROWN: Maybe I do not know what your most recent amendment is. The sense of Congress amendment that I read called upon the Federal, whenever they were putting money into the money system, that they use the method of buying long-term securities.

Representative REUSS. That they use the method of buying U.S. securities rather than the method of lowering bank reserve requirements and added the words "of varying maturities," which means that the Federal Reserve should no longer feel bound by the so-called bills-only policy.

Mr. BROWN. We have no argument with those who would prefer the use of the purchase of securities by the Federal rather than the changing of reserve requirements.

Representative REUSS. If I may stop you right there——

Mr. BROWN. If you will let me go on later.

Representative REUSS. I certainly will, and I want you to. When you have said what you have just said, that you have no objection to a directive from Congress if it is necessary to the Federal Reserve, telling them that they should pursue the method of purchase of U.S. securities, rather than the method of lowering bank reserve requirements for the creation of additions to the money supply, you have, whether you know it or not, bought 90 percent of the sense resolution, because that is the main point.

I might add that all the advantages to the taxpayer just sketched out by Senator Douglas to purchases of bills only.

The CHAIRMAN. Generally, not to the same degree, but they apply.

Representative REUSS. With bills bearing an interest coupon of 3 percent or more, the savings to the taxpayers would be very close to what you said. So I gather we have narrowed our difference to the three words in the sense resolution—"of varying maturities." Those words are indeed in there and I want to give you all the time you need to express your disagreement with that.

Mr. BROWN. First let me go back to this reserve change relative to the purchase of Government securities. I am speaking as a Government bond dealer that it does not matter to us, frankly, as far as we are concerned. It does not matter to the market. It might matter a great deal to the banks.

It might be a better thing for the Federal to raise or lower reserve requirements.

Representative REUSS. We are not talking about raising reserve requirements. We are talking about lowering them.

Mr. BROWN. It works both ways. You have to raise them to lower them. You cannot go down to zero. The Congress recently passed a law permitting the Federal Reserve bank to raise or lower the reserves.

Representative REUSS. With the clear admonition in the conference report on that bill that this was not a mandate to the Federal Reserve to pursue its policy of recent years of indefinitely lowering total systemwide requirements, but with the clear indication in the legislative history that the Congress expected the Federal in implementing the law to bring reserve requirements out at about the same level systemwide.

So it will not do to say that Congress, by passing this law, was giving a pat on the back to the taxpayer, damaging policies of the Federal Reserve which in the past 5 or 6 years have cost the taxpayers millions and perhaps billions of dollars.

I wish, if you do not agree with the sense resolution, leaving aside "varying maturity point," I wish you would tell me why. A moment ago I thought you were saying as to the purchase of U.S. securities you had no objection. Do you want backtrack on that?

Mr. BROWN. I am not backtracking, sir. You either misunderstood me or I misunderstood you. As far as the varying maturities part of the sense of Congress amendment is concerned, we are not in accord. We are not in agreement.

Representative REUSS. I want to give you a chance in a moment to explain why. First let us look at the other 90 percent of the resolution which says irrespective of whether you buy bills or what you buy, when you are increasing the money supply, do so primarily for the next 2 years by buying U.S. securities, rather than by further decreases in bank reserve requirements.

Do you oppose that portion?

Senator BUSH. May I ask a question there for clarification. I am trying to follow the argument. Does the resolution have a negative on increasing reserve requirements or decreasing reserve requirements? Does it contain a negative on that?

Representative REUSS. In effect.

Senator BUSH. Not in effect, but actually is there any negative on it?

Representative REUSS. Yes, because the resolution says when you are increasing the money supply, do so by purchasing U.S. securities. Since there are only two ways of increasing the money supply open to the Fed, that is, lowering reserve requirements systemwide or buying U.S. securities, this, by accentuating the positive, denies the negative.

Senator BUSH. It certainly accentuates the positive, but I do not think that the resolution denies the negative. With the frankness my good friend from Wisconsin speaks, he certainly would have put it in there if he meant to deny the reserve requirement route.

Representative REUSS. No. I do not think it is necessary for me to state my position twice. Before the Ways and Means Committee, I made it very clear that the purpose of this amendment was to change the Federal Reserve around. They had been increasing the money supply by lowering bank reserve requirements. For a while I am forgiving the taxpayer a break and doing it by purchasing U.S. securities.

The CHAIRMAN. I think there is one point which needs to be emphasized. This would not mean any diminution in bank earnings. Quite the contrary, by permitting the banks to get 84½ percent of each additional dollar of credit created, it would permit bank earnings to rise.

All it would do would be to say that if the additional increments of credit are created, the Federal Government should get its present percentage of 15½. On the additional increments, the banking system should not get the full 100 percent which the Federal Reserve under the chairmanship of Mr. Martin is now insisting upon.

Representative REUSS. From the point of view of the public, Mr. Brown, and what is good for the people of the United States, do you oppose that part of the sense resolution which relates not to bills-only policy, not to what types of securities should be purchased, but to that part of the sense resolution which says that for the next 2 years, when in the good judgement of the Federal Reserve the money supply needs to be augmented, it should be done by the route of purchasing U.S. securities rather than by the route of further lowering bank reserve requirements?

Do you object to that?

Mr. BROWN. As a dealer, I do not object. If I were a banker and if I were the Federal Reserve authorities, I believe I would object because I think it ties their hands.

Representative REUSS. Suppose you are a member of the Joint Economic committee, concerned with nothing more nor less than the total economic good of the country? Would you object to this portion of the sense resolution we are talking about or would you not object?

Mr. BROWN. It might be greater for the economic good of the country not to tie the hands of the Federal.

Representative REUSS. Do you not think the Federal's hands should be tied when they are openly and notoriously announcing that they are going to pursue the same policies they have been pursuing denying the taxpayers the benefit of purchase of U.S. securities when the money supply needs to be augmented? Do you think the Federal Reserve is right?

Mr. BROWN. I do.

Representative WIDNALL. Would the gentleman yield at that point?

Representative REUSS. Surely.

Representative WIDNALL. When did anybody make a statement like that?

Representative REUSS. The representatives of the Federal Reserve made that statement repeatedly in their testimony before the House Committee on Banking and Currency on the vault cash bill. The representative of the chairman said so, the staff study said so. It was repeatedly set forth that the Federal Reserve, in adding to the money supply at the rate of around 3 percent a year, which it says was necessary, was going to do so by further lowering of bank reserve requirements.

Indeed, the best evidence of the Federal Reserve's attitude in the matter is what it has in fact done in the last 5 years, and there the increases in the money supply have been totally accounted for by lowering of reserve requirements, one in 1953 and another one in early 1958.

The CHAIRMAN. I may say that Chairman Martin, in his testimony last week before this committee, virtually reaffirmed this policy. He said he was not concerned with increasing the earnings of the Federal Reserve System. He believed that the present reserve requirements were too high and that they should be lowered. He favored expansion through lowering reserve requirements rather than through open-market operations.

Representative PATMAN. And it should be said, Mr. Chairman, that has been a consistent policy the last 6 years. The reserve requirements have not been raised one time. They have only been reduced.

The CHAIRMAN. That is right. I may say that the chairman admitted in response to my question that the ultimate effect of the two methods would be identical so far as the expansion of credit is concerned.

One was no more inflationary than the other. I want to make it clear that we are not advocating a greater increase in the total money supply than its proper relation to the actual national income. It should merely keep pace with the increase in real national income in order to stabilize the price level. The ultimate effect of the two would be the same. But the open-market method would have the effect that the Government would get 15½ percent of the increments of credit which would be added.

The split, so to speak, would be the same as now; whereas, the policy which Chairman Martin and the Reserve Board are advocating would give the full 100 percent to the banking system. I want to make it clear that we are not proposing to take the 84½ percent away from the bankers. We are merely hoping to retain the public's 15½ percent.

Representative WIDNALL. Mr. Chairman, if the purpose is to actually change the basic Federal Reserve System law, there certainly would not be the confusion as to testimony. The resolution would be going through the House Banking and Currency where it belongs truly, instead of being a form of blackmail in connection with an interest rate fight.

We should have full hearings on that and as to an amendment to the Federal Reserve System, I think everybody is in agreement. That would be the wise approach and the best approach.

Representative REUSS. If I may comment on that, I am delighted to hear this. I will wait upon my friend from New Jersey, Mr. Widnall, who like myself is a member of the House Committee on Banking and Currency, at the earliest possible opportunity and trust that he will deliver to me the strong support of the Republican members of the Banking and Currency Committee to conduct such an inquiry into the Federal Reserve System and I will heartily join him in that.

If the gentleman moves with as much speed as I know he is capable of, we can start those hearings right away. Then the anomaly will be at an end whereby the Banking and Currency Committee this year

has not had the benefit of any of the testimony of Chairman Martin of the Federal Reserve System, whereas, the House Ways and Means Committee has had the benefit of his testimony on 11 different days during which time they learned a good deal about the Federal Reserve practice.

Representative WIDNALL. May I ask Mr. Reuss if he has made any request of the chairman of the House Banking and Currency Committee for this purpose?

Representative REUSS. Yes, I have, and he told me that he didn't think he would like to have hearings because the Republicans would object. Now that I know that one of the leaders on the Republican side not only does not object, but is enthusiastically in favor of having Mr. Martin and the Treasury and the monetary managers of the Nation up, I am hopeful that the chairman will join with me in setting prompt hearings on the sense resolution which I did introduce in the Banking and Currency Committee before I turned to the Ways and Means Committee for their reaction, which happily was a favorable one. Let us all be in favor of this sense resolution. Let us bring it up before Banking and Currency.

Representative WIDNALL. I am just delighted to know the influence of the 11 Republicans have over 19 Democrats who run that committee.

The CHAIRMAN. Of course, the Republicans have some allies.

Representative PATMAN. I happen to know, Mr. Chairman, being on the committee, that when the Republican votes go together it does not take many Democrats to have the balance of power. That has occurred many times in the past. I am not criticizing anybody for their votes.

I am in accord with the statement made by Mr. Reuss to the effect that we should have hearings before the Banking and Currency Committee, provided the Ways and Means Committee will hold up reporting the bill involving the ceiling on the long-term securities until the Banking and Currency Committee passes on it. We do not want them to raise the interest rate or make it possible for the interest rate to be raised while we are considering the sense resolution in the Banking and Currency Committee. I hope the gentlemen will agree to that.

Senator BUSH. You can stop that on the floor of the House, can you not, Mr. Congressman?

Representative PATMAN. We do not know about that, but I have an idea if the sense resolution remains in, it will pass the House by a majority vote. Although I will vote against it because I am against raising the interest rate above $4\frac{1}{4}$ percent, I think a majority of the members will vote for it with the sense resolution in. If the sense resolution is not in, I do not think it has a chance of passing. I do not think it will pass at all.

Representative REUSS. Mr. Chairman, if I may pursue the question I propounded to Mr. Brown, again leaving aside the bills-only aspect, you said that the sense resolution would tie the hands of the Federal Reserve.

Let me add, indeed it would, for the duration of the resolution. It would tell the Federal Reserve to stop pursuing the policy it has been pursuing of creating money supply only by lowering bank reserve requirements, and indeed tell it to pursue primarily the course of

creating additions of money supply when it deems necessary to do so by purchase of U.S. securities. Other than the point that I do not apparently think Congress should ever give advice or tell the Federal Reserve how to conduct itself, do you have an opinion on the merits of that operation? That is to say, do you believe it is wise for the Federal Reserve to concentrate on the further lowering of bank reserve requirements as a means of making necessary additions to the money supply, and do you object to the notion that it is time that the taxpayers were considered and that they were cut in for some of the benefits, at least, of an expanded money supply?

Do you support substantively the Federal Reserve stand or do you rest your case on the notion that under our separations of powers, Congress should not tell the Federal Reserve anything?

Mr. BROWN. I think I will have to take the side of the Federal.

Representative REUSS. And your reasons are—

Mr. BROWN. My reasons are that you have given them a ship to steer so let them steer it. Do not try to tell them how to do it by remote control. If you want to change the law, change it. Then you risk the loss of the people that are working for the Federal Reserve bank and the sound practices they have been following.

Representative REUSS. Do you favor amendment of the U.S. Constitution to remove the clause in it which gives the power to Congress to coin and regulate the value?

Mr. BROWN. I do not propose to change anything. Leave it the way it is. They already have all the power they need.

Representative REUSS. Yet you deny Congress the power to indicate to the Federal Reserve System how it shall manage the credit-creating power delegated to it.

Mr. BROWN. I do not deny that Congress has any power it desires to put into effect or anything it wants to do it can do. I am not a lawyer nor a Constitution man. I do not know anything about those things. All I know is that the Federal can do anything that you are proposing that they do in the sense of Congress amendment, so why put it there? There must be some other reason.

Representative REUSS. Then my final question, Mr. Chairman.

Having heard your answer now on what I characterized as 80 to 90 percent of the sense resolution, namely, the recommendation to purchase U.S. securities, let me turn finally to the three words "of varying maturities" which, in effect, is an indication of a congressional sense that the self-imposed, self-denying bills-only policy of the Fed is an unnecessary restriction on its powers and that it should be free to purchase or sell U.S. bills, certificates, notes or bonds as the public interest requires.

I will ask you one question on that. The publication of the American Banker in a recent editorial referred to the so-called bills-only policy of the Federal Reserve as silly. Do you agree or disagree with the American Banker's evaluation of that policy?

Mr. BROWN. When we say bills-only, we mean "usually bills." The Federal Reserve has often departed from the bills-only policy. Even recently they purchased \$2 billion some odd million, $4\frac{3}{4}$ notes, from the U.S. Treasury. On many occasions in the past they have entered the bond or note or certificate market for one good reason or another.

They are apt to depart from that bills-only policy when circumstances require. My personal objection to this thing is that you do

not need it. There must be some other reason. Are we trying to undermine the Federal Reserve System? Are we trying to change things?

Representative REUSS. Then I gather that you do not object to Congress telling the Federal Reserve what you now say they are doing anyway, namely, abandoning the bills-only policy, but that your objection to the sense resolution is that in some occult, undefined manner you think that some of the authors of it might have had bad thoughts in their heads?

Mr. BROWN. Yes, sir.

Representative REUSS. Might have turned out a printing press, so you oppose it?

Mr. BROWN. Yes, sir. I think somebody has some bad notions somewhere.

The CHAIRMAN. May I follow this up?

In the first place, I do not think there are any bad notions. We will submit to a character test on these matters. Apparently the witness does not object to the Federal Reserve abandoning the bills-only policy provided it does not have to say it has abandoned it. As long as it can save its face it can change its policy.

Representative REUSS. If I may conclude, I take it from the questions and answers on this sense resolution that the comment which the witness first made in his colloquy with Senator Bush about the inflationary consequences of the Federal Reserve's pursuing what the sense resolution would require it to pursue, I take it those remarks of yours were not really directed to the language of the sense resolution, but to some assumption on your part that some people who believe in and propose the sense resolution may have some sinister thoughts of an undisclosed character.

Is that the theory of statutory interpretation which governed your statement just now?

Mr. BROWN. Mr. Reuss, all I can say is that the Federal Reserve already has the powers you are trying to give it. If you restate those powers, you are not adding except a suspicion on the part of a lot of people and the Federal Reserve Board and the people who are carrying out the Federal Reserve policy that you are trying to tell them how to steer this ship.

Representative REUSS. That is exactly right. We are trying to tell them to steer their ship. We are trying to tell them to steer it toward the benefit of the taxpayers rather than solely to the benefit of bank profits.

I would caution you when you are interpreting publicly a pending measure in Congress that you really ought to look at the words of it, look at what it seeks to do, and confine your observations to that, and that you may well do our economy and the management of our national debt a disservice by publicly stating that the sense resolution has inflationary consequences when in the light of your subsequent testimony it is perfectly apparent that there are no such consequences and that your sole reason for opposing it is that you do not think that Congress should talk to the Federal Reserve.

Mr. BROWN. Sir, I have the same good purposes that you or anybody else has.

The CHAIRMAN. Do you think we have bad purposes?

Mr. BROWN. I believe you are sincere in your attitude. All I tried to do was point out where I think you are wrong.

The CHAIRMAN. I think our Republican friends should have a chance to ask questions.

Senator BUSH. I have no further questions, Mr. Chairman, but I do think we are expecting a great deal of Mr. Brown or any other witnesses that come before us in the capacity that he is to talk about the Government bond market, to get him into the highways and byways of politics.

Representative REUSS. You got him in. Then I had to ask about it.

Senator BUSH. I asked if he had any suggestions.

Representative REUSS. I think my good friend from Wisconsin for whom I have great respect has imposed a severe interrogatory.

The CHAIRMAN. We have introduced nothing about the personal character of Mr. Brown or the reputation of his firm. We repeatedly paid tribute to him.

Senator BUSH. I am not saying that. I do think this thing is getting too political for the good of the inquiry. We ought to stick to investigating the Government bond market. That is what we came up to New York for. I hope we will with the subsequent witnesses hew to the line a little more. If they have voluntary statements to make, about the Reuss resolution or anything else, that is one thing.

I do think we ought to try not to put the witnesses on the spot about things which they are really not perhaps competent to debate.

The CHAIRMAN. I think the witness is very competent. I deny the charge of the Senator from Connecticut that the witness is not competent.

Senator BUSH. That is the kind of comment I object to. I did not make that.

The CHAIRMAN. I want to deny——

Senator BUSH. So do I.

Representative PATMAN. May I ask one question at this point?

Mr. Brown, have you at any time considered that the operations of the Open Market Account were discriminatory to some dealers as against others?

Mr. BROWN. No, sir.

The CHAIRMAN. I think that is all, except to say that one of the functions of such hearings as these is to thrash out important matters of public interest so that the differences in points of view can be compared.

I think it was Socrates who said that the unexamined life is not worth living, and that we have that feeling about the financial policy of the Government and the policies of the Federal Reserve Board, that they should not be immune from examination, and that this examination should not be confined to the members of the Board or to the inner sanctum of the Board.

These are matters of public concern. We are not questioning the integrity of the members of the Board. We do question their judgment. We do not question their integrity. We certainly do not question the integrity of the witnesses this morning.

I think the Childs firm is a very fine firm. I paid tribute to it earlier. We appreciate the honesty of the witness' statements. We

are grateful for him coming. We think the morning served a useful purpose and we wish to thank him.

This afternoon we will reconvene at 2:30 and the witness will be Alfred H. Hauser, vice president of the Chemical Corn Exchange Bank.

(Whereupon, at 12:50 p.m. the committee recessed, to reconvene at 2:30 p.m. the same day.)

AFTER RECESS

The committee reconvened at 2:30 p.m., Senator Paul H. Douglas (chairman of the committee) presiding.

The CHAIRMAN. The hour of 2:30 having arrived, the committee will come to order.

We are very glad to welcome as our witness this afternoon Mr. Alfred H. Hauser, vice president, Chemical Corn Exchange Bank of New York.

Mr. Hauser, do you want to give a prepared statement, or do you want to develop these points through free give and take?

STATEMENT OF ALFRED H. HAUSER, VICE PRESIDENT IN CHARGE OF INVESTMENT DIVISION, CHEMICAL CORN EXCHANGE BANK, NEW YORK; ACCOMPANIED BY ALBERT H. SCHRADER, MANAGER OF GOVERNMENT BOND DEPARTMENT, CHEMICAL CORN EXCHANGE BANK, NEW YORK

Mr. HAUSER. I do not have a prepared statement, Senator.

The CHAIRMAN. We will be very glad to have you make any observations that you would like to make.

Mr. HAUSER. Thank you.

I might first indicate my capacity at the Chemical Corn Exchange Bank. I am vice president in charge of the investment division. There are several departments in this division, one of which is the Government bond department, which conducts its business in much the same manner as an independent Government dealer firm.

Yesterday morning at the beginning of the discussion about the volume of Government bond business and the number of dealers, I got the impression that the record will show that some \$62 billion of new issues last year were handled through 17 dealers. The dealers handled only a small part of that, perhaps a fifth or a quarter. The rest was handled by direct subscription by investors.

The CHAIRMAN. Thank you for this amplification.

I think further amplification should be made that these figures included the refundings of notes, certificates, and bonds, as well as what might be termed "fresh receipts," but does not include the refunding of bills.

Mr. HAUSER. Yes.

The CHAIRMAN. I wonder, Mr. Hauser, if you would be willing to estimate as to the total volume of business done by the 17 dealers.

Mr. HAUSER. I have no original figures. The figure of \$200 billion annually has been mentioned. I have no reason to take exception to that.

My associate, Mr. Schrader, who is manager of our Government bond department, sitting next to me here, feels that probably it runs higher than \$200 billion in some years.

The CHAIRMAN. So while we should not have given the impression that the new governmental issues were handled by the 17 dealers, exclusively, the global total of \$200 billion was probably a conservative estimate.

Mr. HAUSER. It would seem reasonable; yes, sir.

The CHAIRMAN. Did you have other statements you wanted to make?

Mr. HAUSER. No, sir; I am at your disposal.

The CHAIRMAN. Thank you very much. Were you here this morning?

Mr. HAUSER. No, sir. I was here most of yesterday, but unfortunately I could not be here this morning.

The CHAIRMAN. This morning we discussed the degree of decrease in the price of the 2½ Governments and the 3½ Governments during the summer of 1958. I introduced figures from the second volume of the Federal Reserve Board study and from the chart between pages 90 and 91, showing a decrease in the price of the 2½ bond as of 1965 from approximately 100 at the middle of June, to approximately 94 in the middle of September, 92 the first part of October and to 93½ the latter part of October. In the case of the 3½ bonds, with maturity as of 1990, there was a decrease from about 103 in the middle of June, to 92 the beginning of October and 93½ at the end of October, or a decrease of 7 percent in the price of 2½s and of around 10 percent in the case of 3½s.

This checks with your memory?

Mr. HAUSER. Yes, it does, sir.

The CHAIRMAN. This meant a corresponding increase in the yields; did it not?

Mr. HAUSER. Yes.

The CHAIRMAN. A reciprocal increase in the yields? So the sharp fall in the prices of bonds increased the yields of the bonds and did not increase the interest rate.

Mr. HAUSER. I am sorry, I did not catch your question.

The CHAIRMAN. Wasn't this equivalent to an increase in the interest rate?

Mr. HAUSER. An increase in the return that is available on those bonds; yes, sir.

The CHAIRMAN. Did not this have a general upward influence on the interest rate?

Mr. HAUSER. My interpretation of that would be the opposite, sir. We had an increasing rate of interest in the general market for funds, and this was the principal contributing factor in the decline of these bonds.

The CHAIRMAN. No corresponding increase in longtime interest rates. We publish a monthly indicator, as you know. The Indicator for July, page 29, shows the yield on taxable bonds over 5 years, I assume, in duration at a rate of 3.2 in June 1958 and a rate of 3.76 or 3.75 in October. That is really the same thing.

Mr. HAUSER. I think it is.

The CHAIRMAN. Municipals had an increase from 3.56 to 3.96, or of 40 points, or over 20 percent.

What you are saying is that it was the general increase in the interest rate, that forced down the price of Government bonds?

Mr. HAUSER. That was one of the principal factors. There were, of course, other considerations.

The CHAIRMAN. Do you think that the low margins required on the purchase of Governments was a contributing factor to (a) the sharpness, and (b) the extent of the decline in the prices of these two issues?

Mr. HAUSER. It is my belief that the ease with which money could be borrowed to carry these bonds contributed to the sharpness of the later liquidation. I doubt if it had any bearing on the extent of the decline. I think that would have followed in any event as business activity picked up, and the demand for credit rose, as we see it has continued to do ever since.

I think today's market is beyond the influence of this period of June 1958, and that we would be at today's level regardless of what happened in June. But I do feel that probably the ease with which people could acquire these bonds, not knowing the risks they may have been taking, did contribute to the rapidity of liquidation for a few weeks in 1958.

The CHAIRMAN. This ease in purchase was fed by the low margins.

Mr. HAUSER. That was the principal factor that I had in mind.

The CHAIRMAN. Did you favor the imposition of higher margins on so-called outsiders; that is, other than the 17 dealers?

Mr. HAUSER. I hesitate to answer that briefly, sir. May I sketch in a little background for my conclusion?

The CHAIRMAN. Please do so, sir.

Mr. HAUSER. The main question here, I am sure, is the one of public interest. It is my impression that the public interest was not damaged, although a few people were hurt by the decline that took place, and the losses which they suffered on speculative commitments. I do not believe that it is desirable in the public interest to try to protect a relatively few people from their own foolhardiness, if that is the right word. I do not believe it is necessary in the public interest to specify restrictions or requirements that should be applied by the lenders.

I believe the lenders will police the thing properly, not without some damage to individuals. But I believe in letting a child grow up and become dependent upon himself, and I think it is best for our people and our economy if we are self-reliant and do not have to be protected from burning our fingers.

The CHAIRMAN. Would you favor the removal of the requirement of margins on the purchase of stocks?

Mr. HAUSER. No, sir. I believe we have a very different situation there because people of modest means who cannot afford to lose money are affected; hundreds of thousands, perhaps millions, of people all over the country.

There is the possibility that unscrupulous people, of which there may be a great many all over the country, in places that are not easily observed, may take advantage of them. This may require more policing, more regulation, and more application of specific protective devices in the case of stocks.

The CHAIRMAN. Would you favor the removal of margin requirements for commodity purchases?

Mr. HAUSER. I am not sufficiently familiar with that field to comment, sir.

The CHAIRMAN. But you feel that in the case of Government securities, (a) that the number of purchasers is much more limited, (b) that they tend to be more experienced?

Mr. HAUSER. Yes, sir.

The CHAIRMAN. And you see therefore ample resources so that the protection which is required and needed in the case of the purchase of stock does not apply insofar as Government securities are concerned?

Mr. HAUSER. I feel that there is a difference in the people involved.

The CHAIRMAN. Have you considered the bills-only policy?

Mr. HAUSER. Yes, sir, I have. I would like to point out that this terminology perhaps has some unfortunate implications. It may sound on the surface as though the Federal Reserve banks and the Open Market Committee never owned anything but bills.

The CHAIRMAN. It is their phrase. It is not ours. It is their language.

Mr. HAUSER. Yes, sir. I just want to point out that this does not mean that they own nothing but bills, which bills-only might imply. As you know, sir, and the committee members are well aware, only 10 percent, roughly, of the Federal Reserve's holdings are bills. The other 90 percent consist of certificates, notes, and bonds.

The CHAIRMAN. But those were acquired at a prior time.

Mr. HAUSER. Yes, sir.

The CHAIRMAN. In recent years their purchases have been of bills only, is that not true, with rare exceptions?

Mr. HAUSER. With rare exceptions, yes, sir. Also, I would point out, that as recently as a week ago they acquired \$2.5 billion of 5-year notes through an exchange offer.

The CHAIRMAN. Do you favor that policy of purchasing \$2.5 billion of 5-year notes?

Mr. HAUSER. Yes, sir. I think that was a proper move.

The CHAIRMAN. Then you do not favor the policy of bills-only?

Mr. HAUSER. I do not favor a policy of bills-only if it is restricted to this peculiar meaning.

The CHAIRMAN. It is their meaning, Mr. Hauser. That is the point.

Mr. HAUSER. This term applies to the purchases in the open market of the Open Market Committee when it is engaged in the process of expanding or contracting the reserves or the supply of reserves in the banking system.

The CHAIRMAN. In other words, you say you believe in bills-only when the Federal Reserve deals with dealers, but not when it deals with the Government; is that right?

Mr. HAUSER. No, sir. I mean that when the purpose of the transaction is to increase or decrease the supply of reserves I believe it can be done to best advantage by purchase or sale of bills. This is caused by at least three factors. One is the bills are short enough so that buying and selling does not affect the price appreciably.

The CHAIRMAN. Because the total volume is so great?

Mr. HAUSER. No. I mean because the maturity is so short it is just a question of decimals in the stated dollar price. If you were to go and buy a lot of 30-year bonds you might affect the price by at least a quarter or a half a point, let us say. But in the case of a bill that only has 4 weeks to run, it is just pennies in the price.

Secondly, the point that you bring out, there are so many bills outstanding and they are so similar that buying and selling of bills

does not influence the price of a particular issue as it might if the Federal were to engage in the purchase or sale of an issue of which perhaps only a billion or a billion and a half are outstanding. There is not the large floating supply of bonds and notes that there is of bills.

The CHAIRMAN. If I may come back to the point I touched on earlier and bring out the point which I forgot to mention at the time, I think we can make a very interesting argument and a good case can be made for saying that the increase in yields on high grade municipals and on triple-A corporates affected the increase in the interest rate and the decrease in the price of Government bonds. It has been some time since I studied the Newtonian principles of physics, but as I remember them, Newton based his theory of gravitation upon the mutual attraction of matter.

Could you not also say that the prices of other bonds and the yield on other bonds were affected by the prices of Governments and the yields on Governments?

In other words, isn't this a constellation, so to speak, of mutually interactive securities?

Mr. HAUSER. Yes, sir.

The CHAIRMAN. In which the depression in the price of Governments would affect adversely the prices of others and hence send up their yields as well?

Mr. HAUSER. There is a constant interplay of the relationship of yields on the different issues. Any investor who uses all forms of bonds is constantly on the alert to sell one and buy another if he can thereby improve his position, get a better yield or whatever advantage he may be looking for.

The CHAIRMAN. What you say may well be true, and what I suggest may also be true.

Mr. HAUSER. Yes. What you suggest is undoubtedly true, sir. I would like to add to that, that it is not only the price of a given type of bond that influences the others, but it is all the surrounding economic circumstances which influence all of them.

The CHAIRMAN. Senator Bush?

Senator BUSH. Mr. Hauser, have you any general observations to make that you think would help this committee in connection with this study of the Government bond market?

The purpose of these hearings basically in New York is to learn as much as possible about the operations of the Government bond market. Of course, the ultimate question is whether any action should be taken by the Congress that would improve the situation from the public interest standpoint.

Do you have any observations to make at this time that you think would be helpful to the committee in that connection?

Mr. HAUSER. I would like to touch on the question of the breadth, depth and resiliency of the market, if I may, in this connection, because anything that is done in the way of regulation of the Government bond market and the people involved in it will affect the breadth of the market.

I believe it is a fair statement to say that the more regulation, the less activity there is likely to be, or in other words, the less breadth the market will have. The more difficult it becomes for people to

deal in Government securities, the less attraction there will be to potential dealers or even existing dealers. If it becomes more difficult to operate profitably in the Government bond market, I would be confident that some dealers would drop out of the business.

I am not against regulation in any sense of the word, but I feel that the impact on the activity and health and soundness of the Government bond market is a consideration of great importance because it will have a direct bearing on the manner of handling fiscal policy and debt management, and will also have a direct bearing on the interest cost of the debt.

Senator BUSH. You think it is desirable in the public interest, as well as that of the Treasury itself, that there be a free, broad, and active market in Government securities.

Mr. HAUSER. I do, indeed. The freer it is, I think, the broader it is.

Senator BUSH. The freer it is the broader?

Mr. HAUSER. Yes, sir.

Senator BUSH. I gather from that, that fortifies you in your earlier statement, if I understood it correctly, that if one introduces more regulation in the form of margin requirements, let us say, where they do not now exist, that would be one step in the direction of hindrance or unneeded regulation which would to some measurable or immeasurable extent hamper a free and active market?

Mr. HAUSER. Yes, sir.

Senator BUSH. It might be that much or that much [indicating]; but it would have some effect?

Mr. HAUSER. Yes, sir.

Senator BUSH. Therefore, you would be opposed to that type of regulation or requirement unless it was clearly evident that it was necessary in the public interest?

Mr. HAUSER. Exactly, sir. It is largely a matter of degree. I do not know how to recommend the degree to which regulation should be applied. I am sure that very much regulation would be detrimental. I do not know how far one can go in applying regulation or how one should go about it. I would only say that I would recommend that it be as little as seems to be feasible.

Senator BUSH. Our witness this morning laid some emphasis in connection with the price of Government bonds on the public's attitude toward the Government credit, and suggested that he thought that if we did not have an orderly management of our fiscal affairs, including a balanced budget, and perhaps even a surplus in times of prosperity like this, although he did not actually say that—that is my language about the surplus—that a failure to attain this orderly management of our fiscal affairs would have a really adverse effect upon values of Government bonds and particularly long-term Government bonds.

Do you agree with that?

Mr. HAUSER. Yes, I do. The appearance of careful planning and conservative financing and conservative fiscal policy is certainly the basis of confidence in the securities. If you have a loss of confidence here, or abroad, or both, it will be reflected in the price level of Government bonds.

Senator BUSH. Does your business include any business from foreign countries in the bond markets?

Mr. HAUSER. Yes, sir. We have direct dealings with banks and industrial concerns to some extent in, I would say, at least a dozen foreign countries.

Senator BUSH. Have you noticed any change in the attitude of your foreign customers toward our Government credits in the last year or so?

Mr. HAUSER. I have had no personal basis for answering that, sir.

Senator BUSH. I am glad to hear that. You have no other special suggestion to make along the lines of my broad question that you think might be helpful to the committee, other than what you have said?

Mr. HAUSER. No. I think not, sir.

The CHAIRMAN. Congressman Patman?

Representative PATMAN. I just want to ask you one question, Mr. Hauser. You do not think that loss of confidence or lack of confidence in the Government or any of its activities caused the long-term Government bonds to go down in price. You did not mean to say that?

Mr. HAUSER. Not at any given moment, sir. I believe that the cumulative influence of a continuing deficit in our budget has had a distinct effect on the price of Government bonds downward.

Representative PATMAN. I thought the yield only was the cause of that, the fact that interest rates had gone up and these bonds, most of them being 2½ percent bonds, just necessarily went down to meet the higher interest yield.

Mr. HAUSER. I would say, sir, that the yield may be the reflection of a lack of confidence in the credit of the United States. The yield is also influenced by supply and demand factors.

Here again the deficit is of direct significance in that when we have a deficit we have to issue additional bonds, which increases the supply. To take up that additional supply, you have to attract buyers by offering a higher return.

Representative PATMAN. I agree with you that deficit financing is a bad thing. In fact, I wish the Congress in good times would stay in session until we not only balance the budget but pay a substantial amount on the national debt. I mean when times are good. I somehow cannot believe that any lack of confidence in the Government caused by even a deficit as large as we have this past fiscal year would cause our long-term Government bonds to go down.

I thought they went down only because they had to reflect the yield of bonds that were currently being issued in interest rates. I do not think the people in other countries would fail to buy our bonds on account of any lack of confidence, do you?

Mr. HAUSER. I do, sir.

Representative PATMAN. You think they would?

Mr. HAUSER. Yes. This is a very intangible field we are discussing, and you cannot possibly attribute one particular action to this particular cause. In this field of investment—it applies both to bonds and stocks—the people who are engaged in it and studying it all the time are looking ahead. They may be making a wrong guess, but they are guessing what is going to take place in the future.

The minute they become convinced that there is a trend setting in, they act on the theory that that trend is going to continue to a point of danger. The minute they are convinced that the trend is wrong, they want to be out before everybody else wants to get out.

Representative PATMAN. Am I correct in interpreting your remarks in meaning, that because of a lack of confidence prompted by deficits and things like that, the interest rate has been forced upward, and the interest rate, having been forced upward, the Government bonds selling for a rate of interest less than the current rate were necessarily sold at a lower price in order to yield the current rate? So it all goes back to the lack of confidence or the loss of confidence causing high interest rates. Is that your testimony?

Mr. HAUSER. That is one of the factors, sir, as you have stated it, but that is not the only factor.

Representative PATMAN. What other major factors?

Mr. HAUSER. The principal factor is the demand for money.

Representative PATMAN. If the demand for money causes interest rates to go up and the interest rates going up causes the 2½ percent bonds to go down, where does the lack of confidence come in?

Mr. HAUSER. It comes in on the supply side. You have demand and supply that have to be in balance. When the demand for money increases, you have to increase the supply. The lack of confidence works against that increase in supply because funds are not forthcoming if there is a lack of confidence.

I do not say that this has been an established fact. There is no way to measure it. In terms of theory, a lack of confidence will reduce the supply of money available to go into any given security.

Representative PATMAN. Thank you, sir. That is all.

The CHAIRMAN. Congressman Widnall?

Representative WIDNALL. I have no questions at this time.

The CHAIRMAN. Congressman Reuss?

Representative REUSS. Mr. Hauser, I gather from your last answer to the questions from Mr. Patman that you are not actually describing the past period of a year or two when you say that fears of inflation have been at least in part responsible for the fluctuation downward in the price of U.S. securities.

Mr. HAUSER. I did not mention the word "inflation" at all. I was confining my remarks to an unbalanced budget or a deficit. I do feel that this has had some influence, which I cannot measure, on the price of Government during the past 18 months.

Representative REUSS. Let me ask you what bad consequences there are in an unbalanced budget in the minds of knowledgeable investors other than fear of inflation? That is one of the main reasons I do not like an unbalanced budget. I thought it was fear of inflation that is caused by an unbalanced budget.

Mr. HAUSER. That probably is the end result of an indefinite period of unbalanced budgets. It is simply not good housekeeping, sir.

Representative REUSS. The reason it is not good housekeeping is because indefinitely pursued it does lead to inflation; is that not so?

Mr. HAUSER. That is very true.

Representative REUSS. If the fears of the consequences of unbalanced budgets are essentially fears of future inflation, how do you account for the fact that holdings by investors, both individual and institutional, of fixed-income securities, have increased in recent years? That is to say, taking the total of housing mortgages and corporate bonds and debentures and shares in savings and loan associations and other fixed-interest securities, have gone up.

To me this does not spell any very operative fear of inflation on the part of the investing public. I am leaving aside the question of whether they ought to be afraid of inflation and deficit spending. The question is: were they?

I put it to you, sir, that this is not really the fundamental factor in the relatively poor performance of Government securities. Would you like to comment?

Mr. HAUSER. Sir, I think I could answer this most simply by just saying that in spite of the inflationary fears and in spite of the concern about an unbalanced budget, people want to save. They want to provide for their future. So they buy insurance. They see it is going to take twice as much insurance to take care of them in their old age so they buy twice as much and that puts more money in the hands of insurance companies who can do nothing with it except buy fixed-income securities, and the same applies to savings banks and so on. I would say all this happens in spite of the fears.

Representative REUSS. Why do they not buy twice as many U.S. securities as a further hedge against inflation by this same reasoning?

Mr. HAUSER. I cannot answer that, sir.

Representative REUSS. Let me go into another subject, then. Your bank, Mr. Hauser, as I understand it, is both a trader for its own account in U.S. securities, and for the account of a number of customers; is that not so?

Mr. HAUSER. Yes, sir; except I would take exception to the word "trader" simply to clarify the meaning. Let us say we have an investment account in which we place securities for production of income for our own account and we have a separate department which deals in or trades in Government securities among customers.

Representative REUSS. Roughly speaking—and answer this only if it is a matter of public record—over recent years about how much of your Government trading or your Government dealing has been for your own account and how much for the account of customers? Is it 50-50?

Mr. HAUSER. No, sir. The ratio would be very heavily on the side of the Government bond department. In our investment account we have relatively small activity, whereas in the dealer department we buy and sell millions of dollars' worth of bonds and bills the same day. We are merchandisers there, and we turn it over as fast as we can. In the investment portfolio we are buying to hold indefinitely.

Representative REUSS. Like so many banks, you still retain the designation "bond department" for a desk which, in fact, buys bonds, certificates, notes, and bills, or any other Government security?

Mr. HAUSER. We apply the term "bond department" to these people who deal in the securities with others. We apply the words "investment account" or "bank investments" to the portfolio which we hold.

Representative REUSS. Although the bond department is by no means restricted to the purchase of bonds. They purchase all sorts of securities for individual customers.

Mr. HAUSER. Yes, sir; they handle certificates, bills, notes, bonds, and agencies.

Representative REUSS. You do not have a bonds-only policy?

Mr. HAUSER. No, sir.

Representative REUSS. It is sometimes said by very respectable authorities that the holding of U.S. securities by commercial banks is inflationary. By "respectable authorities" I mean President Eisenhower, former Secretary of the Treasury Humphrey, Secretary Anderson, Mr. Burgess, et cetera. Is that true or false?

Mr. HAUSER. An increase in investments on the part of the banks means an increase in the money supply. You have an asset on one side represented by the bonds, and you have a liability on the other side represented by deposit liabilities of the banks. Those deposit liabilities are assets of the depositors.

So you have an increase in the money supply and in that respect it is inflationary.

Representative REUSS. Would you say that the nub of the question as to whether it is inflationary or not is whether the increase in the money supply comes at a time when it is good for the economy to have an increase in the money supply, and that it is inflationary when it comes at a time when the money supply should not be increased?

Mr. HAUSER. I would submit, sir, it is inflationary. It may be good inflationary or bad inflationary. If it is an increase in the money supply, by my definition it is inflationary because I define inflation as an increase in the supply of money.

Representative REUSS. Inflation in your book is not necessarily a bad word?

Mr. HAUSER. No, sir.

Representative REUSS. Inflation in your lexicon is what we need when the money supply needs to be increased and what we do not need when it needs to be kept intact or decreased.

Mr. HAUSER. In the sense that inflation is the opposite of deflation, there are times when it is healthy and helpful to the economy, I presume.

Representative REUSS. Let me ask you this question. I was disturbed in March when the Treasury in an issue, as I recall, of about 4- or 5-year maturity securities, in allotting subscriptions to various subscribers, cut down the subscriptions made by so-called real savers, that is, nonbank savers. I am talking about the ultimate ones.

Mr. HAUSER. Savings institutions and pension funds.

Representative REUSS. They cut down the allotment of real savers in order to give the commercial banks about a third of a billion of that particular issue. The whole issue was about \$700 million. This disturbed me because I believed some of the utterances of these respectable authorities about the possible bad inflationary character of bank holdings of U.S. securities, bad inflation referring to the creation of this expansion in the money supply at a time when the economy does not need it.

I was disturbed about that, as I say, because it seemed to me that the Treasury should first try to place its obligations with nonbank holders. I took this up with the Treasury and I was told it would be difficult for them to do that because everyone customarily oversubscribed on these issues, and hence, they felt they should cut everybody down a bit. I replied that I thought it might be a good idea if for once they tried marketing an issue and announced in advanced that nonbank subscribers would, to the extent possible, have their subscriptions met. Then

banks, to the extent that they wanted to, would come in for the remainder, if any.

I have not really gotten an answer from them as to why they did not do that, and I would welcome your comments on the proposition I put which I will recapitulate.

It seems to me it is sound policy for the Treasury to attempt to place the maximum amount of new issues in the hands of nonbank holders and that there is nothing wrong really with the Treasury adopting a policy of saying that because it is not particularly healthy for banks to own the national debt that they should come in after real savers have gotten all that they asked for.

What do you think about that?

Mr. HAUSER. I recall the situation that you refer to and it is my impression that the Treasury, with the help of banking organizations and life insurance companies and institutions and savings bank groups, surveyed the availability of funds as a measure of the amount of this new issue which would go to savings institutions.

It is my impression that they found a fairly good but limited demand for the issue, an amount which was not as great as the funds which had to be raised. The conclusion would appear, therefore, to have been that in spite of the desirability of placing this issue, if possible, with savings institutions, some had to be sold to banks, because there was not enough money on hand at the time from savings to take up the whole issue.

Senator BUSH. If the gentleman will yield, I would suggest he pursue this very interesting question, but I think he ought to answer your question about priority. If I understood your question, it was, should not the nonbank savers be given priority.

Representative REUSS. Yes.

Senator BUSH. I did not know whether he got the point about the priority. I think that is a very important question.

Representative REUSS. I will press it, Senator. I would say that as I recall this March issue, the Treasury did markedly cut down the subscription offer by nonbank potential subscribers and instead gave it to the banks.

Let me sharpen the question with the help of Senator Bush and ask you whether you do not agree with me that it would be a better policy for the Treasury to say very frankly and at the start of these issues, "Look, our main object is to place the national debt to the largest extent possible among nonbank holders. Therefore, while we have to rely on the banking system to a considerable degree, and while we are grateful for their support, we are telling them and all other prospective subscribers right now that nonbank subscribers will be served first. The debt will be placed with them to the extent it can be and then the bank subscription will be honored to the extent possible."

I should think in the light of our effort to combat inflation wherever possible, that this would be a sound way of managing the national debt.

Mr. HAUSER. This suggestion that you make has been used by the Treasury at times. The Treasury has offered certain issues exclusively to savings institutions. This goes back a good many years, but there have been times when no one except certain types of investors could get certain issues.

Representative REUSS. There are still issues outstanding which are not bank eligible.

Mr. HAUSER. They are bank eligible, but they are nonmarketable issues that were designed specifically for savings institutions. The Treasury at any time could offer a specific issue to a certain class of investors and confine it to that class of investors. This, however, does not make for the best distribution of debt.

I believe—and this is purely a matter of opinion—that it is better to have some investors of each type participate in a new issue rather than try to design one issue for a specific class and another for another class or even to restrict the offering at any given time to one specific class.

Representative REUSS. It was just the second that I was talking about. I was not suggesting that the Treasury get out issues for which banks are not eligible. I was simply saying that since you cannot tell until after the marketing how successful it has been that the Treasury pursues a policy of saying "Real savers will be served first and satisfied up to 100 percent of their subscription before our friends the banks have their subscriptions satisfied."

I gather, however, that you would not approve such a policy.

Mr. HAUSER. I would not disapprove it. I do not believe it would accomplish anything, and I do not think it would work as well as the recently used method. I think what would have happened would be that the subscriptions from savers, as a class, would have been much less.

The manner in which Treasury securities have been offered for many, many years has led to a practice, which is not unhealthy, but it is a practice, of subscribing for more than you expect to get in certain issues. The Treasury needs an oversubscription to be sure to place an issue properly. It must then allot to actual bonds on a percentage basis. If savers know that they will get 100 percent of their subscriptions, it would simply tend to reduce the amount of those subscriptions and then there would presumably have been an amount left over which would have been allotted to others, including commercial banks.

Representative REUSS. That would be so if the suggestion were that savers would automatically be allotted 100 percent of their subscriptions. That was not my suggestion. My suggestion was simply that they be allotted a percentage of their total subscription sufficient to take care of real savers before the banks were allotted any on the theory that if it is right that bank holdings of the national debt are inflationary, it would certainly seem to me to be the part of wisdom to prevent this inflationary situation from arising to the extent that you do have real savers.

I notice that my time is up. Perhaps we can return to this later.

The CHAIRMAN. I would suggest you go ahead.

Representative REUSS. I certainly want to give you an opportunity to answer that last.

Mr. HAUSER. You say they should not be allotted in full necessarily, but a percentage. Wouldn't that percentage have to be 100 percent to make any sense in taking care of the requirements of the investors? If it is not 100 percent, sir, I would offer this thought:

The Treasury has no way of accurately determining what the demand is or may be for a specific issue, and it is therefore helpless to accept a specific percentage ahead of time, if that is your point.

Representative REUSS. I did not mean ahead of time. Let us suppose that the Treasury wants to sell a billion dollars worth of securities. Let us suppose that real savers bid for \$2 billion worth and banks bid for \$1 billion worth, total bid \$3 billion.

I would satisfy the real savers 50 cents on the dollar and tell the banks that you very much appreciate their support, come around the next time.

The CHAIRMAN. Mr. Hauser, in response to one of my questions, I understood you to argue that it was the general rise in interest rates, other than Governments, which caused the yields on Governments to rise in 1958 and hence, the price of Governments to fall. Did I understand you to say that?

Mr. HAUSER. In substance, sir. I do not want to quibble over words, but I want to be sure that I am correctly understood. I would like to say that the same influence that caused an increase in the interest rates of all types of obligations also bore on the interest rates on Government bonds.

The CHAIRMAN. Later in response to a query by another member of the committee, I understood you to say that it was the fall in the price of Government securities caused by the fear of inflation which caused interest rates to rise, and this could only take place through a fall in the price of Governments.

The question I want to raise is this: Is there a contradiction between these two statements?

Mr. HAUSER. I do not believe there is any contradiction, sir. The yield on any investment is a function of the measure of risk in the mind of the supplier of the funds. That yield can be influenced by a great many things. It is influenced by the various items that enter into the demand and the various items that enter into the supply side.

The fear of inflation is one of the factors that affects the supply and also the demand for that matter. That is reflected in the yield.

The CHAIRMAN. I believe you defined inflation as any increase in the money supply. Do you want to hold to that definition of inflation?

Mr. HAUSER. Perhaps I should have said in the sense that I was using it at the time. Inflation has a great many meanings. It probably means something different to every individual in this room.

The CHAIRMAN. You know when Pickwick would get into difficulty he would always say, "I am using this term simply in a Pickwickian sense."

I want to ask if your definition of inflation is any increase in the money supply because this is the term which is bandied about a good deal and it is important to know what it means.

Mr. HAUSER. In the sense that it is usually bandied about, I would make an addition.

The CHAIRMAN. What would that be?

Mr. HAUSER. I would couple with the money supply the supply of goods and services.

The CHAIRMAN. I think that is a much more correct definition.

Mr. HAUSER. Yes, sir.

The CHAIRMAN. If the increase in the money supply is matched by a proportionate increase in the quantity of goods and services produced, so that the net effect is stability in the price level, has there been inflation?

Mr. HAUSER. No, sir; not in this sense.

The CHAIRMAN. Isn't that the real sense?

Mr. HAUSER. I would accept that.

The CHAIRMAN. I think this would be a very valuable lesson for many—I do not say all—eastern financial writers. In fact, I would drop out the word "eastern" and simply say financial writers, and for many financial experts, because they think that any increase in the money supply is ipso facto inflationary, even though it is not accompanied by any increase in the price level.

I think it is proper to stick to inflation as an increase in the price level and to measure the degree of inflation or the magnitude of inflation by the degree of increase in the price level.

So when prices are steady, the purchasing power of money remains the same and there is no change in the value of money, and therefore, no inflation. When prices fall, the purchase power of money increases and we can be said to have deflation; is that not true?

Mr. HAUSER. Yes, sir.

The CHAIRMAN. We have heard a lot about the terrors of inflation and the awful ogre of inflation. Have we had any inflation in the last year?

Mr. HAUSER. I do not know that I can add anything to the published record, sir.

The CHAIRMAN. What does the public record show?

Mr. HAUSER. It would show an increase, as I recall it, of less than 1 percent in the cost-of-living index.

The CHAIRMAN. May I give you the exact figures which are found on page 23 of the Economic Indicators for July, showing an index of 123.7, with 1947-49 as the base, in June 1958, 124.5 in June of 1959. This is an increase of eight-tenths of 1 point, or a percentage increase of six-tenths of 1 percent.

Would you say that was appreciable inflation?

Mr. HAUSER. Not in the sense of the definition which we have given to the word.

The CHAIRMAN. And which you thought was the proper definition?

Mr. HAUSER. Yes, sir.

The CHAIRMAN. What about wholesale prices? Do you think those should be considered in the definition of inflation?

Mr. HAUSER. Wholesale prices would be another measure of inflation.

The CHAIRMAN. On page 24 of the Economic Indicators for July we have all commodity wholesale prices, 1947-49 equals 100, and in June of 1958 it was 119.2. For the week ending July 14, 3 weeks ago, 119.3, or an increase of one-tenth of 1 percent in 13 months.

Would you say that was inflation?

Mr. HAUSER. That index does not reflect any effects of inflation during this period.

The CHAIRMAN. That is right. Don't you think that people ought to be more restrained in their talk about how we are being devoured by inflation when as a matter of fact we have had stability in the

price level during the last year or perhaps 13 months? It would be interesting to see what the figures for July and August are when they come out.

Mr. HAUSER. This is a matter of opinion, but I feel it is necessary for all of us to holler our heads off about inflation all the time.

The CHAIRMAN. Even though it doesn't occur?

Mr. HAUSER. Even though it doesn't occur, because the potential is so great that it could explode at any time if we relax in our diligence and in our efforts to hold it down.

The CHAIRMAN. Even though by hollering your heads off, in your graphic phrase, you weaken people's confidence in Government bonds and cause them to buy fewer Government bonds, and thus depress the price of the Government bonds, and raise the interest rate. It is still your duty to get to the top of the tallest skyscraper in New York with a magnified voice and shout your head off on the danger of inflation?

Mr. HAUSER. I think it is very proper to holler about the dangers of inflation.

The CHAIRMAN. About the reality of inflation?

Mr. HAUSER. I don't think it is proper to get up and say we are "going busted."

The CHAIRMAN. Do you think we should holler our heads off on the reality of inflation in the last year?

Mr. HAUSER. No, sir. I don't believe in saying anything that is not in accordance with the facts.

The CHAIRMAN. The facts are that there has been no inflation in the last year.

Mr. HAUSER. That is absolutely correct.

The CHAIRMAN. If these hearings have done nothing more than this, to have the eminent financiers of the city of New York say there has been no inflation in the past year, and prices have been steady, we will have served our purpose.

Would that the newspapers of the city could hear these winged words. Would that the life insurance industry could take these words to heart and cease putting in full-page ads in the newspapers shouting about the horrors of inflation. Would that the politicians of a certain political party would stop shouting about inflation, because in so doing without meaning to do it—and I want to acquit them of any bad purpose—they help to destroy confidence in Government bonds, weaken the faith of people in the purchasing power of the American bond, and decrease the prices of bonds, make it more difficult to sell bonds and thus raise interest rates.

Don't you think this calls for moderation, restraint, or a nice balance? .

Representative WIDNALL. Will the gentleman yield?

The CHAIRMAN. I would like to have Mr. Hauser answer first, and then I will yield.

Mr. HAUSER. Sir, I do not draw the same conclusions that you do from the concern we have about inflation. I reiterate that I think we should continue to speak of the dangers of inflation and to recognize the potential inflation which we are building up under the surface.

The CHAIRMAN. In other words, there is an accumulation of toxic poisons underneath the surface which have not expressed themselves

yet in an increase in the price level, but which will undermine the health of the body politic in the future.

Mr. HAUSER. A distinct danger; yes, sir.

The CHAIRMAN. My good friend from Connecticut—may I quote you on that?—says, "Now you're talking."

What are these toxic poisons underneath the surface that are building up, and, unless counteracted, will cause the patient to contract a serious and possibly fatal sickness?

Mr. HAUSER. The principal one is the deficit which we experienced in the past fiscal year.

The CHAIRMAN. That, you know, is over. Curiously enough it was not accompanied by any increase in prices. The biggest peacetime deficit in history was accompanied with stability in prices.

Lest any financial reporter, or any member of the opposition party would say that I declared I favor big deficit as a means of stabilizing prices, let me say that this is not so, of course.

But it is curious that we have had this huge deficit with no increase in prices. For the coming year I think it is true that we are going to balance the budget. In fact, I think the poor Congress which has taken such a beating from the writers is going to cut the President's budget. I think you can carry the message to your foreign friends who have been so afraid of the instability of the American dollar they need not be frightened.

We are going to cut foreign aid to such a degree that we will balance the budget and they need have no fear of stability of the American dollar.

This should give them a great deal of reassurance.

Will you carry the message to Garcia?

Mr. HAUSER. I will be very happy to, sir. Those are very comforting words.

The CHAIRMAN. I am sure they will comfort the people abroad who talk to our financial people and are worried about the unbalanced budget that we have and the deficit that they say is going to come. We are going to reduce their worries by reducing their aid. This, I know should make them feel much happier.

I think that is all.

Senator BUSH. In view of the discussion we have just had, I would like to point out from the same page, page 24, of the Indicator, that farm products have gone down materially in the year that the Senator has been talking about, from an index figure of 95.6 to 89.9, which has been the basic reason that there has been no increase of a material nature in the cost-of-living index.

As the Senator will see from his chart at the very top of the page other than farm products and foods, industrial has gone up in the same 12-month period the Senator has been talking about, in spite of the fact that during most of that period we had substantial unemployment, and so on and so forth. The farm products picture, as the Senator knows, has been aggravated by a bad legislative program which has stimulated the acquisition of billions of dollars' worth of surplus food products, and that has had a depressing effect on the prices.

So I would say primarily if not solely it was due to that very bad situation that the cost-of-living index has been held down in spite of the fact that the other-than-farm products and foods have gone up.

I want to go back just a moment to the Government bond market because I want to ask you this: I think you have said correctly that there are various elements which affect interest rates and bond prices. Supply and demand and various elements that affect the supply and demand. Confidence is one of them. The general state of business activity may be another, and so forth, and so on.

But basically Government bonds set the level of the top grade because this is what we call, I believe, undoubted credit as far as dollars are concerned.

There is no question in the minds of any investor that the Government bond will pay in dollars. So that is a completely undoubted credit. They are money-good.

Therefore, if a lack of confidence on the part of long-term investors for fear of inflation affects the Government bond market adversely, that in turn affects all other fixed income investments; does it not?

Mr. HAUSER. Yes, sir; it does.

Senator BUSH. If the AAA undoubted credit is shaken, then that sets the level and the others take their place in the scheme of things from the Government bond level; is that not true?

Mr. HAUSER. Yes, sir. There may be some variation in the relationship, but in general terms it is exactly right.

Senator BUSH. Therefore, I come to the point again, I do not feel quite as untroubled as my delightful friend from Illinois does about the situation, and I do believe that it is of vital importance that we restore what confidence has been lost in the Government bond market, and it is up to the Congress of the United States to take the lead in that particular effort.

I do very much hope that the people of this country will try to understand the danger that I believe exists, and try to persuade Members of the Congress to take this situation seriously, put our fiscal house in order and keep it under firm control where it belongs, with the Congress of the United States.

I think you have made an excellent contribution to the deliberations of this committee, and I compliment you on the splendid manner in which you have answered the questions today.

Mr. HAUSER. Thank you, sir.

The CHAIRMAN. Congressman Patman.

Representative PATMAN. No questions.

The CHAIRMAN. Congressman Widnall.

Representative WIDNALL. Mr. Hauser, would you have any records that would indicate the comparative profits of your own dealings with respect to Government securities and with other types of bonds? Do you find for the long pull that you as an institution do better in dealing in Government securities or in the other type of securities?

Mr. HAUSER. That is such a broad question, sir, I have difficulty in knowing where to start to answer it.

May I point out that we buy both Government bonds and State and city and municipal bonds for investment, and we also deal in them. That is, we buy them for immediate resale.

Representative WIDNALL. You deal in both types, do you not?

Mr. HAUSER. Yes, sir. Are you referring to the dealer activities?

Representative WIDNALL. I am referring to the dealer activities. I am not talking about one particular situation, but over the long haul.

What is the comparative profit situation with respect to those dealings?

Mr. HAUSER. In a very general way the dealings in municipal securities has been more profitable and certainly more regularly profitable than dealing in Government securities. There have been some years when our Government bond department has had red figures. Other years have been in the black.

In the municipal activities I can think of only one year when we had red figures. They have generally been moderately satisfactory with reasonably regular profitable operations in the municipals.

Representative WIDNALL. I would just like to make this comment at this time: I think that because the public at large has become more aware of the dangers of inflation, that Government spending programs that were poised months ago have been stopped in their track, and we are getting to the point where we can have a balanced budget.

I am delighted to hear our eminent chairman, Senator Douglas, say we are going to have that balanced budget. But the public has exerted pressure on the Congress that has helped to hold in check some of the forces that to my mind would have caused dangerous inflation.

Mr. HAUSER. May I ask you a question, sir? Don't you relate that fortunate result to the fact that we have been pointing to the dangers of inflation and the necessity for a balanced budget?

Representative WIDNALL. I think that has been very helpful.

Mr. HAUSER. Thank you.

Representative WIDNALL. Thank you.

The CHAIRMAN. Congressman Reuss.

Representative REUSS. Mr. Hauser, you defined inflation as an increase in the money supply.

In 1953 and 1958, respectively, the Federal Reserve lowered bank reserve requirements, including the reserve requirements of the central Reserve city bank in New York, to such an extent that a total of \$4.9 billion new bank reserves was created, permitting an expansion of the money supply on the order of \$30 billion.

Did you holler your head off about inflation as to either of those Federal Reserve actions?

Mr. HAUSER. I am afraid my recollection of that particular period is not very clear, but I will say that I have been concerned about the inflationary trend in our economy for a good many years. I believe I was concerned at that time.

I do not say, however, that I was concerned with that particular move. I do not have a clear enough recollection of the condition of the economy or the reasons for that particular reduction in reserve requirements.

Representative REUSS. Your recollection now is that you did not publicly, at least, denounce Chairman Martin and the Board of Governors of the Federal Reserve Board?

Mr. HAUSER. I certainly did not. I can say that, yes, sir.

Representative REUSS. Could you tell me, Mr. Hauser, in some detail, the process by which you and your bank in dealing in U.S. securities gage the meaning and significance of Federal Reserve action? I am thinking about changes up or down in the discount rate. I am thinking about open market purchases and sales. I am thinking about action with respect to bank reserve requirements.

What significance do you attach to signals of this sort, and how does it affect the conduct of your own operations?

Mr. HAUSER. We, of course, study this booklet very carefully almost daily. Certainly as soon as a new issue comes out we study it and attempt constantly to follow all the indices of this type to have as complete an understanding of the state of the economy and the trends within the economy. We pay particular attention to the figures on gross national product, personal income, the Federal Reserve Board index of production, the Department of Labor price indices, figures on employment, and to the various money rate figures.

We also very carefully follow the published figures, particularly the weekly figures, which reveal the position of the Federal Reserve bank and the reserve position of the member banks.

If there is any one index that we pay particular attention to with respect to an interpretation of monetary policy, it is the amount of borrowing by the member banks from the Federal Reserve banks.

Along with this is the adjusted figure which is currently referred to as net borrowed reserves. This is simply the amount of borrowing less excess reserves at any given time. That figure, not by itself, but its trend is to us the most significant indication of the forces at work and the effectiveness of Federal Reserve policy.

Representative REUSS. Do you place much weight on information you and your associates obtain in talking to the Federal Reserve officials?

Mr. HAUSER. We find conversations with the Federal Reserve people helpful to us in understanding what is going on in the economy. There is nothing exclusive in this information. It is one of the bits of information which we put together with information gleaned from all corners, including discussions with people in all lines of business, as to how their sales are going, what their operating costs are, how much inventory they are carrying, how much they are going to have to borrow from us, and so on.

Representative REUSS. Perhaps I can best inform myself as to the way in which you interpret various signals from the Federal Reserve by asking you about a specific case or two.

In November 1957 the Federal Reserve lowered the rediscount rate from 3½ percent to 3 percent, as I recall.

Can you recall what your interpretation of that action was? What did that signal to you?

Mr. HAUSER. That signaled to us a definite change of policy, and I believe the same signal was recognized or acknowledged by all people who keep an eye on these things.

Representative REUSS. The signal in general terms was that the Federal Reserve was conveying to the world that a somewhat less restrictive policy was to be in effect. Is that a roughly accurate description?

Mr. HAUSER. Yes. I would go just about an inch further and say that it confirmed the fact that there had been a less restrictive policy, and there was now a move toward ease.

Representative REUSS. Would you have drawn any different conclusion had the Federal Reserve in November 1957, instead of lowering the rediscount rate from 3½ percent to 3 percent, which is what it did, instead conducted its open market operations, or changed reserve

requirements in a way to indicate that they were easing the money somewhat?

In other words, is there any difference in the kind of signal you get depending on the type of device used?

Mr. HAUSER. I would say there would be very little difference in the signal, sir. It wouldn't have made much sense in the financial community to have lowered reserve requirements at that time, because that was not needed, as I recall it. The reserve position of the banks was ample, and there was no reason to increase reserves.

I suppose I could go so far as to say that if reserves had been reduced the signal would have indicated that a case of panic almost on the part of the money managers was going on. It would not have been quite the same signal as the reduction in the discount rate.

Representative REUSS. In other words, that would have been a very very much stronger signal?

Mr. HAUSER. Yes, sir.

Representative REUSS. What effect did the receipt of this signal by you have upon your market action? If you don't care to talk about this particular incident, tell me what a similar signal at some other time might have by way of effect on your market. What does it make you do when the Federal Reserve indicates that it is easing things?

Mr. HAUSER. As far as the investment account is concerned, there was very little reason for any change in our market actions. Our market attitude was somewhat changed in that we felt a little happier about having better prices on our valuation. As far as the dealer department is concerned, and that is the area with which this inquiry is particularly concerned, we were very happy to have the opportunity to step up the volume of our business very substantially. We found customers of ours all over the country and, in fact, from abroad, more interested in buying Government securities.

Also we had the comfort of a rising market which makes it much easier to earn the spread which exists between bid and ask prices of securities. That spread is always there, but in a falling market it is not there long enough at the same figure to make it possible for a dealer to consummate both sides of a transaction before the spread disappears.

Representative REUSS. In other words, this is a perfectly straightforward and relatively simple type of reaction. If the Federal Reserve indicates that it is going to make credit a little easier, this tends to make U.S. securities go up in price. Isn't that about it?

Mr. HAUSER. Yes.

Representative REUSS. Other things being equal?

Mr. HAUSER. And it happens with a rush because all students of the money market look at the same things, react the same way, and think the same way. And when a signal is flashed everybody reacts at once. There was a very quick change and a very sudden rise in the price level following that announcement.

Representative REUSS. Thank you.

The CHAIRMAN. I understand from my colleagues that they have no more questions. I have no more questions.

I want to thank you, Mr. Hauser, and your associate, for coming here this afternoon.

We will adjourn until 10 o'clock tomorrow morning, and make an effort to consolidate the afternoon and the morning hearings.

The witness at 10 o'clock is Mr. Maurice Gilmartin, partner, Charles E. Quincey & Co.; and Herbert N. Repp, president of Discount Corp. of New York, was scheduled to come in the afternoon.

The chairman will be unable to be here tomorrow because he has a very important committee meeting in Washington which he must attend, but the conduct of the hearing or hearings will be under the direction of Vice Chairman Patman.

Mr. HAUSER. Senator, I would like to extend an invitation to any member of the committee, or your staff, to visit our bond department and see how we do things.

The CHAIRMAN. I appreciate that but I don't think many of us, except possibly the Senator from Connecticut, have money to buy bonds.

Mr. HAUSER. You don't have to buy any.

(Whereupon, at 4:05 p.m., the committee recessed, to reconvene at 10 a.m. Friday, August 7, 1959.)

EMPLOYMENT, GROWTH, AND PRICE LEVELS

FRIDAY, AUGUST 7, 1959

U.S. CONGRESS,
JOINT ECONOMIC COMMITTEE,
New York, N.Y.

The committee met at 10 a.m., pursuant to recess, in room 110, U.S. Courthouse, Foley Square, New York, N.Y., Representative Wright Patman (vice chairman of the committee) presiding.

Present: Representatives Patman, Reuss, and Widnall; and Senator Bush.

Representative PATMAN. As our distinguished chairman, Senator Douglas, would say, if he were here, the time of 10 o'clock having arrived, the committee is called to order.

We have as our first witness this morning Mr. Maurice A. Gilmartin, Jr., partner of Charles E. Quincey & Co., of New York.

Mr. Gilmartin, are you ready to proceed?

STATEMENT OF MAURICE A. GILMARTIN, JR., PARTNER, CHARLES E. QUINCEY & CO., NEW YORK, N.Y.

Mr. GILMARTIN. I am, sir.

Representative PATMAN. Do you have a prepared statement, or would you like to make a statement in advance of your questioning?

Mr. GILMARTIN. No, I have no prepared statement, and I prefer not to make a statement.

Representative PATMAN. Are you ready to answer any questions that the members of the committee desire to ask?

Mr. GILMARTIN. I will try my best, within the limits of my ability to do so.

Representative PATMAN. Mr. Reuss, you are recognized.

Representative REUSS. Thank you, Mr. Chairman.

I am very grateful to you, Mr. Gilmartin, for coming here to help us this morning. I would like to ask a number of questions about short selling in U.S. securities.

What is the extent of short selling in the U.S. securities market?

Mr. GILMARTIN. Mr. Reuss, I have no information on that, nor would I know where to get such information.

Representative REUSS. There is no place where it is filed, published, or kept current, is there?

Mr. GILMARTIN. To collect the information from all of the dealers?

Representative REUSS. Yes.

Mr. GILMARTIN. Not that I know of, sir.

Representative REUSS. It is not like short sales on the stock market, where the Securities and Exchange Commission keeps at least monthly

records of the short position in all listed stock? There is nothing comparable to that in the U.S. securities market?

Mr. GILMARTIN. Not to my knowledge.

Representative REUSS. Having answered me that you simply do not have access to statistical material on the extent of short selling, can you tell me anything from your broad general observation?

Does your firm, if you care to answer, make short sales to other dealers; to individuals?

Mr. GILMARTIN. Mr. Reuss, how would you define a short sale in Government securities?

Representative REUSS. I would like your help in defining it. I guess my idea would be that a short sale would be a transaction whereby a dealer or individual, seeing that the outstanding market value of a particular U.S. security was, let us say, 100, and having a hunch that it is going to go down in value, he borrows a security of that maturity from somebody who will lend it to him, sells it at the market, and then attempts to replace it at a lower price, hopefully 90.

If he guesses wrong and it goes up to 105, he loses. What I am doing is describing the completion of a short sale in the stock market. I have assumed, perhaps incorrectly, that this can be done and is being done in the U.S. securities market. It goes without saying that short selling in the stock market is perfectly legal and fulfills a useful function that has been going on since stock exchanges were invented.

Does this happen in the U.S. securities market as I thought that it did?

Mr. GILMARTIN. If I understand the way you presented that, you are assuming that a short sale constitutes the sale of a security for the future reacquirement of the security at a gain or a loss. Do you give any consideration in your definition to an offset sale?

A dealer is in the position of having to make a market. His function is primarily to attempt to accommodate the factors of demand and the factors of supply as they may arise within a given market. If he is forced to accommodate the market by selling a given issue that he does not have, he will offset that position in turn by acquiring a distinctly similar security until he can reverse his position.

Do you consider a sale of that nature a short sale under the definition you have given me of short sales?

Representative REUSS. I honestly do not know whether it should be so considered. But since the purpose of my inquiry is to educate myself, let me ask you if that kind of offsetting sale occurs?

Mr. GILMARTIN. Very frequently.

Representative REUSS. This occurs very frequently?

Mr. GILMARTIN. Yes.

Representative REUSS. I suppose that there are no public records kept on this. Each individual dealer has his own records of the offsetting sales he accomplishes.

Mr. GILMARTIN. A dealer has to run his position with good judgment and prudent management. He cannot afford to expose himself in a manner that is not in consonance with good business practice or in disregard of his available capital. If he was consistently wrong in his judgments, he would not be in business very long.

Representative REUSS. This offsetting sale that you describe does partake of the stock market short sale that I attempted to describe a moment ago, does it not, to the extent that it involves a dealer borrowing a given security from somebody and selling it?

The dealer must, of course, ultimately restore an identical security under the old maxim that he who sells what is not his must go to prison. I assume that even in an offsetting sale this repayment into the box must occur.

Mr. GILMARTIN. Yes. What could very easily happen is that a dealer might sell a security at 5 minutes after 10 and have reacquired that security at 6 minutes after 10 or 11. Would you construe that as a short sale made for the purpose you described?

Representative REUSS. Certainly not. It is a day-to-day offsetting transaction even though it does involve technically the borrowing of a security and a sale which would not otherwise take place were it not for the desire to offset this.

Mr. GILMARTIN. There might not be any borrowing at all. The dealer might sell that security to accommodate the market and he reacquires that security on the same day.

Representative REUSS. It moves so fast that there is no fiduciary reason.

Mr. GILMARTIN. Physically there would be no short position. Momentarily there was a technical short position.

Representative REUSS. I think you have helped to make me understand about these offsetting transactions. In addition to these offsetting transactions, if they are short sales at all, are very technically short sales?

Mr. GILMARTIN. Yes.

Representative REUSS. In addition to those offsetting transactions, are there the more classic type of short sales in dealer securities?

Mr. GILMARTIN. Yes.

Representative REUSS. The volume of those throughout the entire market is unknown to you or can you guess at the volume?

Mr. GILMARTIN. I have no way of knowing, and a guess would be an extremely poor one because there are a considerable number of dealers and others who engage in the Government securities business and the availability of information of that nature is now available to any given dealer. The dealer's knowledge is limited to his own position.

Representative REUSS. Let me ask you this question: In your opinion, was the accomplishment of short sales either of the classic variety or of the offsetting technical variety that you have described to me, did either of those operations play any part in your opinion in the sharp decline in the bond market of June 1958?

Mr. GILMARTIN. I have not had the opportunity to thoroughly study the joint study of the Treasury Department and the Federal Reserve. Whether or not the information is contained in that study, I am not prepared to say. If it is in there, it would be very interesting.

My impression is that in the particular phase of the market to which you have referred, short selling played a very small part in the effect on the market and/or the price structure.

Representative REUSS. I have not read the Federal Reserve Board report section on this either.

Do you know offhand whether they queried the dealers as to the amount of the short position at that time?

Mr. GILMARTIN. The information that we were requested to provide was very extensive, Mr. Reuss, and without referring to the questionnaire, which I do not have with me, I would not want to state categorically whether the question was asked in those terms or not.

Representative REUSS. I could look it up and find out.

Do you know offhand what types of investors engaged in the classic sort of short sale operation in the U.S. securities market? You have already told me that this offsetting trend is frequently used by dealers.

Mr. GILMARTIN. Yes.

Representative REUSS. What other types of investors in U.S. securities engage in either the classic type or the offsetting type?

Mr. GILMARTIN. Here again, I will have to ask you a question.

A person might sell a given security which he does not possess and be selling it as a hedge against a security which he does possess. For any one of many reasons, including tax considerations, he may not either wish to sell or be forced to sell the issue which he holds.

A person might have a security, an issue for instance, which he had the ownership of for a period of 5 months. Let us assume the security was not selling at a profit. Should the market rise he had a potential of capturing a long-term gain, but he did not like the then level of the market. He might elect to sell another security reasonably comparable to the security he holds, stay short of that security as a hedge against the security that he owned or held in long position.

Representative REUSS. In such a case, of course, the total sales engendered by somebody taking a short position does not exceed the total sales that would otherwise exist since if they did not make this short sale they would make a regular sale. So this type of short selling does not add to the total amount of sell orders?

Mr. GILMARTIN. I would not think it did; no, sir.

Representative REUSS. What kinds of investors, if you know, make either these hedging kinds of short sales in order to avoid certain tax structures, or for any other reason, and what types of investors make the remainder of the classic type of short sales? All kinds, or are there particular kinds of investors?

Mr. GILMARTIN. As a dealer, it would be very difficult for me to answer that question in such a manner that would be constructively helpful to the purpose of your inquiry. We do not question the intent or the purpose of a customer when he comes in to buy or sell a security. There are no statistics that I know that would reveal the answer. Any answer that I would give you would be purely guesswork.

Representative REUSS. Just one more question.

Are there margin requirements on short sales of U.S. securities as there are on long sales?

Mr. GILMARTIN. My firm is a member of the New York Stock Exchange, and the American Stock Exchange. We do not carry margin accounts for customers. Therefore, we do not in a sense deal with the customer on a basis that would reveal to us the necessity for margins in the case of individuals. Fundamentally, margin requirements on Treasury securities are a flexible matter, depending upon credit worthiness and upon the length of the maturity of the security that is offered for collateral to the loan.

That is a matter that is controlled basically by credit judgment of a bank officer extending the accommodation. The New York Stock Exchange is subject to the provisions of rule 325, as amended. It provides that a member firm carrying Government securities for its own account, whether the position be long or short, must debit its capital account to a given percentage of the commitment that it has in the security. You are familiar with that rule; are you not?

Representative REUSS. I have heard about it.

Mr. GILMARTIN. If you are not, I would be happy to provide you with a copy of it, sir.

Representative REUSS. I gather that by and large the same margin requirements apply to short as to long sales.

Mr. GILMARTIN. With respect to the capacity of the borrower, I would say that is correct.

Representative REUSS. Thank you very much, Mr. Chairman.

Representative PATMAN. Since Senator Bush has just arrived, and he requested that I take my time now, I will do so and interrogate the witness.

Mr. Gilmartin, the Federal Reserve-Treasury report, volume 2, shows daily positions for all dealers combined. As a whole, they started unloading Governments pretty fast in the middle of June 1958. The question is, Did the small dealers unload the same as the large dealers? I assume we can have some indication of that by asking about the profits of dealers. Were the profits of the 17 recognized dealers larger last year than the year before?

Mr. GILMARTIN. I would have no way of knowing that, Mr. Patman.

Representative PATMAN. What about your own firm?

Mr. GILMARTIN. As far as my own firm is concerned, I would have to break it down for you and tell you that we had a long-term capital gain, a short-term capital loss, and an ordinary income-operating profit.

Representative PATMAN. What about the small dealer? Did they come out like the larger dealers did by unloading in June 1958?

Mr. GILMARTIN. Would you repeat that, sir?

Representative PATMAN. Did the small dealers come out as well as the larger dealers profitwise in 1958?

Mr. GILMARTIN. I could not answer that question very well, Mr. Patman.

Representative PATMAN. I realize that you would really not be in a position to answer it well. Do you advise your customers about the Federal monetary policy?

Mr. GILMARTIN. Our interpretation of it; yes, sir.

Representative PATMAN. How do the advisory committees make estimates to the Treasury of what the interest on an issue should be?

Mr. GILMARTIN. I am not a member of any Treasury advisory committees, Mr. Patman.

Representative PATMAN. You are not a member?

Mr. GILMARTIN. No, sir.

Representative PATMAN. You have a member of your firm?

Mr. GILMARTIN. No, sir. We are not members of the I.B.A. or the A.B.A.

Representative PATMAN. How do you feel about oversubscriptions? How are they arrived at and why are they oversubscribed on Treasury issues?

Mr. GILMARTIN. I would say that an oversubscription is the result of the composite judgment of all of those people who express a desire to acquire the security.

Representative PATMAN. Do they not normally and almost invariably oversubscribe?

Mr. GILMARTIN. I think there have been one or two occasions when there was a certain degree of apprehension as to the amount of the oversubscription and the increasing percentage allotment on various issues has at times caused problems.

Representative PATMAN. You have direct lines, connecting telephone lines, between the 17 dealers. I believe that has been testified to.

Mr. GILMARTIN. We have lines to all of the dealers, Mr. Patman.

Representative PATMAN. And you confer frequently, of course. Naturally you would.

Mr. GILMARTIN. Confer, Mr. Patman?

Representative PATMAN. I do not mean to say that you are having understandings or agreements in violation of the law, or conspiracy. I am not inferring that at all. I am just talking about being in the same business, you would naturally confer.

Mr. GILMARTIN. We are checking one another's markets; yes, sir.

Representative PATMAN. That is right. I do not mean that in any sense in which it would be something bad. In connection with the Treasury bills and the auction of the Treasury bills, do you have an estimate of what quantities and classes all the dealers have bids in 5 or 10 minutes after the bidding closes?

Mr. GILMARTIN. I would say within 20 minutes we know pretty well what the other dealers have bid and the quantities they bid for; yes, sir.

Representative PATMAN. How do you get that information?

Mr. GILMARTIN. Following 1:30, when the auction bid window at the New York Federal Reserve Bank is closed, and we call the other dealers and they call us and we give them our bids and they give us their bids.

Representative PATMAN. You exchange information?

Mr. GILMARTIN. That is correct.

Representative PATMAN. What percent of the business does your firm do with other dealers?

Mr. GILMARTIN. The percentage of our business with other dealers relative to our total volume is small. I could not give it to you in percentage. If it was essential for your study, I would be glad to try to have it worked out for you, sir.

Representative PATMAN. That is not important enough to put you to the trouble of doing that.

When the Federal Reserve increases the money supply, is there less business for you and your firm and the dealers if the Federal Reserve increases its portfolio than if it reduces required reserves of member banks?

Mr. GILMARTIN. State that again, sir, please.

Representative PATMAN. In other words, if the Fed wants to increase the money supply, there are two ways that can be done. One is by increasing its portfolio by buying Government securities, and the other is by lowering the required reserves of member banks.

Mr. GILMARTIN. Yes.

Representative PATMAN. Would you have less business if the Fed used the first way of doing it, acquiring securities, or would you have more business? Would the other security dealers? In other words, is a security dealer, profitwise, helped by using the latter method as compared to the first one?

Mr. GILMARTIN. I have to make a distinction here. At this time we are not a primary dealer in Treasury bills. As long as we have the bills—usually policy, we would not be affected very much by the bill volume or the volume of our business would not be affected very much.

Representative PATMAN. When you say “very much” would you define it? Would it be adversely or favorably by the purchase of securities for the purpose of increasing the reserves?

Mr. GILMARTIN. In our particular case, that is in the case of my particular firm, Mr. Patman, I am inclined to think that we probably would be more favorably affected by a reduction in reserve requirements rather than we would be through the acquirement of bills.

Representative PATMAN. Would that not be even more so in the case of the other dealers, whose activities are broader than you say yours are?

Mr. GILMARTIN. Not necessarily. If a person was a primary dealer in bills, and it was basically his principal business, I am inclined to think that he would be in a more favored position at times of purchases or sales for open market account than he would be by changes in the reserve requirements.

Representative PATMAN. I must make a confession, Senator Bush. Yesterday I visited the Federal Reserve Bank of New York. I visited it one time before, many years ago. In fact, I sponsored a trip for Members of Congress to come here. About 75 of us came 20 or 25 years ago and visited the Federal Reserve bank.

Yesterday I was back. I was somewhat naive, I guess—in fact, I know I was, and am—I thought that the banks maintained actual reserves, that is, the Federal Reserve banks, and when the banks report \$18 billion in reserves of member banks, I thought they had \$18 billion.

I thought when the Federal Reserve Bank of New York reported that it had \$5 billion of actual reserves of member banks that they actually had \$5 billion in Federal Reserve notes, U.S. notes, silver, or some form of tangible money.

On the theory that we have been taught in the books I have read all the time, that it is an actual reserve like the old gold reserve, and had to be kept that way subject to call and could not be invested because it would be causing the reserves to do double duty, therefore, it had to be maintained in tangible form.

I was told that they have no reserves. That was, of course, not shocking to me, but almost shocking. I realize that there are ways of getting around the actual tangible product. But if you will pardon this statement of experience, when I was district attorney in Texas, a bank robber using the old way of robbing a bank with a gun drove up in front of a bank in a country town and went into the bank and held them all aside and threatened to kill them and raked up all the money and put it in the bag and ran with the bag and put it in his model T Ford and left for the river bottom.

They finally caught him. When they surrounded and caught him, he had clutched in one hand a newspaper clipping from a local paper which showed that bank had in actual cash \$50,000, but he had been misled and deceived because they had only \$300 or \$400. He had a real complaint.

I do not say I have that type of complaint, because I know no one has robbed the Federal Reserve Bank of New York. I am not charging anyone with doing it. I was surprised that they have no reserves of any kind whatsoever and that \$18 billion is a fiction and that \$5 billion is a bookkeeping operation for the Federal Reserve Bank of New York.

I just wonder if the people who have been accusing some of us of wanting to do things that would result in printing-press money—if they are not the ones who are actually using the printing-press money.

Senator BUSH. You have been familiar with the fact that the money supply is made up of two kinds of money. One is check money and the other is currency.

Representative PATMAN. That is right. We also have a different form of money that is reserved that is not supposed to be used as checkbook money. It is not supposed to be in circulation. If I understand it, it is reserves. Here we have no reserves.

Senator BUSH. What is your conclusion about that?

Representative PATMAN. The conclusions that the people who have been accusing others of resorting to printing-press money are themselves using printing-press money because if one of these banks should have a run on it, which they are not going to have—"runs" are out-moded, I know that—and they wanted a million dollars from the Federal Reserve Bank right quick on its reserves, they would have to start the printing presses and run off that million dollars and send it to the bank, unless they already had it printed.

Senator BUSH. No.

Representative PATMAN. How would they do it?

Senator BUSH. The Federal Reserve would give it to them. If they did not have it, they could get it. They could actually get it from the Bureau of Engraving and Printing. They have the legal authority.

Representative PATMAN. I say they have the legal right to do it. But they are using printing-press money.

Senator BUSH. May I say to the gentleman that is very interesting; but what you are saying, if you carried it to the extreme, is that we would have to abolish all check money.

Representative PATMAN. No. I am talking about a different thing.

Senator BUSH. If the Government were to borrow some money on short-term paper, as they do now, they give the notes to the bank and the bank credits their account. That immediately increases the money supply. What you say is that we should not do that.

Representative PATMAN. No. I am saying we should do it. I am for the Federal Reserve System. I am not against it. I am for it. I agreed with the Senator when he made a very fine speech on the Senate floor some few months ago in which he outlined the real printing-press money, which is created as the Senator has now suggested.

Where you go into a bank and sign a promissory note and are given

credit for so many dollars in the amount of the note, that is really creating money. That is printing-press money.

Senator BUSH. Adding to the money supply.

Representative PATMAN. Yes. Here is an entirely different case, as I see it, Senator. This involves reserves. We have a Reserve System which I am for, which is good. We have country banks that can make loans and investments equal to, say, 11-to-1 on their reserves, and other banks a lower percentage, and the central Reserve city banks for the next 3 years a lower percentage, and then the average is about 7-to-1 of those categories of the three types of banks on demand deposits.

On time deposits, uniformly it is 5 percent. That is for all classes of banks. So these reserve requirements are different for the different banks. They can create a different amount of money for the different banks. That is all right. I am not objecting to that.

But they should pay on something that is tied down that is not subject to check, that is not subject to investment. It is tied down just like the old Goldsmith gold dollar was tied down when he sold receipts based upon that gold dollar.

Senator BUSH. Is it not true that the Federal Reserve notes are tied to the gold supply?

Representative PATMAN. The Federal Reserve notes in circulation are. There are only about \$26 billion or \$27 billion of Federal Reserve notes in circulation. The remainder, up to about \$31 billion or \$32 billion, is represented by U.S. notes and silver and minor coin.

Senator BUSH. If there was a need for more currency and the gold supply permitted it, they could increase the gold notes outstanding. They have to have 25 percent reserve.

Representative PATMAN. That is right. Under the present law, 25 percent in reserve of the notes in actual circulation, but not on the checkbook money.

My time has expired, Senator, and I yield to you.

Senator BUSH. I am overwhelmed and somewhat frightened by your discovery, Mr. Patman, but I hope you are not going to change the System in a hurry because there are an awful lot of people and an awful lot of deposits involved in this situation.

I would like to change the subject, Mr. Chairman, to go back to some discussions yesterday regarding the profits and losses on the sale of securities by the banks.

I believe that the acting chairman mentioned that himself; and also Senator Douglas spoke of the figure of \$681 million that represented the profits taken on securities in 1958. So I have gotten together some figures on that which confirm what you said about the profits in 1958 of \$681 million.

My figures also show the losses and they show the profits and the losses from 1950 through 1958. I think as long as this matter came up that it would be appropriate to put this table in the record and I would like to have the information checked by members of our staff and then have it appear in the record, if possible, at that point following this discussion yesterday.

Representative PATMAN. Without objection, it is so ordered. I think it would be worthwhile.

(The table referred to appears on p. 1603.)

Senator BUSH. For the information of the Committee, the profits that the banks took in that period all came in a 3-year period. There were 6 years in which they actually lost on their transactions in securities. So that the net result of the 9 years showed total profits of \$989 million and losses in 6 years totaling \$831 million. So that over the 9-year period, the profits amounted only to \$158 million, which I think is a little different picture of that situation than we had in mind.

I would like to be checked. I would like to have these figures checked and put in the record.

Representative PATMAN. With the understanding that any member can elaborate on it at the same point if he desires.

Senator BUSH. Absolutely. I am sure these figures are right because they are taken from the same source that the \$681 million figure came from.

Representative PATMAN. I do not question the source.

May I invite your attention to the fact that the main earnings of banks on the sale of securities that we are talking about were 1954, just after the depression or recession in 1953, when the banks' earnings were \$424 million, I believe, and 1958, just after the recession year of 1957, when they ran to \$681 million. There seems to be some relationship to the recession preceding the year in which the large profits were made.

Senator BUSH. I do not know that has been proven at all. I do not know what the significance of it is anyway. What I think is of major importance is the fact that over the years—you cannot judge these things for 1 year because circumstances may occur, as one of the witnesses said yesterday, which a bank may have planned its portfolio for years ahead and something occurs that possibly they did not fully foresee, so it changes their policy and they make some sales and take some profits.

But in the next 2 or 3 years they may have been taking losses. In 9 of these years we are talking about, 6 years were years in which they took losses and only 3 in which they took profits.

Representative PATMAN. The point should not be overlooked, Senator, that in 1953 the bond prices went way down. Whether they were forced down or not, I do not know. The banks acquired these bonds. When they went up in 1954, they sold them and made the enormous profits.

In 1957 the bonds went down again, and they acquired bonds, and when they went up in 1958 they had to sell them in a very short period of time. They happened to sell them at the right time. They made 50 percent more than they did in 1954.

The point, I think, if there is any, is the huge profits that are made by these gyrations of the market in U.S. bonds.

Senator BUSH. I do not think you would call \$158 million of profits taken over a 9-year period by all banks insured by the Federal Deposit Insurance Corporation as a tremendous profit.

Representative PATMAN. That is not the point, as I see it. That was over a long period of time when they made no profits at all. The major point is that they do not make a profit over a long period of time, but all at once the bond price went down in 1953 and up in 1954, and they made huge profits.

In 1957 they run down and they buy them up and they make huge profits in 1958 by selling over a short period of time.

Senator BUSH. As long as they are taking losses in more years than they are taking profits, I am sure you would not forbid them from taking profits at the proper time. They would go out of business if they just took the losses.

Representative PATMAN. No. I think it is interesting to examine the situation and see if there is a possibility of the market being forced down in certain years to a low level for the purpose of acquiring huge profits.

Senator BUSH. I would agree we should certainly find that out. I cannot believe it would be in the interest of the banks and their depositors, which is their primary concern, to participate in any action which would force prices down on securities which they own and which protect their deposits. It would seem that would be very much against the public interest.

Representative PATMAN. I agree it would be against the public interest.

Senator BUSH. I yield the floor.

Representative PATMAN. Mr. Widnall?

Representative WIDNALL. I have no questions.

Representative PATMAN. I will state another surprise I had at the bank yesterday. It is in the spirit of automation and things that are happening now that are new.

When I was over there more than 25 years ago, I was impressed by seeing in the bond room—and they did not have so many bonds then—a lot of people engaged in clipping coupons and getting ready to collect the money from the Treasury.

Yesterday I was over there and asked to see the actual portfolio of \$25,900 million in Government securities that they hold here in the New York Federal Reserve Bank for themselves and the other 11 regional banks, and that portfolio was about that high [indicating].

I took one of the bonds, and very much to my surprise, which is all right—it is in the spirit of the way things were done—that bond was \$500 million. I had never seen a \$500 million bond. The coupon on it was \$9,375,000. So the \$25 billion plus bonds were a stack about that high, about 8 inches, which is no particular interest but shows that the Federal Reserve is keeping up with the times, which we are all proud of, but it is so different than it was when I was here more than 25 years ago. However, they actually had those bonds. It was not like the reserves, which were not there.

Senator BUSH. Why did they change the system?

Representative PATMAN. It is perfectly reasonable. The Treasury is cooperating with them, as it should. They issue these large pieces to accommodate the Federal Reserve.

Senator BUSH. To simplify the procedures.

Representative PATMAN. Yes; and to make it easier for both the Fed and the Treasury. I think it is a very fine thing to do. But it is rather unusual to have a \$500 million bond. I do not think it could be cashed in many places.

Senator BUSH. Mr. Gilmartin would probably buy it if they wanted to sell it.

Mr. GILMARTIN. Thank you very much.

Representative PATMAN. What is the smallest amount in which you trade?

Mr. GILMARTIN. One bond. I might say in some securities it is \$100 apiece [denomination].

Representative PATMAN. Whatever the bond is?

Mr. GILMARTIN. I beg your pardon?

Representative PATMAN. Whatever the bond happens to be? You have no limitation?

Mr. GILMARTIN. No, sir; none other than available denominations.

Representative PATMAN. Do you obtain some loans from life insurance companies?

Mr. GILMARTIN. Loans from life insurance companies?

Representative PATMAN. Yes, sir.

Mr. GILMARTIN. To my knowledge, we have never made one.

Representative PATMAN. Have you ever asked the Federal Reserve to make you a repurchase agreement?

Mr. GILMARTIN. Yes, sir.

Representative PATMAN. Did they grant your request?

Mr. GILMARTIN. It is dependent very largely on their requirements at a given time. As I explained before, Mr. Patman, the firm of Charles E. Quincey & Co. is not a primary dealer in Treasury bills. In these circumstances, it would be expected by us that such accommodations as the Federal wished to grant under repurchases would first be extended to the primary dealers, and, secondly, if it fitted the operation in which they were engaged at the time to go beyond those dealers, I am sure the accommodation would be available to us.

Representative PATMAN. Could you give us an estimate of the percentage of your business that is done by, first, commercial banks; next, insurance companies; and next, investment corporations?

Mr. GILMARTIN. As members of the stock exchange, I would have to tell you sir, that we also do a stock business. Not a margin business, but a stock commission business. Without examining our records, and I would be glad to do this if the committee would like it, it would be very difficult for me to estimate with any degree of accuracy the percentage of business done by the categories of investors that you have named.

There are so many other classes of investors that would have to be included, sir, to have the figures meaningful and significant, that I think I might be remiss to just guessing on a few.

Representative PATMAN. The chairman intends to send out a questionnaire, I think, to the dealers and I would suggest to him that he put this on the questionnaire and save you some trouble on that. It will be more specific. Mine is a little too general, I admit. It will be more specific to make it easier for you.

Senator BUSH. Would the Senator read that question, not that I object?

Representative PATMAN. Yes. Giving an estimate of the percentage of his business that is done by commercial banks, by insurance companies, and by investment companies.

Mr. GILMARTIN. Again, Mr. Patman, I would like to say to you, sir, that my figures might not be compatible with others for the simple reason that we are dealers in U.S. securities and not primarily dealers in Treasury bills. We specialize to a large degree in obligations of the agencies and instrumentalities of the U.S. Government.

Of course, when we think in terms of Government securities market, we think of those securities as a component part of it and not isolated from it.

Representative PATMAN. Yes, sir. Are you a member of the Treasury Advisory Committee or any member of your firm?

Mr. GILMARTIN. No, sir.

Representative PATMAN. Do dealers have superior knowledge of trends in corporates and noncorporate liquidity?

Mr. GILMARTIN. I think the dealers in Government securities—I know this is true of my firm and I presume it is true of all other firms—follow all information publicly available with respect to the Treasury, the Federal Reserve, the nonfinancial corporations, the commercial banking system, the savings bank industry, the savings and loan industry, the agencies of Government, as closely as we can follow them. It is essential.

Representative PATMAN. I suppose you interview people in all these groups and different corporations in order to get the firsthand information.

Mr. GILMARTIN. No, we do not interview the corporations. We make offerings of securities to them or we make bids to them for securities. That is talking with their treasurer's department. It would be most infrequent that we would do an analysis of that corporation from the point of view of trying to figure their flow of funds.

We would try to be familiar with their tax and dividend requirements because those would be important maturing dates for them and we would want to take care of their required commitments.

Representative PATMAN. Did the professionals anticipate the downward trend in 1957? Did they think it was correct to increase the rate in August 1957? Did they do well in forecasting the revival in April and May of 1958? Would you like to answer separately?

Mr. GILMARTIN. Yes.

Representative PATMAN. Did the money market professionals anticipate the downturn in the economy in the fall of 1957?

Mr. GILMARTIN. Not until after August of 1957.

Representative PATMAN. Did they believe it was correct to raise the discount rate in August of 1957?

Mr. GILMARTIN. I can only speak for myself. At the time I believed explicitly so. In retrospect, it might seem that the timing could have been better. But a decision has to be made at a given moment. It is better to be a Monday morning quarterback.

Representative PATMAN. Did you, as a group, do fairly well in forecasting the revival in April and May of 1958?

Mr. GILMARTIN. The revival of the economy in April and May of 1958?

Representative PATMAN. Yes.

Mr. GILMARTIN. There again, sir, if you will permit me the opportunity to explain; in the Federal Reserve index you had a 1-point improvement in May over April, and a 1-point improvement in June over May. The figures for the month of June obviously did not become available until July. There were a great many of us that were not convinced that the business picture had turned definitely until late July or perhaps very early in August of 1958. Isolated surveys or statistics indicators had been noted but earlier were not deemed conclusive.

I do not think that all dealers acted the same. I think some dealers may have liquidated a material part of their positions for tax considerations or other reasons, such as their reading of the economy and the action of the long bond market at the end of April and the first part of May. I do not think all did the same thing.

When the Treasury came to the market in June, I think the business climate at that time, or the turn in it that you are now referring to, was not generally perceived. If it had been, I do not think that the Treasury would have received subscriptions totaling \$7,400 million to an issue of which the preliminary estimates of distribution ran between \$3 billion and \$3,500 million.

Representative PATMAN. In the early months of 1958, the Fed lowered reserve requirements and bought securities. What was your interpretation of this action? What did you do in the market following this action? Would you have acted differently if the Fed had increased member bank reserves solely by open market purchases?

What was your interpretation of this action, that is, when the Fed lowered its reserve requirements in the early part of 1958? What was your interpretation of that action?

Mr. GILMARTIN. That the decline in the economic climate, or in other words the recession, would tend to deepen. It was necessary for them under the circumstances, as they have done other times in the past, to provide a cyclical remedial action.

Representative PATMAN. You, of course, acted accordingly in the market with your own firm?

Mr. GILMARTIN. Yes, sir.

Representative PATMAN. Would you have acted differently if the Fed had increased member bank reserves solely by open-market purchases?

Mr. GILMARTIN. No, sir; I think not.

Representative PATMAN. How would you have acted then? What would have been your action? Just the reverse?

Mr. GILMARTIN. In both instances we are talking about the increase in the available money supply?

Representative PATMAN. Yes.

Mr. GILMARTIN. In either case we would have interpreted that as a continuing bearish outlook on the economy and we would have interpreted that as a lesser demand for funds and, therefore, a greater demand for investment securities, and to provide the supply that we later would be expected to make to our customers and to the market generally, we would have increased our positions.

Representative PATMAN. Would you like to make any statement on your own before concluding your testimony?

Mr. GILMARTIN. There are two things I would like to discuss, Congressman. The first, in yesterday's discussion, the chairman laid great emphasis on what had happened to the increase in the consumer price index and the wholesale price commodity index in the last year—a period of tightening Federal Reserve policy.

The chairman did not go back to the date upon which the index was based. He did not take much significance from the small percentage change that occurred last year, and he ignored the significance in the erosion of the dollar in terms of the increase in prices from the date of the concept of the index or the base date of the index (1947-49=100) to the present time.

I do not think that we can take any isolated period, sir, and be considered objective. I think if we are examining a situation of this nature, we must look at it over an entire period and find out the impact on all of the people in the country over the entire period.

If the decline in the purchasing power of the dollar over the entire period is measured, and is assumed to be roughly just over 50 percent, I think that we do have to pay a considerable amount of attention to the continuing threat of inflation and to any further erosion of the purchasing power of the dollar.

Another question I would like to ask, sir. I heard some figures recited yesterday—it may have been yesterday or the day before—of the comparison of the total volume on the New York Stock Exchange in dollar units and the total volume of trading in the Government securities market.

I would like to ask the committee member who prepared those figures for you whether they were on a comparable basis? I do not wish to make a categorical statement, but I believe when you measure stock exchange volume, a purchase and a sale of 100 shares of stock, is reported as 100 shares not 200. When the dealers report their trading volume in Government securities, a purchase of \$100,000 par value and an equivalent sale is reported as \$200,000 par value.

It is conceivable that relatively the magnitude of the dollar figure you have used to show the volume of trading in Government bonds has the possibility of being in error by as much 50 percent.

Representative PATMAN. Your suggestions are appreciated. We will look into that carefully. Senator Bush?

Senator BUSH. Just one question in line with what you are just talking about. Your firm is a member of the exchange?

Mr. GILMARTIN. Yes, sir.

Senator BUSH. I was not here if this question of trading on the New York Stock Exchange in Government bonds has been discussed before this committee.

Representative PATMAN. Briefly. I think Senator Douglas mentioned it very briefly.

Senator BUSH. Just to develop the point, one sees that the volume of Government-bond trading on the New York Exchange is very small in relation to the total volume of the market daily.

Mr. GILMARTIN. That is right.

Senator BUSH. For the record, will you tell us why you think that is?

Mr. GILMARTIN. Senator, you ask me a question that I am very much interested in. I have explored this problem many times. At one time I was an active member of the New York Stock Exchange from the year 1931 to the year 1937. During those particular years much of the buying and/or selling for Treasury investment account and/or open-market account was conducted on the floor of the Stock Exchange.

Senator BUSH. On a commission basis?

Mr. GILMARTIN. On a commission basis. The economics of the business itself eliminates the trading of bills, certificates and notes on the floor of the stock exchange. I am sure you appreciate that the differential of an 0.01-percent discount on a 91-day bill is 2½ cents per \$1,000 par value, or \$25 per million. It would be a little difficult to interpose a commission fee and not adversely affect the yield or dis-

count value of that bill rather materially. It would become a less worthy investment or a less attractive investment.

The same condition exist as we move into the certificates of indebtedness and as we move into the notes. The only prospect that I can see for use of the so-called auction market—and I have often said that I thought it was worthy of further exploration—would be in its use with respect to long-term Government bonds in this area. The significance of the commission has less impact. "The Treasury-Federal Study of the Government Securities Market," part I, pages 93 and 94, contains interesting considerations on the subject.

Senator BUSH. Does the size of the commission authorized by the New York Stock Exchange forbid cutting that commission?

Mr. GILMARTIN. The New York Stock Exchange has no commission rules on Government securities. They are subject to mutual agreement.

Senator BUSH. A member can charge whatever he wants?

Mr. GILMARTIN. That is correct. But it costs money to do business, sir.

Senator BUSH. Yes. It is the cost of the transaction that forbids more trading on the stock exchange in Government securities. Is that a fair statement?

Mr. GILMARTIN. I would like to express it slightly differently. It would be the diminution of yield on any short-term security occasioned by the interjection or imposition of a commission. Is that clear?

Senator BUSH. Yes, it says the same thing in a different way, doesn't it, which is all right with me.

Obviously you cannot do this exactly, but would you say that 5, 10, or 1 percent of the daily trading in Governments as a whole was done on the board of the different stock exchanges vis-a-vis the dealers' markets?

Mr. GILMARTIN. It would be a rare occasion in my opinion where more than a fraction of 1 percent would be done on the floor of the stock exchange.

Senator BUSH. Less than 1 percent?

Mr. GILMARTIN. Yes.

Senator BUSH. That would be normal?

Mr. GILMARTIN. Yes.

Senator BUSH. That is all, Mr. Chairman.

Representative PATMAN. Are there any other questions, gentlemen; if not, thank you very kindly. The testimony will be furnished to you in the next couple of days and if you desire to extend your remarks like Members of Congress extend their remarks in the Record, you are privileged to do so and to clarify your answers.

Mr. GILMARTIN. Thank you very much.

I appreciate this opportunity to have testified and also the courtesy you have extended to me.

Representative PATMAN. We appreciate your appearance.

Mr. GILMARTIN. Thank you, sir.

STATEMENT OF HERBERT N. REPP, PRESIDENT, DISCOUNT CORP. OF NEW YORK; ACCOMPANIED BY ROBERT M. COON, VICE PRESIDENT AND TREASURER; AND ROBERT H. BETHKE, VICE PRESIDENT, DISCOUNT CORP. OF NEW YORK

Representative PATMAN. Mr. Repp, you may have your associates accompany you, sir, if you desire.

Mr. REPP. Thank you very much.

Representative PATMAN. You may identify them after you identify yourself, please.

Mr. REPP. Thank you.

Representative PATMAN. I understand you have a prepared statement, which is all right. We are glad to have you and we are glad to have any statement you desire to make. You may proceed in your own way, after identifying yourself and your associates.

Mr. REPP. My name is Herbert Repp. I am president of the Discount Corp.

Mr. Robert Coon is vice president and treasurer of our corporation, and Mr. Robert Bethke, on my right, is also a vice president.

I have just identified myself as president of Discount Corp. of New York, one of the primary dealers in U.S. Government securities. I appear here today as a witness before the Joint Economic Committee in response to the invitation of Senator Douglas, chairman of that committee, to discuss in practical terms the operation and the effects of the Government's monetary, fiscal, and debt management policies.

I should warn you at the outset that I am not an economist. My area of competence—or professional experience—lies in the markets for bankers acceptances and U.S. Government securities. It is primarily as a practitioner in these specialized sectors of the money and capital markets, viewing the areas of your present concern from the operating level, that I hope to be able to assist in the committee's current inquiry. Because so much able work has already been done in these areas by congressional committees, economists and others (including the current Treasury-Federal Reserve study of the Government securities market) and because of your emphasis on the practical or operational aspects of the matters in which you are interested, I believe that direct interrogation by you may be the best way to arrive at the answers you are seeking.

With your permission, I would like, however, to comment briefly on the organization of Discount Corp. of New York and indicate the current role of the dealer in the operation of the market for U.S. Government securities.

Discount Corp. of New York was formed late in 1918, and opened for business on January 2, 1919. It was created to perform in this country the counterpart of a function that had long been performed in London by the discount houses, operating at the center of the London money market. Because of the character of its intended operations, the corporation was accordingly chartered under the investment company article of the New York State banking law, and thereby became, and since has been, subject to periodic examination by the State supervisory authorities. Prior to World War I and for some years thereafter, the New York money market was largely confined to call loans secured by stock market securities which were essentially illiquid.

During this period, the lack of facilities for the financing of trade—both domestic and international, even for American account—required the use of the London money market.

The passage of the Federal Reserve Act in 1913 encouraged the banks in this country to create acceptances by which domestic and international trade might be financed. The creation of acceptances, however, first required the development of an open money market in which such paper could be traded. Through their early open market activities, the Federal Reserve banks attempted to foster the development of a discount market for self-liquidating paper by increasing the use of dollar drafts.

It was to assist institutionally in the promotion of such a market for banker's acceptances that Discount Corp. of New York was founded. It was the hope and expectation that the corporation could thus promote a money market vehicle that would be useful to both borrowers and lenders as well as the Reserve System, and thereby contribute to a better developed money market. Other tasks and responsibilities soon developed for the corporation, and the nature of its activities broadened in response to the need for an efficient trading mechanism for Government securities.

Prior to the First World War, in 1917, the outstanding public debt totaled less than \$1 billion, and consisted mainly of Treasury bonds. But following the entry of the United States into the war the complexion of the market changed as the public debt increased sharply, reaching a peak of \$26 billion in August 1919. By the early 1920's, the need for a free market in Government securities to facilitate the absorption of Liberty bonds was clearly recognized.

In the light of this need on the part of the Treasury, and with the growing interest of the Federal Reserve System in Treasury obligations as a medium for open market operations, a dealer market began to assume a new importance.

Along with this development a new area of operation—trading in Government securities—opened up for the corporation. As the debt subsequently grew in size and money market significance during the ensuing years, trading in Government securities became increasingly specialized in an over-the-counter market among dealers.

Throughout its 40-year history, the corporation has functioned exclusively as a dealer in banker's acceptances and U.S. Government securities. With the rapid growth in the public debt and the attendant increase in importance of Treasury obligations in the overall structure of the money and credit markets, trading in Government securities gradually became the corporation's major activity. It is now active in the creation and maintenance of markets for all issues of outstanding marketable U.S. Government securities regardless of term. It operates only from its office in New York, although it services its customers from coast to coast by telephone, supplementing those calls with periodic personal visits by representatives of the firm.

The market for Government securities is now the most important and largest of the specialized subdivision of the over-the-counter market as a whole. It exists and is given substance through the operations of dealers, some of which are banks with bond departments, specializing in Government securities.

The present market structure has evolved, in a framework of a free enterprise economy, into an efficient mechanism for insuring continuous markets in outstanding Government securities. Although primarily an institutional market in which the bulk of the transactions arises out of the operations of skilled professional investors, it provides ample national facilities for meeting the needs of debt holders of all types and sizes.

The present organizational structure, which is based on an intensely competitive dealer mechanism through which markets are negotiated, is a historical response to the constantly changing needs of a growing group of diverse market participants. The wide range of institutional investors now active in Government securities brings to the market the impact of changing business conditions and credit demands. The closest and most direct kind of linkage between the money and Government securities markets is now provided by short-term Government securities which have now become one of the principal money market instruments.

At any given time, the market reflects a combination of influences exerted by economic events, official policies of the Treasury and the Federal Reserve System, and the public response thereto. Dealers create a market by maintaining the widest possible contact with all sources of supply and demand. In the process, they translate the net of these contending forces into competitive judgments as to prices at which clearances can be readily effected, buying or selling, for their own account, any residue. The dealers are, therefore, that area of the market where the final effort at private purchase and sale takes place. Thus, the efficient functioning of the dealer mechanism plays a large part in the ability of the money and credit markets to give the needed liquidity and shiftability for the secondary reserves of the banking system and the invested reserves of business corporations and others.

With these introductory remarks, I am now ready to help in any way that you may suggest.

Representative PATMAN. Thank you, Mr. Repp.

How is your firm owned, Mr. Repp? Is it owned principally by banks, or by financial institutions, or by others?

Mr. REPP. Our corporation has 50,000 shares outstanding, 60 percent of those shares are owned by banks.

Representative PATMAN. Would you name the banks, please?

Mr. REPP. May I come back to that in just a minute?

Representative PATMAN. Yes, you may.

Mr. REPP. Sixty percent is owned by the banks; 40—

Representative PATMAN. Sixty percent by the commercial banks?

Mr. REPP. And 40 percent by the public. We have 600 shareholders.

Representative PATMAN. You have 600 shareholders?

Mr. REPP. Yes.

Representative PATMAN. How many of those shareholders are represented in the banks, the commercial banks?

Mr. REPP. Five.

Representative PATMAN. Five banks?

Mr. REPP. Yes.

Representative PATMAN. Would you name them, please?

Mr. REPP. Mr. Chairman, I have no objection to naming them. I am just wondering if I am getting in the realm of discussing the interests of other people. I would be only too happy to furnish it to the committee and to its staff.

Representative PATMAN. I thought it was a matter of public record. You state only five commercial banks own an interest in the Discount Corp. of New York?

Mr. REPP. Yes. It has not been made a part of the public record.

Representative PATMAN. You say 60 percent of your stock is owned by those five banks?

Mr. REPP. Yes.

Representative PATMAN. Is it equally owned by the banks, or do some banks own more than others?

Mr. REPP. No. Some banks own more than the others.

Representative PATMAN. Is it approximately pretty evenly divided?

Mr. REPP. No. Two banks own 20 percent each, one bank owns 10, and two other institutions each own 5 percent.

Representative PATMAN. I had an idea it would be interesting information. I don't want to press you to do something that you believe is improper or would not be fair. I certainly would want to talk that over with members of the committee. I would not want to insist on you answering something that should not be answered.

Mr. REPP. Mr. Chairman, I don't want to be in that position, either. I would be glad to mention the names of the stockholding banks. I just wanted to say that I am discussing other people's business.

Representative PATMAN. It is your business, too.

Mr. REPP. Yes.

Representative PATMAN. The committee will believe it is part of their business.

Mr. REPP. All right, sir.

The shareholders are Morgan Guaranty Trust Co., Bankers Trust, Chemical Corn Exchange Bank, The New York Trust Co., and The First National City Bank.

Representative PATMAN. Did you name Manufacturerers Trust?

Mr. REPP. No, sir. Nor the Chase Manhattan Bank.

Representative PATMAN. Neither one owns any interest in the Discount Corp. of New York?

Mr. REPP. No, sir.

Representative PATMAN. Have they in the past?

Mr. REPP. Chase Manhattan Bank, or at least the Chase Bank at that time, did own shares back in 1933.

Representative PATMAN. Has the Manufacturerers Trust ever owned any shares?

Mr. REPP. No, they have never been shareholders.

Representative PATMAN. Has it merged with any concern that had been a shareholder?

Mr. REPP. The Manufacturers Trust Co.?

Representative PATMAN. Yes.

Mr. REPP. No.

Representative PATMAN. I had in mind asking you to supply a list of the stockholders and the amount owned by each.

Would you object to that, Mr. Repp?

Mr. REPP. I will supply it to your committee, if I may, in writing.

Representative PATMAN. You would like to have it for the information of the committee only, and confined to the committee, and not for publication?

Mr. REPP. Yes.

Representative PATMAN. I think that would be all right. It will be acceptable that way.

Mr. REPP. Thank you.

Representative PATMAN. Are the directors of the five banks directors of your firm, the Discount Corp.? Are directors in the five banks also directors in your firm?

Mr. REPP. Yes, we have only one director from each of the five banks.

Representative PATMAN. Name the other directors except bank directors.

Mr. REPP. There are three directors from the management. I am a director. Our senior vice president, Mr. Edward E. Anderson, is a director; our executive vice president, Mr. Charles E. Dunbar, is a director; and Mr. Dudley H. Mills, who is retired, is a director.

Representative PATMAN. How often do the directors meet?

Mr. REPP. We meet twice a month.

Representative PATMAN. Do the various banks supply you with information? If so, what type of information? The five banks that own an interest in your concern.

Mr. REPP. I am sorry, Mr. Chairman. Information of what nature?

Representative PATMAN. Let us say the market, or anything else. About what is going on in the market and the advice as to buying or selling.

Mr. REPP. No, sir; they do not.

Representative PATMAN. Except at directors' meetings I assume you discuss that.

Mr. REPP. At directors' meetings we report our operations for the period since the prior meeting. We do it in the broadest terms. We report to them what has taken place in the market from the broad aspect; we submit to them a statement of our borrowings as well as figures on our trading position. They leave the day-to-day management and operation of the business to the management and give us the widest latitude.

Representative PATMAN. How much of your business is Government securities?

Mr. REPP. Practically all of it, Mr. Patman.

Representative PATMAN. You stated that all five of the banks were represented on your board. How many directors from the banks? Just five? One from each bank, or are there more?

Mr. REPP. In addition to the five you have mentioned, there is one director from the Chase Manhattan Bank, and one from the Manufacturers Trust Co.

Representative PATMAN. They are on your board?

Mr. REPP. Yes, sir. I thought your original question referred to the stockholding banks.

Representative PATMAN. It was.

So you have seven commercial banks here in New York represented on your board, five of them actually owning an interest, from

20 percent on down, and the other two do not own an interest as banks; but as individuals do they own an interest?

Mr. REPP. Their individual interest would be so small I don't recall what it is. Probably a share or two.

Representative PATMAN. But they own some interest?

Mr. REPP. Probably a qualifying share or two. I really don't know exactly what it is. It would be very small.

Representative PATMAN. How does the Discount Corp. finance its operations? How does it get its money in addition to its own money?

Mr. REPP. Discount Corp. functions the same as every other dealer. It finances its position through borrowed money in New York City and also has money available to it from time to time in other sections of the country.

Representative PATMAN. What information do these five banks, through their directors, get from the Discount Corp., if any? Do you give them the benefit of any information you have that is worthwhile or that you consider worthwhile and helpful to them?

Mr. REPP. We report on the activities of our business, sir.

Representative PATMAN. In reporting on the activities of your business you naturally disclose what you were doing. It would have to be that way.

Mr. REPP. We disclose our activities, yes, and our trading. In a broad sense. We don't mention any names.

Representative PATMAN. And that is the extent to which you have communication with the five bank owners. Just the reports that you make?

Mr. REPP. Yes, sir.

Representative PATMAN. Do you borrow some of your money from insurance companies?

Mr. REPP. No, sir.

Representative PATMAN. None from insurance companies?

Mr. REPP. No, sir.

Representative PATMAN. When you borrow money from banks do you confine your borrowing from these five or seven?

Mr. REPP. No, sir.

Representative PATMAN. You borrow from any bank?

Mr. REPP. Yes, we borrow from any bank.

Representative PATMAN. And nonsources. What is your principal nonbank source?

Mr. REPP. The nonbank source for funds is not a major factor in our borrowing capacity. The minor extent to which it is done is through repurchase agreements with a few corporations around the country.

Representative PATMAN. You also have repurchase agreements with the Federal, do you not?

Mr. REPP. We frequently have had repurchase agreements with the Federal.

Representative PATMAN. In the course of 1958 do you happen to know how much in business you did in the way of repurchase agreements with the Federal?

Mr. REPP. Mr. Chairman, I really haven't any idea. May I have a moment to ask our treasurer?

Representative PATMAN. Yes.

Mr. REPP. In comparison to the number of loans that we make in the course of a year, repurchase agreements with the Federal are of minor proportions. Repurchase agreements with the System are entered into when the Federal itself wishes to put temporary credit into the money market, and such repurchase agreements are an extremely flexible money-market mechanism for the Federal to use.

Representative PATMAN. Senator Bush, would you like to ask some questions?

Senator BUSH. I have no questions.

Representative PATMAN. Mr. Reuss?

Representative REUSS. Mr. Repp, I was very interested in one of the statements you made in your prepared statement. It occurs on the last page of your statement:

The closest and most direct kind of linkage between the money and Government securities markets is now provided by short-term Government securities which have now become one of the principal money market instruments.

I take it you are there referring to the operations of the bills-only policy.

Mr. REPP. No, sir. I am really talking about the whole money market and did not have in mind bills only. I am thinking of the huge sums of money which are invested almost every day by the corporations and other short-term holders of securities.

Representative REUSS. You are speaking not only of the trading in short terms, by the Federal Reserve Open Market Committee, but the trading in short terms by everybody else?

Mr. REPP. I really had in mind the money market as a whole. As a matter of fact, I had not thought of the Federal Reserve specifically, although it is part of it.

Representative REUSS. You mean the operations in the short term in the money market as a whole?

Mr. REPP. Yes.

Representative REUSS. You say there is a close and direct kind of linkage between short-term operations and the money market as a whole and by which I take it that you mean that there is a linkage between transactions by everybody in short terms and what happens in long terms. That is what you mean by linkage, is it not?

Mr. REPP. Yes; I would say that the linkage does carry right through.

Representative REUSS. Could you detail for us the various means by which transactions in short terms are linked through to what happens to long terms both with respect to interest rates and with respect to all other attributes?

Mr. REPP. Practically all investors, outside of the corporations, and certainly those in the banking system, have a wide range of maturities in their portfolios. The corporations, of course, are primarily interested in short-term securities because of the special needs they have.

As one rate gets too low or too high, it has its affect on other rates in the pattern of maturities; it carries right on through the chain. As a result, somewhere in the marketplace somebody does take action. If one rate looks more attractive, they will buy it and sell something else that looks less attractive. This shifting of issues due to rate differentials does create linkage.

Representative REUSS. What you are saying is that the trading that does occur to the extent that it does occur tends to create the linkage. The more trading the closer the linkage. Is that a fair restatement of your thesis?

Mr. REPP. I would think the fundamental thing, Mr. Reuss, is the rate factor.

Representative REUSS. In your opinion, is there a close linkage between the short-term interest rate and the long-term interest rate, or is the linkage somewhat more remote?

Mr. REPP. I would say that from short- to long-term maturities there is an interest rate curve. Over a period of time any action which affects either end permeates through the whole curve.

Representative REUSS. It is a fact, is it not, that at various times in fairly recent economic history long-term rates have been sometimes higher and sometimes lower than short-term rates?

Mr. REPP. That is right.

Representative REUSS. To take a specific point in time when long-term rates and short-term rates were quite a ways apart, would you say that early 1958 was such a time? As I recollect, short-term rates were quite low, and long-term rates were double that or more. Can you recall what went on?

Mr. REPP. In early 1958 the Treasury bill rate declined from February into May toward a 1 percent level. The long-term bond rate did not respond as rapidly to changing rates.

Representative REUSS. By and large my recollection is right that the short-term rate was quite low and the long-term rate quite high. There was quite a spread in early and up to the middle of 1958.

Mr. REPP. I am sorry.

Representative REUSS. You are saying my recollection is correct, that there was quite a considerable spread in the first half of 1958 between short-term and long-term rate?

Mr. REPP. Short-term rates responded quicker than long-term rates.

Representative REUSS. The gap did not close quite as fast.

Mr. REPP. Not as rapidly.

Representative REUSS. Would you agree that the disparity between short-term and long-term rates may have had something to do with the disturbances in the U.S. securities market which occurred shortly after the middle of 1958? Specifically, so that you may understand my question, I have it in mind that perhaps the fact that you could borrow short-term money very cheaply, relatively speaking, might have induced investors to borrow at short term and invest in long term.

Mr. REPP. I think the availability of money at relatively attractive rates did have its effect on inducing speculation, yes, sir

Representative REUSS. Which speculation turned out to have an ultimately very disturbing, though fortunately not catastrophic, effect on the U.S. securities market. I am thinking of the sharp dip that required the Treasury to move in.

Mr. REPP. Yes.

Representative REUSS. One would not want to plan it that way if he were planning it.

Mr. REPP. Very unfortunate to the extent that there were excesses. But we should not condemn a reasonable amount of speculative

interest in bonds. During a period of declining general business and monetary ease it is desirable to have buyers for debt creating instruments, and for the longer term issues offered by the Treasury. Speculative interest aids such action. One should be careful not to rule out reasonable amounts of speculation, since it does serve a useful function.

Representative REUSS. Would you say that the bills-only policy of the Federal Reserve could have contributed to this unfortunate situation by keeping the price of bills high and the yield low, while the yield on long terms was up and the price down? Had the Federal Reserve been more flexible in its open market policy might not some of this speculative ultimate result have been avoided?

Mr. REPP. That is a question of judgment. I am inclined to doubt it. There were other factors involved in the creation of the episode of last summer. It was really based on market expectancy, namely, that business would continue to be at a low level, and that an early economic recovery was not in sight. Therefore, interest rates would continue to be low. Furthermore, the expectancy was that the Federal Reserve would continue to maintain a policy of ease, and therefore that Government securities as well as all fixed income securities would continue to be attractive. These were the basic reasons for the speculation that came into the marketplace.

Representative REUSS. No doubt, and I thoroughly agree with you, that this speculation played a part. However, it is your testimony that the disparity in the yields and prices of the short terms and long terms could have had an extenuating effect?

Mr. REPP. I think my answer to that would be "No," Mr. Reuss. The disparity in yields might be divided into two parts. First, was that the availability of credit allowed people to readily finance their positions and was aided by a short rate which was approximately 1 percent. Secondly, many of those who wished to carry positions were willing to pay higher than the going rate. This situation was attractive to various lenders.

Representative REUSS. For various borrowers?

Mr. REPP. For various borrowers and lenders to get together. It was the availability of credit at attractive rates, and the market outlook for a further increase in bond prices, that induced the speculative situation that we had last year.

Representative REUSS. I think I understand exactly what you are saying, and it seems to me you are now saying exactly what you said a few minutes ago, that the availability of relatively cheap short-term credit did induce or contribute to inducing a part of the speculative interest in long terms.

Mr. REPP. The speculation? May we define long terms, Mr. Reuss?

Representative REUSS. Let us say other than short terms. Let us say a year or more, or if you want to define it any other way, please do.

Mr. REPP. The availability of credit at attractive rates made purchases of higher yielding issues look attractive.

Representative REUSS. Thus the combination of market emphasis on short terms which combination must be responsible for the existence of relatively low interest rates on short terms during this period which combination included transactions for the account of the Open Market Committee, played its part, did it not, in producing a situation

where it was easier to speculate in longer terms than it otherwise would have been?

Mr. REPP. The Federal Reserve at that time was engaged in a policy of ease and was increasing the liquidity of the banking system.

Representative REUSS. They were exercising a policy of ease in the short term pursuant to the bills-only policy.

Mr. REPP. The effect of their operation in increasing liquidity in the banking system did have its effect at that stage primarily on the short rate. It was not only the purchases by the Federal Reserve System, but there were other factors in the short-term area. In that period, there were large corporate accumulations of funds for meeting expense-paying dates as well as providing for taxpayments. There was not a tax-anticipation bill maturing on the 15th of June. This induced purchases on the part of corporations of varying maturities, particularly of the June certificates.

Representative REUSS. So you would say that the effect of the Federal Reserve Open Market Committee's bills-only policy in raising the price and lowering the yield of short-term securities was accentuated by the fact that during this period, and particularly for the June tax reason you mentioned, corporations and other investors in bills were also adding to the demand side of the market for short terms. These two factors seemed to have worked together.

Mr. REPP. The aggregate had its effect on the short rate; yes, sir.

Representative REUSS. Thank you very much.

Representative PATMAN. Mr. Widnall.

Representative WIDNALL. I have no questions.

Representative PATMAN. Senator Bush.

Mr. REPP. May I add one thing, Mr. Reuss. My associate reminds that also during that period we were speaking of, bond prices also rose. In fact, while Treasury bill yields declined from about $2\frac{3}{4}$ percent to 1 percent—i.e., an increase of less than 1 point in price—in the first half of 1958, the 32-year Treasury bond due in 1990 rose about five points in price. That's a dramatic 5-ton leverage factor in favor of long-term bond prices brought about by linkage.

Representative REUSS. Thank you very much.

Senator BUSH. Mr. Repp, you appreciate the purpose of these hearings. It is for the committee to learn what it can about the operations of the Government bond market to see if there are any recommendations it can make to Congress that would improve the situation in the whole public interest.

Have you any general comments that you would like to make for the guidance of this committee in the light of your long experience? Do you think there is any legislative action that should be taken, or any course the Government should follow that it is not following that might be helpful to the whole picture of the Government bond market?

Mr. REPP. I have no suggestion, Mr. Senator, as far as any legislation is concerned.

Senator BUSH. Do you think this situation or the present arrangements satisfy the needs of the whole financial community as well as any arrangements that you can think of?

Mr. REPP. Yes. While we must not in any way minimize the lessons to be learned from our experience of last year, the functioning of the Government security market has and does serve the needs of the

investors. It operates on a very efficient basis. Certainly it is a response to the demands that have been put on it. It is something that has developed through a long period of years, and it has become an efficient mechanism through which to handle transactions in Government securities. I would like to reemphasize that the Treasury securities market functioned even during the heavy liquidation of last summer. It was not a weakness in the market's functioning that caused that decline in prices and the attendant rise in interest rates, but the fundamentals of a change in the business climate. Therefore, I see nothing in the way of legislation that would broaden or strengthen the market at the present time.

Senator BUSH. The question has arisen with other witnesses whether the establishment of margins for trading in Government bonds would be a desirable thing. Have you any comment on that?

Mr. REPP. It is our position that all loans should be margined and that proper credit practices should be followed. When you approach the question of margins you must divide it into two parts. One should relate to the functioning of the dealer market and the second to other participants who use credit accommodations.

The relationship of the dealers with the banks has developed through a long period of experience. Arrangements have been arrived at on a mutually satisfactory basis. It is the relationship of a borrower and a lender. The lender has margin requirements that they feel are adequate for their protection.

In the question of margins, care must be taken to see that there is no imposition of requirements as far as dealer financing is concerned, which would impair the functioning of the marketplace. When you go to the other side of the question, again that is a relationship between the lender and the borrower. One lesson learned out of last year's experience was that in certain instances credit was available on a basis that may not have been properly margined. However, I know of no case where the lender suffered any loss.

It seems to me that there is a way of approaching that problem, too, without legislation. Personally, one thing I have observed from last year's experience is that we could have broader information on such credit extension.

As an example, the New York Stock Exchange has already taken steps to strengthen their situation as far as margin requirements are concerned, and also the method of reporting exempt securities held by its members, and also rules for the allocation of members' capital.

The Federal, I believe, has expanded the gathering of data from around the country on money being used to finance Government securities.

One can read into the Treasury-Federal Reserve hearings that those authorities are planning a sampling of important corporations who enter into repurchase agreements. If this data is broken down into amount, the nature of the collateral, and the type of loan and the borrower, it should make the Federal and in turn the Treasury, more aware of the credit situation and place them in a better position to judge the future, and to spot a situation like last summer's much quicker. It was lack of this information, I think, which prevented them from being more fully aware of developments.

Improved reporting, based upon routinized reporting of data received voluntarily, and which in turn would be analyzed by those who receive it, could be used to alert the supervisory authorities of the various states of unsound developments. On the basis of such information they could take steps aimed at maintaining proper credit standards.

Senator BUSH. Do you think public apprehension concerning the Government bond market has any effect on the price of Government securities?

Mr. REPP. I would say the major effect on the prices of Government securities is related really to the fundamentals involved. In a period of intense business activity, demands for bank credit and other types of credit are competing forces which have their impact on interest rates on Government securities.

I do think that there is real interest, and in certain quarters concern, about fiscal affairs. The lack of balanced budgets has entered into people's calculations, as far as their willingness to buy Government securities.

This is more psychological than fundamental, but it is a part of the marketplace. Rather than expanding the market for Government securities, I think the fiscal situation, as well as the comparative rate with other types of securities, has restricted the investment of funds in Government issues. We see it in public funds throughout the country. Many of them for a long, long time have been buyers of Government securities, but they are now going into the corporate field. You can say that is a rate factor. But there are certain funds who feel that corporates, excluding the rate factor, are more attractive to them.

Representative PATMAN. Mr. Repp, I would like to invite your attention to the chart on the left on the wall. I believe you were furnished a copy of the chart yesterday morning; is that correct?

Mr. REPP. Yes, sir.

Representative PATMAN. I would like to read this statement in presenting the chart.

The significance of the Discount Corp.'s interlocking directors and other connections in the financial community arises from the fact that it is one of the largest dealers in U.S. Government securities. In terms of volume of trading with the Federal Reserve System's Open Market Account, it is the largest single dealer.

The Federal Reserve System's Open Market Account buys and sells tremendous quantities of Federal securities in what is called the open market. All sales and purchases in this open market are with 17 private security dealers. In addition, the Federal Reserve enters into repurchase agreements with many of these dealers, which repurchase agreements are in effect loans made to the dealers for the purpose of assisting them in carrying securities. Last year the Federal Reserve System's trading with the 17 dealers amounted to \$18 billion, including repurchase agreements.

The Discount Corp. is reported to be jointly owned by seven of the New York money-market banks. These banks are: Bankers Trust Co., Chase Manhattan Bank, Chemical Corn Exchange Bank, First National City Bank, Manufacturers Trust Co., Morgan Guaranty Trust Co., New York Trust Co.

It may be noted that three of these banks are also direct dealers with the Open Market Account. They are Bankers Trust Co., Chemical Corn Exchange Bank, and Morgan Guaranty Trust Co.

The directors of the Discount Corp. and its seven owner banks are also members of the boards of directors of substantially all the top financial institutions of the country, as well as the top industrial and utility corporations, which are also large investors in Government securities. Its interlocking connections include 10 of the top 10 commercial banks, 7 of the top 10 mutual savings banks, 9 of the top 10 life insurance companies, and 7 of the top 10 fire and casualty insurance companies.

Altogether Discount Corp. and its 7 owner banks are reported to share directors in common with 160 financial companies, having combined assets at the end of 1958 of \$190 billion. These include 40 commercial banks, 35 life insurance companies, 25 mutual savings banks, 39 fire and casualty companies, and 21 other financial companies, including investment trusts and investment banking houses.

The chart shows the interlocking directors between and among the Discount Corp. and 160 financial companies. In addition, the chart sets out membership on the advisory committees to the U.S. Treasury, membership on the boards of directors of the Federal Reserve banks and membership in the Federal Advisory Council to the Federal Reserve Board, drawn from among the directors of these 160 companies.

Names of individuals are represented on the chart by code numbers. The names of the individuals, plus the names of all of the companies with which the individuals are connected, are provided on the attached list which also carries the code number reference to the chart.

In 1957, Discount Corp.'s net profits amounted to \$1.2 million. In 1958, its net profits increased to \$1.8 million, giving a return of 21 percent on its total capital account, including undivided profits.

Discount Corp. directors are members of two of the five advisory committees to the Treasury. These committees advise the Treasury concerning the quantities, terms, and interest rates fixed for new Treasury issues.

Among the 160 leading financial companies which are interconnected with Discount Corp., there are 72 instances in which directors of these companies are also members of advisory groups to the Treasury.

There are, in addition, 24 cases in which directors of these companies also serve as directors of the various Federal Reserve banks. In another 18 instances, directors of these financial companies are members of the Federal Reserve Board's Federal Advisory Council.

Mr. Repp, you have had an opportunity to examine this chart. You made a statement this morning that changes it somewhat. We have here that seven jointly own the Discount Corp. We named the seven. You state that five of them own it, and the other two have a director on your board. That alters it some, but I would not consider it substantially altered. Maybe you have a different view of it.

Would you like to make any statement with reference to this chart in connection with it going in the record of these proceedings?

Mr. REPP. Yes, sir, I would, Mr. Chairman.

I wish I had as many hours to study it as it must have taken to prepare.

Representative PATMAN. We will give you more, Mr. Repp. If you think of something after you leave here you are perfectly at liberty to include it in your remarks.

Mr. REPP. May I read a statement which my associates and I have prepared on this subject?

Representative PATMAN. Yes.

Mr. REPP. I received this material only yesterday, and have not had time to prepare a detailed discussion of it.

I would like to deal with it in more detail in a memorandum to be submitted to the committee at a later date, and I ask leave to have the record kept open for that purpose.

Representative PATMAN. Without objection it is so ordered.

Mr. REPP. For here and now, however, I respectfully tell this committee that this exhibit of so-called interlocking directorates is meaningless. This is an old myth which holds that when the same man is on the board of two different companies the two companies are automatically hooked together in some special conspiracy. This just is not so. This material seems to be designed to show that Discount Corp. has some special and presumably not quite proper connections with a large number of financial corporations, even though they do not have common directors.

You can draw as many lines as you want and extend them as far as you want. They just don't mean a thing. One director doesn't control a company, and one director doesn't control the actions or votes of his fellow directors when they are sitting on other boards.

Just for the record, I would point out that this chart and the memorandum accompanying it are inaccurate in some major details as well as being completely false in basic concept. They show, for instance, as I have mentioned, the Chase Manhattan Bank and the Manufacturers Trust Co. as stockholders of Discount Corp. Neither bank owns one share of Discount Corp. stock, but these, as I say, are details. The real fault with this presentation is that it suggests a situation which simply does not exist in this country.

Representative PATMAN. Without objection we will insert the chart along with the statement and material I read and referred to, and you will have the privilege of extending and enlarging upon your remarks to bring in anything else you think of before the record is closed.

Mr. REPP. Thank you, sir.

Representative PATMAN. Is there objection? The Chair hears none, and you may do that. The chart will be inserted in the record at this point.

(The chart referred to faces this page.)

(Subsequently the following statements were submitted for the record:)

DAVIS, POLK, WARDWELL, SUNDERLAND & KIENDL,
New York, N.Y., August 26, 1959.

HON. PAUL H. DOUGLAS,
Senate Office Building,
Washington, D.C.

DEAR SENATOR DOUGLAS: Inasmuch as you are chairman of the Joint Economic Committee, I am enclosing, on behalf of Mr. Repp, his rebuttal of the "web chart" and accompanying statement tendered by Representative Patman at the time of Mr. Repp's testimony before the subcommittee in New York. Copies have

been sent to the members of the subcommittee who attended the hearings in New York.

Sincerely yours,

LEIGHTON H. COLEMAN.

DISCOUNT CORP. OF NEW YORK,
New York, N.Y., August 25, 1959.

Subject: Rebuttal of the "web chart" and accompanying statement.

HON. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR SENATOR DOUGLAS: The following statement contains the additional material which the subcommittee at SM page 401 gave me leave to file after a study of the "web chart" introduced on the morning of the hearing.

On the basis of this statement and the other material in the record, I ask the committee formally to vote to exclude the "web chart" and accompanying statement from the record, pursuant to the colloquy of the members of the subcommittee (SM p. 410). If, however, the committee does not exclude the chart and statement then I ask to have this rebuttal statement included as part of my testimony.

1. Limit actual extent of relationships of Discount Corp.'s own directors

Analysis of the chart shows that, including their own boards, only 20 of the 161 names on the chart are direct line directorships of the 12 directors of Discount Corp. itself. All the others—or 88 percent of the whole chart—are indirect relationships, many of a very vague nature.

2. The effect of intense competition

Of the 161 names on the chart, the fact is that Discount Corp. of New York did no business with 68 of them during the 2-year period, 1957-58. So that while the presentation suggests a tie-in with many leading financial institutions the intense competition in the marketplace meant that the Discount Corp. had no transactions with 42 percent of the so-called connections.

And of the 93 names with which the Discount Corp. did do some business in 1957 and 1958, the volume with 15 percent of these was so small as to be inconsequential.

Each of the 17 dealers in U.S. Government securities, including Discount Corp., is trying each day to do business with, and be of service to, the large holders of Treasury debt. But this is not a business characterized by exclusive orders. More often the customers ask for bids or offerings which they accept or reject based upon their appraisal. And frequently a dealer has to go out and create a demand for an issue owned by a seller, with the dealer with the first or best results getting the business.

3. Public data on volume of transactions versus Discount Corp.'s share

The "web chart" asserts that Discount Corp. has "interlocking connections" with 9 of the top 10 life insurance companies. But actually only two of these companies have directors who are also directors of Discount Corp.

The 10 largest life companies did a total volume in the marketplace of over \$4.9 billion in 1958, of which the Discount Corp. did less than 10 percent.

Also of interest, and illustrative of the meaningless nature of so-called interlocking connections, is the fact that the top 10 fire and casualty companies publicly reported a total of over \$556 million transactions in U.S. Treasury securities for the year 1958, of which Discount Corp. did less than 5 percent. No business was done with 6 of the "big 10" fire and casualty companies.

Only two of these top fire and casualty companies are directly served by directors who are also directors of Discount Corp.

4. The vague and indirect ties to advisory committees

A total of 62 institutions listed on the chart have no connecting line at all to the Discount Corp. in the center of the web. This means that 38 percent of the boxes on the chart do not have even an indirect directorship relation to the corporation. Rather, they were just placed at random in open spaces on the chart because one of their directors is a member of a Treasury or Federal Reserve advisory committee or board.

Of these institutions, 31 are listed solely because a director of one of them is a member of one of the five Treasury advisory committees. Yet directors of the Discount Corp. serve on only two of the five Treasury advisory committees—namely the American Bankers Association and the Investment Bankers Association committees.

It is inevitable that the Treasury Department has, over a long period of years covering many administrations, discussed the problem of debt management and debt placement with men of practical experience on these matters. From whom or where else should the Treasury search out skilled thinking on such matters? And since the Discount Corp. is a primary dealer in Treasury securities, it must endeavor to do business with institutions that hold the debt. This is part of its economic function of creating and making a market for the Treasury's securities.

5. *Fallacy of tie-ins with Federal Reserve bank directors*

A substantial number of the institutions on the chart were placed there only because their board of directors had a representative on the board of directors of a regional Federal Reserve bank, in such wide-spread districts as Boston, Chicago, Kansas City, and San Francisco, because the Discount Corp. has one director who serves the New York bank.

But the boards of directors of the regional Federal Reserve banks, spread across the country, do not meet together. A director of the Federal Reserve Bank of New York has no direct board meeting contact with the directors of, say, the San Francisco Federal Reserve Bank.

The directors of the regional Federal Reserve banks are men who are prominent in many fields. It would be surprising if some of them were not connected with firms which invest surplus funds in Government securities through the services of a Government bond dealer.

6. *Position as leading dealer with Federal Reserve's Open Market Account open to question*

The committee statement, which accompanies the chart, said that "in terms of volume of trading with the Federal Reserve System's Open Market Account, it (Discount Corp.) is the largest single dealer." The officers of Discount Corp. are aware of many substantial transactions for the System's account on which the corporation's competitive bids or offerings failed to win the business. In view of the fact that business transactions with the Open Market Account are not publicly released, the corporation cannot categorically deny the statement, but questions its accuracy.

7. *Discount Corp.'s earnings have averaged only 10¼ percent on net worth*

Since the Treasury-Federal Reserve accord of 1951, and the subsequent years of free markets, Discount Corp.'s net profits have averaged only 10¼ percent of total capital funds (net worth). This is not spectacular; rather it is a routine result. For example, even in the recession year of 1958, our country's 3,574 leading corporations had net profits equal to 9 percent of their net worth—and this was the lowest percentage return realized since 1945.

8. *Inaccuracy in other details of the "web chart"*

In addition to being erroneous in basic concept, the chart is inaccurate in these details:

(a) It shows the Chase Manhattan Bank and the Manufacturers Trust Co. as "owner banks" whereas neither institution has any direct or indirect stock ownership interest in Discount Corp. of New York. The elimination of these two institutions from the chart would reduce the number of implied indirect tie-ins by about one-fourth.

(b) It includes the name of one of the Discount Corp.'s major competitors—namely the First Boston Corp. This apparently is due to the fact that representatives of both dealer firms are on the Investment Bankers Association's advisory committee to the Treasury Department. But that committee has not one, but four representatives from our major competitors. They could just as well have been added to the chart.

9. *Conclusions*

In light of the above factual findings, it is concluded—

(a) That Discount Corp.'s directors serve directly on only 20 of the 161 financial institutions shown as boxes or circles on the chart.

(b) That the corporation did no business with 42 percent of all the institutions shown on the chart during the 2-year period 1957-58.

(c) That, due to intense competition in the Treasury securities market, the corporation's volume of business done with leading insurance companies was a small percentage of the publicly released figures on their total volume.

(d) That 38 percent of the institutions named on the chart have no direct or indirect directorship relation to the corporation. Rather, they were just placed at random in open spaces on the chart because one of their directors is a member of a Treasury or Federal Reserve advisory committee or board.

(e) That the Chase Manhattan Bank and the Manufacturers Trust Co. are not "owner banks" as specified by the chart's title.

(f) That the corporation's net earnings on net worth have averaged a routine 10 $\frac{3}{4}$ percent since the advent of free markets in 1951.

(g) That the "web chart" presentation is necessarily misleading, since it is based upon an assumption that a man serving on a board of directors controls his fellow directors to such an extent that they serving on other boards control these other boards ad infinitum—an absurd assumption.

(h) That the chart presentation suggests that there is something wrong with any corporation that has successful business or financial leaders on its board of directors. Only by having directors of unproven stature and judgment could any corporation avoid a similar presentation.

(i) That a similar chart could be prepared for any financial institution of any importance, purporting to show in like misleading fashion country-wide affiliations that do not really exist.

10. The committee, in view of the above facts, should vote to exclude the chart and its accompanying statement from the record of the hearings because of their misleading nature.

Respectfully yours,

HERBERT N. REPP, *President.*

HOUSE OF REPRESENTATIVES,
Washington, D.C., September 9, 1959.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is with reference to the statement of Mr. H. N. Repp, President of the Discount Corp., which was submitted to you on August 26 by Mr. Leighton H. Coleman of the law firm of Davis Polk Wardwell Sunderland & Kiendl.

Mr. Repp's statement relates to the chart which I had prepared showing the interlocking directors of the Discount Corp. and those of 7 New York money-market banks whose directors make up Discount Corp.'s board, along with several officers of the corporation, between and among other major financial institutions. Mr. Repp and his lawyers have now christened this the "web chart," a not very appropriate label in my view, since the chart utilizes several concentric circles, not webs, to connect the various financial institutions with which the subject institutions share one or more directors. Mr. Repp's statement points out no inaccuracies in either the chart or the accompanying listing of the individuals who make up the boards of the major financial institutions shown on the chart, although this statement does claim an unspecified omission with reference to the Investment Bankers Association's Advisory Committee to the Treasury.

The fact that this advisory committee is represented on the chart at all, and the fact that other advisory committees and the boards of directors of the Federal Reserve banks are presented on the chart, seem to provide the basis for most of Mr. Repp's argument about the chart. Thus he says:

"This means that 38 percent of the boxes on the chart do not have even an indirect directorship relation to the corporation."

And at several places his statement objects to the fact that the firms who have representatives on these advisory committees and boards are "just placed at random in open spaces on the chart."

Consequently, in order to simplify the chart and also to avoid unnecessary delay, I have had the chart rephotographed with all the advisory committees and Federal Reserve Board members masked out. This leaves the chart show-

ing only private financial institutions, and only those for which interlocking directors can be clearly and directly traced. So that the record may be complete, however, I am adding to the listing of the directors a complete list of the members of the Federal Advisory Committee, the various advisory committees to the Treasury, and the Board of the Federal Reserve banks.

Further, so that there may be no doubt as to which of the seven New York banks that have directors on the board of the Discount Corp. also own stock in that corporation, I have added to the chart a legend specifying the names of the five owning such stock and, separately, the names of the two that do not. According to Mr. Repp's testimony, each of the seven New York money-market banks has one director on the board of the Discount Corp., with the exception of Morgan Guaranty, which has two (presumably as a result of the recent merger of the two banks which formed Morgan Guaranty). Further, the directors of these seven banks, plus several officers of the Discount Corp., make up the full board of the corporation. Mr. Repp testified, however, that the Chase Manhattan Bank, though formerly a stock owner in the corporation, has disposed of its stock; and that Manufacturers Trust owns no stock.

May I now call your attention to two matters on which the record seems incomplete.

First, during his testimony Mr. Repp agreed to submit a list of the stockholders of the Discount Corp. showing the amount of stockholdings of each. Mr. Repp's statement omits this information, however, and I hope that you will call this omission to his attention. It is my view that the public record should show at least the stockholdings of the banks which have been mentioned, plus the holdings of other institutions as well, if not those of individuals also.

Second, Mr. Repp's statement asserts that—

"Since the Treasury-Federal Reserve accord of 1951, and the subsequent years of free markets, Discount Corp's net profits have averaged only 10¼ percent of total capital funds (net worth). This is not spectacular; rather it is a routine result."

Since the committee is attempting to evaluate the performance of the Government securities market under different conditions, including its performance under the highly speculative conditions of 1958, it would be extremely helpful if Mr. Repp would supply the Discount Corp's outstanding capital stock, profits, net worth, and profit rate on a year-by-year basis from the period of the Treasury-Federal Reserve "accord," or from the beginning of 1951, and supply also these data for an equal number of years prior to the "accord."

Now a word of comment on Mr. Repp's more general objections to allowing the chart and related materials to remain in the record.

These objections are arrived at by advancing certain possible interpretations of the data, then arguing that the data are "meaningless" or "misleading" in relation to these interpretations. In one instance the data are declared to be of a "meaningless nature," because they do not support a thesis—supplied by Mr. Repp—that the Discount Corp. transacts business in Government securities with each and every financial institution with which the Discount Corp. shares one or more directors. With reference to the question of significance which Mr. Repp has suggested here, the fact—pointed out in his statement—that the Discount Corp. did business in 1957 and in 1958 with 93 of the major financial corporations with which the corporation enjoyed interlocking connections strikes me as a rather remarkable showing.

In another instance the chart is declared to be—

"* * * necessarily misleading, since it is based upon an assumption that a man serving on a board of directors controls his fellow directors to such an extent that they serving on other boards control these other boards ad infinitum—an absurd assumption."

I agree that the assumption is absurd; it is Mr. Repp's assumption, however, not mine, and it is hardly likely that there will be many readers of the committee's record who will interpret the chart as suggesting either that the Discount Corp. transacts business in Government securities with each and every financial institution with which it shares a director or that every man serving on a board of directors controls all of his fellow directors. Further, if there should be any reader who is so inclined, Mr. Repp's statement is more than adequate to disabuse him of these notions.

Finally, another general objection which has been made to the chart is that the major financial institutions shown to have interlocking directorates have been pictured on the chart by an arbitrary arrangement, and that any of several financial institutions other than Discount Corp. could have been placed at the

center of "the web." That may be true, although I do not happen to know of another instance in which the seven top New York banks each have a director or directors on the board of a common corporation, nor do I know of another instance in which five of these banks own stock in a joint enterprise. Be that as it may, however, the focus of attention in this particular study is primarily upon the dealers in Government securities; in some other study where the focus of attention is upon some other topic, then of course it might be entirely appropriate to consider placing one of the other firms at the center of the chart.

It is requested, therefore, that the amended charts and related materials, as discussed, be printed in the record and that Mr. Repp's statement be printed also as he and his lawyers have requested. The amended chart and related materials are transmitted herewith.

Sincerely,

WRIGHT PATMAN.

OWNERSHIP AND INTERLOCKING CONNECTIONS OF THE DISCOUNT CORP. (REVISED)

The significance of the Discount Corp.'s interlocking directors and other connections in the financial community arises from the fact that it is one of the largest dealers in U.S. Government securities. In terms of volume of trading with the Federal Reserve System's Open Market Account, it is the largest single dealer.

The Federal Reserve System's Open Market Account buys and sells tremendous quantities of Federal securities in what is called the "open market." All sales and purchases in this open market are with 17 private security dealers. In addition, the Federal Reserve enters into repurchase agreements with many of these dealers, which repurchase agreements are in effect loans made to the dealers for the purpose of assisting them in carrying securities. Last year the Federal Reserve System's trading with the 17 dealers amounted to \$18 billion, including repurchase agreements.

The board of directors of the Discount Corp. is made up of directors of the seven top New York money-market banks, plus several officers of the corporation. These banks are:

- Bankers Trust Co.
- Chase Manhattan Bank
- Chemical Corn Exchange Bank
- First National City Bank
- Manufacturers Trust Co.
- Morgan Guaranty Trust Co.
- New York Trust Co.

Further, of the seven banks listed above all but two, Chase Manhattan Bank and Manufacturers Trust Co., are reported to be stockholders in the Discount Corp., their combined stockholdings constituting a majority of Discount Corp.'s stock.

Furthermore, three of the owner banks are also dealers in Government securities and, as such, trade in Government securities with the Federal Reserve Open Market Account. These are Bankers Trust, Chemical Corn Exchange, and Morgan Guaranty Trust.

The directors of Discount Corp. and the 7 money-market banks are also directors of 89 other major financial institutions. Altogether, these large institutions, plus Discount Corp. and the 7 money-market banks—a total of 97 companies—had assets aggregating \$132 billion at the end of 1958. These interlocking connections were with many of the top financial institutions of the country—with 8 of the 10 top commercial banks, with 6 of the 10 top savings banks, with 7 of the top 10 life insurance companies, and with 5 of the top 10 fire and casualty insurance companies. In addition, the directors of Discount Corp. and the seven money-market banks are also directors of many of the largest industrial and utility corporations, which are, of course, large investors in Government securities.

The accompanying chart shows the interlocking directors between Discount Corp. and the 7 money-market banks, as well as between these institutions and 89 other major financial companies. The names of individuals are indicated on the chart by code numbers, and the names of these individuals, plus the names of all the other companies with which each is connected, are provided on the attached list.

In 1957, Discount Corp.'s net profits amounted to \$1.2 million. In 1958, its net profits increased to \$1.8 million, giving a return of 21 percent on its total capital account, including undivided profits.

**INTERLOCKING DIRECTORS OF DISCOUNT CORP. AND ITS OWNER-BANKS WITH
MAJOR FINANCIAL INSTITUTIONS**

DISCOUNT CORP.

1. Alexander, Henry Clay :
Morgan-Guaranty Trust Co., chairman.
Discount Corp., director.
Johns-Manville Corp., director.
American Viscose Corp., director.
Standard Brands, Inc., director.
General Motors Corp., director.
2. Anderson, Edward E. :
Discount Corp., senior vice president, director.
East River Savings Bank, trustee.
3. Champion, George :
Chase Manhattan Bank, president, director.
Discount Corp., director.
American Smelting & Refining Co., director.
Blind Brook Club, Inc., director.
Charter Oaks Fire Insurance Co., director.
Chase Manhattan Realty Corp., president, director.
Chase International Investment Corp., director.
Elsin Electronics Corp., director.
Japan Society, Inc., director.
Southern Railway Co., director.
Travelers Indemnity Co., director.
4. Cleveland, J. Luther :
Guaranty Trust Co. of New York, chairman.
Discount Corp., director.
Guaranty Safe Deposit Co., director.
Atchison, Topeka & Santa Fe Railroad, director.
Anaconda Co., director.
5. Colt, S. Sloan :
Bankers Trust Co., director.
Discount Corp., director.
Provident Insurance Co., director.
Royal Exchange Assurance Co., member U.S. Advisory Commission.
Port of New York Authority, commissioner.
Mutual Life Insurance Co. of New York, trustee.
American Bank Note Co., director.
General Foods Corp., director member finance committee.
General Electric Co., director, member finance committee.
American Can Co., director, member executive committee.
Tax Foundation, Inc., treasurer, trustee.
6. Helm, Harold V. :
Chemical Corn Exchange Bank, chairman.
Discount Corp., director.
Corn Products Refining Co., director, member executive committee.
City Investing Co., director.
Home Insurance Co., director, member finance committee, member executive committee.
Home Indemnity Co., director, member executive committee.
Lykes Bros. SS Co., director.
United States Rubber Co., director.
Champion Paper Foundation, trustee.
Association of Reserve City Bankers, member.
New York Clearing House Association, member clearinghouse committee.
New York Clearing House Building Co., president.
New York Money Market, member general committee.
Whitehall Foundation, Inc., trustee.
Commercial Solvents Corp., director, member executive committee, audit committee.
Associated Dry Goods Corp., director, member executive committee.

6. Helm, Harold V.—Continued
 Toru & Taylor, director.
 Christian Properties Corp., trustee.
 Champion Paper & Fibre Co., director.
 F. W. Woolworth Co., director.
 Equitable Life Assurance Society of United States, director, member
 executive committee, member finance committee.
 Ralston Purina Co., director.
 National Industrial Conference Board, vice chairman, trustee.
7. Flanigan, Horace C.:
 Manufacturers Trust Co., chairman.
 Discount Corp., director.
 Dollar Savings Bank, trustee.
 New York Fire Insurance Co., director.
 Stern Bros., director.
 Bankers' Club of America, governor.
 Union Oil Corp. of California, director.
 Hilton Hotels Corp., director.
 General Aniline & Film Corp., director.
 Allied Stores Corp., director.
 Anchor Hocking Glass Corp., director.
 Beekman-Downtown Hospital, director.
8. Massie, Adrian M.:
 New York Trust Co., chairman.
 Discount Corp., director.
 Pacific Insurance Co. of New York, director.
 Commonwealth Insurance Co., director.
 Mercantile Insurance Co., director.
 Bankers & Shippers Insurance Co., director.
 Jersey Insurance Co., director.
 North British & Mercantile Insurance Co., director.
 Greenwich Savings Bank, trustee.
 U.S. Life Insurance Co., director.
9. Mills, Dudley H.:
 Discount Corp., chairman.
 Underwood Corp., director.
 Great American Insurance Co., director.
 American National Insurance Co., director.
 Great American Indemnity, director.
 Rochester American Insurance Co., director.
10. Repp, Herbert N.:
 Discount Corp., president, director.
 Investment Bankers' Association of America, Governmental Securities
 Committee, member.
11. Sheperd, Howard C.:
 First National City Bank, New York, chairman.
 International Banking Corp., chairman.
 National City Foundation, chairman.
 Discount Corp., director.
 National City Realty Corp., president, director.
 Anaconda Co., director.
 Best & Co., director.
 Canadian Pacific Railway, director.
 Corning Glass Works, director.
 Federal Insurance Co., director.
 Federal Reserve Bank of New York, class A director.
 New Jersey Zinc Co., director.
 Union Pacific Railway, director.
 United Aircraft Corp., director.
 Consolidated Edison Co., trustee.
 East River Savings Bank, trustee.
 National City Safe Deposit Co., director.
 First National City Trust Co., director.
 J. C. Penney Co., director.
12. Sherer, Dunham B.:
 Chemical Corn Exchange Bank, director.

BANKERS TRUST CO.

- Colt, S. Sloan. (See Discount Corp.)
13. Cullman, Howard S. :
 Bankers Trust Co., director.
 Cullman Bros., Inc., president, director.
 Port of New York Authority, honorary chairman.
 Fifth Avenue Coach Lines, Inc., director.
 Lexington Ave. & 42d Street Corp., chairman.
 Prudential Insurance Co. of America, director.
 Waldorf-Astoria Hotel Corp., director.
 Phillip Morris, Inc., director.
 Tobacco Merchants Association, president, director.
14. Given, William B. :
 American Brake Shoe Co., chairman.
 Bankers Trust Co., director, member executive committee.
 Pucyrus-Erie Co., director, member executive committee.
 Mellon National Bank & Trust Co., director.
 Combustion Engineering, Inc., director, chairman, executive committee.
 Dry Dock Savings Bank, trustee.
 Lloyds-Brake Shoe, Ltd., chairman.
 Lloyds (Burton), Ltd., director.
 Fabrications Auxiliares des Industries Locomotrices (French), honorary president.
 Dominion Brake Shoe Co., Ltd., director.
15. Hanes, John W. :
 Olin Mathieson Chemical Corp., director.
 Bankers Trust Co., director.
 United States Lines Co., director, chairman, executive committee and finance committee.
 Johns-Manville Corp., director.
 Purcolator Products, Inc., director.
 Mutual Life Insurance Co. of New York, trustee.
 P. H. Hanes Knitting Co., director.
16. Lapham, Lewis A. :
 Grace Line, Inc., president, director.
 Bankers Trust Co., director.
 Federal Insurance Co., director.
 Barber Oil Co., director.
 W. R. Grace & Co., director.
 Tri-Continental Corp., director.
 H. J. Heinz Co., director.
 Maritime Association, Port of New York City, president.
 American Bureau of Shipping, member board of managers, member finance committee.
17. Leeb, Brian P. :
 Bankers Trust Co., director.
 Franklin Savings Bank, trustee.
 Phoenix London Group, director.
18. Montgomery, George G. :
 Kern County Land Co., president, director.
 Bankers Trust Co., director.
 Castle & Cook, Inc., director.
 Pacific National Life Assurance Co., director.
 Matson Navigation Co., director.
 Oceanic Steamship Co., director.
 American Trust Co., director.
 General Electric Co., director.
 Pacific Lumber Co., director.
19. Morgan, Thomas A. :
 Bankers Trust Co., member executive committee, member trustee committee, director.
 Lehman Corp., director.
 Atlantic Mutual Insurance Co., trustee.
 Bulova Watch Co., director.
 Centennial Insurance Co., director.
 Western Union Telegraph Co., director.

19. Morgan, Thomas A.—Continued

Shell Oil Co., director.
 General Aniline & Film Corp., chairman retirement committee, member executive committee and research committee, director.
 United States Industries, Inc., director, member executive committee.
 Jewelers Acceptance Corp., director.
 Standard Financial Corp., director.

20. Puckett, B. Earl:

Bankers Trust Co., director.
 Allied Stores Corp., chairman.
 Jack Black Dry Goods Co., director.
 L. S. Donaldson Co., director.
 L. H. Field Co., director.
 Golden Rule, director.
 Herpolsheimer Co., director.
 Jordan Marsh Co., director.
 Joske Bros., Co., director.
 F. N. Joslin Co., director.
 Maas Bros., Inc., director.
 Meyer's Co., director.
 Morehouse-Martens Co., director.
 Muller Co., Ltd., director.
 O'Neill & Co., director.
 Pomeroy's, Inc., director.
 A. Polsky Co., director.
 Rollman & Sons Co., director.
 Louis Samler, Inc., director.
 Titche-Goettinger Co., director.
 A. E. Troutman Co., director.
 C. M. Guggenheimer, Inc., director.
 George B. Peck, Inc., director.
 Waite's, Inc., director.
 Heer's, Inc., director.
 C. C. Anderson Stores Co., director.
 Polsky Realty Co., director.
 B. Gertz, Inc., director.
 Bon Marche, Inc., director.
 Stern Bros., director.
 Lehman Corp., director.
 Pee Wee Corp., president, director.
 Wayne Petroleum Co., president, director.
 Robinson-Puckett, Inc., director.
 20th Century-Fox Corp., director.

21. Reed, Philip D.:

General Electric Co., chairman, finance committee.
 Bankers Trust Co., director.
 American Express Co., director.
 American Express Co., Inc., director.
 Metropolitan Life Insurance Co., director.
 National Dairy Products Corp., director.
 Scott Paper Co., director.
 Hoving Corp., director.
 Tiffany & Co., director.
 Otis Elevator Co., director.
 Bigelow-Sanford Carpet Co., director.

22. Taylor, William T.:

ACF Industries, Inc., chairman.
 Bankers Trust Co., director.
 Adams Land & Development Corp., director.
 American Land & Development Corp., director.
 Adams Express Co., member, executive committee and board of managers.
 American International Corp., member, executive committee.
 Allied Stores Corp., director.
 Fairfield County (Conn.) Trust Co., director.
 Basic Research Corp., trustee.

23. Tompkins, Boyston A.:

Bankers Trust Co., director.
 Bowery Savings Bank, trustee.
 General American Investors, director.
 Otis Elevator Co., director.
 Babcock & Wilcox Co., director.
 National Aviation Corp., director.
 Flintkote Co., director.
 International Paper Co., director.
 Detroit Edison Co., director.
 Webb & Knapp, Inc., director.
 Purolater Products, Inc., director.

24. Watson, Thomas J., Jr.:

IBM Corp., president, director.
 Bankers Trust Co., director.
 Mutual Life Insurance Co., director.
 International Correspondence Schools, World, Ltd., director.
 Time, Inc., director.

CHASE MANHATTAN BANK

25. Bell, Elliott V.:

McGraw-Hill Publishing Co., chairman, executive committee, director.
 Chase National Bank, director.
 Business Week, editor and publisher.
 New York Life Insurance Co., member, executive committee; member,
 finance committee, director.
 Dime Savings Bank of Brooklyn, trustee.
 New York Telephone Co., director.
 American Agricultural Chemical Co., director.
 Revere Copper & Brass, Inc., director.
 Tri-Continental Corp., director.
 Carrier Corp., director.

26. Catharine, Robert M.:

Dollar Savings Bank of New York, chairman, trustee.
 Chase Manhattan Bank, director.
 Commonwealth Insurance Co. of New York, director.
 U.S. Board, North British & Mercantile Insurance Co., director.
 Maryland Casualty Co., director.

Champion, George. (See Discount Corp.)

27. Clay, Lucius D.:

Continental Can Co., chairman.
 Lehman Corp., director.
 General Motors Corp., director.
 Central Savings Bank of New York, trustee.
 Metropolitan Life Insurance Co., director.
 American Express Co., director.
 United States Lines, Inc., director.

28. Davies, Paul L.:

Food Machinery & Chemical Corp., chairman, director.
 Chase Manhattan Bank, director.
 American Trust Co., director.
 California Water Service Co., director.
 Caterpillar Tractor Co., director.
 International Business Machine Corp., director.
 Southern Pacific Co., director.
 National Industrial Conference Board, director.
 Pacific Gas & Electric Co., director.
 Stanford Research Institute, director.

29. De Butts, Henry Ashby:

Southern Railway Co., president, director.
 Chase Manhattan Bank, director.
 Cincinnati, New Orleans & Texas Pacific Railway, president, director.
 Alabama Great Southern Railway, president, director.
 Richmond-Washington Co., director.
 New Orleans & Northern Railroad Co., president, director.

29. De Butts, Henry Ashby—Continued
Georgia Southern & Florida Railway Co., president, director.
Association of American Railroads, director.
Equitable Life Assurance Society of United States, director.
Riggs National Bank, director.
Richmond, Fredericksburg & Potomac Railroad, director.
Woodward & Lothrop, Inc., director.
30. De Witt, J. Doyle:
Travelers Insurance Co., president, director.
Chase Manhattan Bank, director.
Travelers Indemnity Co., president, director.
Chase Manhattan Realty Corp., director.
Hartford Electric Light Co., director.
Charter Oaks Fire Insurance Co., president, director.
Mechanics Savings Bank (Hartford), trustee.
Travelers Broadcasting Service Corp., director.
Veeder-Root, Inc., director.
Hartford National Bank & Trust Co., director.
Holo-Krome Screw Co., director.
Connecticut Public Expenditure Council, Inc., trustee.
Southern New England Telephone Co., director.
United Aircraft Corp., director.
31. Ecker, Frederic W.:
Metropolitan Life Insurance Co., president, director.
Chase Manhattan Bank, director.
China Medical Board of New York, Inc., trustee.
Institute of Life Insurance, director.
Life Insurance Association of America, director.
Life Insurance Medical Research Fund, director.
32. Holman, Eugene:
Standard Oil Co. (New Jersey), chairman; director; chairman, executive committee.
Chase Manhattan Bank, director.
Metropolitan Life Insurance Co., director.
33. Kappel, Frederick R.:
American Telephone & Telegraph Co., president, director.
Chase Manhattan Bank, director.
Metropolitan Life Insurance Co., director.
34. Martino, Joseph A.:
National Lead Co., director; chairman, executive committee.
Chase Manhattan Bank, director.
Chemetron Corp., director.
Allegheny Ludlum Steel Corp., director.
Baker Castor Oil Co., director.
Morris P. Kirk & Son, Inc., vice president, director.
R-N Corp., director.
Pioneer Aluminum, Inc., chairman.
Baritina de Venezuela S.A., director.
Fidelity & Casualty Co. of New York, director.
Minnesota Linseed Oil Co., chairman.
Nickel Processing Corp., chairman.
Titanium Metals Corp. of America, director.
East River Savings Bank, trustee.
ABC Paramount Theaters, Inc., director.
35. McCloy, John J.:
Chase Manhattan Bank, chairman, director.
American Telephone & Telegraph Co., director; member, executive committee
Metropolitan Life Insurance Co., director; member, finance committee.
Ford Foundation, chairman.
Westinghouse Electric Corp., director.
Rockefeller Foundation, trustee.
United Fruit Co., director.
Allied Chemical Corp., director.

36. Oates, James Franklin, Jr. :
 Equitable Life Assurance Society, president, chairman.
 Chase Manhattan Bank, director.
 First National Bank of Chicago, director.
 Great Northern Railway, director.
 Miehle-Goss-Dexter, Inc., director.
37. Percy, Charles Hartig :
 Bell & Howell Co., president, director.
 Harris Trust & Savings Bank, director.
 Burroughs Corp., director.
38. Prior, Frank O. :
 Standard Oil (Indiana), chairman, director.
 Chase Manhattan Bank, director.
 American Petroleum Institute, director.
 American Oil Co., director.
 First National Bank of Chicago, director.
39. Russell, Frank F. :
 Cerro de Pasco Corp., chairman.
 Chase Manhattan Bank, director.
 National Aviation Corp., director.
 Otis Elevator Co., director.
 Union Oil & Gas Corp. of Louisiana, director.
 Worthington Corp., director.
 Popular & Porvenir Cia de Seguros, director.
 Martin Co., director.
 Circle Wire & Cable Corp., director
 Fairmont Aluminum Co., director.
 Peruvian American Association, president, director.
40. Stone, Whitney :
 Stone & Webster, Inc., chairman.
 Chase Manhattan Bank, director.
 American Express Co., director.
 Stone & Webster Engineering Corp., director.
 Stone & Webster Service Corp., director.
 Stone & Webster Securities Corp., director
 San Salvador Development Co., director.
 General Reinsurance Corp., director.

CHEMICAL CORN EXCHANGE BANK

41. Black, James B. :
 Pacific Gas & Electric Co., chairman; member, executive committee;
 director.
 Chemical Corn Exchange Bank, director.
 United States Steel Corp., director.
 Southern Pacific Co., member, executive committee; director.
 Equitable Life Assurance Society of United States, director.
 Shell Oil Co., director.
 Gila River Ranch, Inc., member, executive committee; director.
 Firemen's Fund Insurance Co., member, executive committee; director.
 Ford Foundation, trustee.
 Del Monte Properties Co., director.
 California Pacific Title Insurance Co., member, executive committee;
 director.
42. Black, Kenneth E. :
 Home Insurance Co., president & director.
 Chemical Corn Exchange Bank, director.
 Home Indemnity Co., president and director.
 Harlem Savings Bank, trustee.
 Atlantic Coast Line Railroad, director.
 Insurance Society of New York, director.
 General Adjustment Bureau, Inc., director.
 George A. Fuller Co., director.
 National Board of Fire Underwriters Building Corp., president.
 Underwriters' Laboratories, Inc., director.

43. Bruce, James :
 Chemical Corn Exchange Bank, director.
 American Airlines, Inc., director.
 Commercial Credit Corp., director.
 General American Investment Co., director.
 Equity Corp., director.
 United States Industries, Inc., director.
 Fruehauf Trailer Co., director.
 National Dairy Products Co., director.
 Revlon, Inc., director.
 Congoleum Nairn, Inc., director.
 Technicolor, Inc., director.
 Federal Home Loan Bank of New York, director.
 Republic Steel Corp., director.
 Avco Corp., director.
 Continental Insurance Co., director.
 Western Tablet & Stationery Co., director.
 Fairbanks Morse & Co., director.
44. Callaway, Cason J. :
 Blue Springs Farms, owner.
 Chemical Corn Exchange Bank, director.
 United States Steel Corp., director.
 Nutrition Foundation, Inc., trustee.
 Trust Co. of Georgia, director.
 Shell Oil Co., director.
45. Drysdale, Robert A. :
 Drysdale & Co., senior partner.
 Chemical Corn Exchange Bank, director.
 Central Savings Bank, trustee.
 Guardian Life Insurance Co., director.
 Westchester Fire Insurance Co., director.
 North River Fire Insurance Co., director
 U.S. Fire Insurance Co., director.
46. Few, Benjamin F. :
 Liggett & Myers Tobacco Co., president and director.
 Chemical Corn Exchange Bank, director.
 Bank for Savings in City of New York, trustee.
 Duke Power Co., director.
47. Grainger, Isaac B. :
 Chemical Corn Exchange Bank, president and director.
 Safety Industries, Inc., director.
 Fort Myers Southern RR. Co., director.
 Hartford Fire Insurance Co., director.
 Hartford Accident & Indemnity Co., director.
48. Harris, Henry Upham :
 Harris, Upham & Co., partner.
 Chemical Corn Exchange Bank, director.
 Texas Co., director.
 Oceanarium, Inc., partner and director.
 Stone & Webster, Inc., director.
 Great American Insurance Co., director.
49. Hauser, Alfred H. :
 Chemical Corn Exchange Bank, vice president.
 American Life Insurance Co. of New York, director.
 Colonial Ice Co., director.
 Porete Manufacturing Co., director.
 Maracaibo Oil Exploration Corp., director.
 American Surety Co., trustee.
 Empire City Savings Bank, trustee.
 Granby Consolidated Mining, Smelting & Power Co., Ltd., director.
- Helm, Harold H. (*See Discount Corp.*)
50. Houston, Frank K. :
 Chemical Corn Exchange Bank, honorary chairman, vice chairman,
 director, executive committee.
 Standard Insurance Co. of New York, director.
 Thomas Jefferson Memorial Foundation, chairman.

50. Houston, Frank K.—Continued
 Aetna Insurance Co., director.
 Century Indemnity Co., director.
 Piedmont Fire Insurance Co., director.
 World Fire & Marine Insurance Co., director.
 Hotel Waldorf-Astoria Corp., director.
51. Humphreys, Harry E., Jr.:
 U.S. Rubber Co., chairman.
 Chemical Corn Exchange Bank, director.
 Latex Fiber Industries, Inc., director.
 Terminal Warehouses, Ltd., director.
 Great American Insurance Co., director.
 Dominion Rubber Co., Ltd., director.
 Mutual Life Insurance Co. of New York, trustee.
 Rubber Manufacturers Association, director.
 National Industrial Conference Board, member.
52. Jackson, N. Baxter:
 Chemical Corn Exchange Bank, chairman, executive committee and director.
 General Reinsurance Corp., director.
 McCrory Stores Corp., director.
 American Chiclet Co., director.
 French American Banking Corp., director.
 Interchemical Corp., director.
 Western Electric Co., director.
 Aluminium, Ltd., director.
 Alco Products, Inc., director.
 American Chain & Cable Co., director.
 Home Life Insurance Co., director.
 North Star Reinsurance Corp., director.
 Port of New York Authority, commissioner.
53. Kellstadt, Charles H.:
 Sears, Roebuck & Co., president and director.
 Allstate Insurance Co., director.
 First National Bank (Atlanta), director.
 First National Bank (Miami), director.
 Continental Illinois National Bank & Trust, director.
 Whirlpool Corp., director.
54. McKim, Robert J.:
 Associated Dry Goods Corp., president and director.
 Chemical Corn Exchange Bank, director.
 Bowery Savings Bank, trustee.
55. Williams, Thomas R.:
 Ichabod T. Williams & Sons, Inc., president.
 Chemical Corn Exchange Bank, director.
 George D. Emery Co., president and director.
 Edgewater Saw Mills Co., president and director.
 Niagara Fire Insurance Co., director.
 Astoria Importing & Manufacturing Co., president and director.
 Astoria Pan-Americana, Inc., chairman.
56. Woods, J. Albert:
 Chemical Corn Exchange Bank, director.
 Central Savings Bank, director.
 Corn Products Co., director.
 Wilson & Toomer Fertilizer Co., director.
 American Smelting & Refining Co., director.

FIRST NATIONAL CITY BANK OF NEW YORK

57. Allyn, Stanley Charles:
 National Cash Register Co., chairman.
 First National City Bank of New York, director.
 Armco Steel Corp., director.
 Western Allegheny Railroad, director.
 Northwestern Mutual Life Insurance Co., trustee.
 Mead Corp., director.

58. Chubb, Percy, 2d:
Chubb & Son, partner.
First National City Bank of New York, director.
Federal Insurance Co., president and director.
Vigilant Insurance Co., president and director.
National Foreign Trade Council, Inc., director.
American Institute of Marine Underwriters, director.
International Banking Corp., director.
Colonial Life Insurance Co. of America, director.
59. Dodge, Cleveland Earl:
Phelps-Dodge Corp., vice president and director.
First National City Bank of New York, director.
Atlantic Mutual Insurance Co., trustee.
Brooklyn Bridge Freezing & Cold Storage, director.
Centennial Insurance Co., trustee.
First National City Trust Co., director.
Dodge Fibers Corp., director.
Habirshaw Cable & Wire Corp., director.
Merchants Refrigerating Co., director.
Montezuma Copper Co., vice president and director.
Phelps Dodge Copper Products Corp., director.
Phelps Dodge Mercantile Co., vice president.
Phelps Dodge Refrigerating Corp., vice president and director.
Southern Pacific Co., director.
60. Follis, Ralph Given:
Standard Oil of California, president and chairman.
First National City Bank of New York, director.
California Commercial Co., director.
American Gilsenite Co., director and deputy chairman.
Arabian American Oil Co., director and vice chairman.
Trans-Arabian Pipeline Co., chairman.
Crocker-Anglo National Bank, director.
U.S. Council, International Chamber of Commerce, trustee.
Federal Engineering Corp., director.
Stanford Research Institute, trustee.
National Petroleum Council, vice chairman.
National Industrial Conference Board, chairman.
American Petroleum Institute, director.
61. Forward, DeWitt A.:
First National City Bank of New York, director and senior vice president.
National City Safe Deposit Co., director.
Dime Saving Bank (Brooklyn), trustee.
Boeing Airplane Co., director.
International Banking Corp., director.
Allis Chalmers Manufacturing Co., director.
National City Foundation, director.
Phillips Petroleum Co., director.
62. Grace, Joseph P., Jr.:
W. R. Grace & Co., president and director.
First National City Bank of New York, director.
Brazilian Technical Fund, president.
Carthusian Foundation in America, Inc., director.
Casita Mara (Elizabeth Seton League, Inc.), director.
Emigrant Industrial, S. B., trustee.
Grace Institute, president and trustee.
International Chamber of Commerce, U.S. Council, trustee.
Grace Line, Inc., director.
Atlantic Mutual Insurance Co., trustee.
Ingersoll-Rand Co., director.
Northern Insurance Co., of New York, director.
Stone & Webster, Inc., director.
Assurance Co. of America, director.
Centennial Insurance Co., trustee.
Yale Institute of International Studies, council member.

63. Hagerly, Harry C. :
 Metropolitan Life Insurance Co., vice president. (F). director
 First National City Bank of New York, director.
 Erie Railroad, director.
 East River Savings Bank, director.
 Rochester Gas & Electric Co., director.
 National Broadcasting Co., director.
 Radio Corp. of America, director.
64. Horner, H. Mansfield :
 United Aircraft Corp., chairman and director.
 First National City Bank of New York, director.
 Hartford National Bank & Trust, director.
 Southern New England Telephone Co., director.
 Travelers Insurance Co., director.
65. Nagle, Alexander C. :
 First National City Bank of New York, director.
 American Radiator & Standard Sanitary Co., director.
 National Biscuit Co., director.
 United States Steel Corp., director.
 Prudential Insurance Co., director.
 American Sugar Refining Co., director.
66. Parlin, Charles C. :
 Shearman & Sterling & Wright, member.
 First National City Bank of New York, director.
 United States & Foreign Securities Corp., president and director.
 Citizens National Bank, director.
 Alfred Hofmann & Co., director.
 Celanese Corp. of America, director.
 York Commercial Corp., director.
 Guerlain Inc., director.
 Potash Import & Chemical Corp., director.
 Compania Ontario, director.
 Pallas Corp., director.
67. Perkins, Richard Sturgis :
 First National City Bank of New York, vice chairman.
 Phoenix Assurance Co., director.
 City Bank Farmers Trust Co., chairman.
 Ritz-Carlton Hotel Co., director.
 New York Life Insurance Co., director.
 Prudential Insurance Co., Great Britain, director.
 Hudson Insurance Co., director.
 International Telephone & Telegraph Corp., director.
 Royal Globe Group, director.
 Bank of Monrovia, director.
 International Banking Corp., director.
 National City Safe Deposit Co., director.
 Phelps Dodge Corp., director.
 Provident Loan Society, trustee.
 Southern Pacific Co., director.
 Allied Chemical Corp., director.
- Sheperd, Howard C. (See Discount Corp.)
68. Temple, Alan H. :
 First National City Bank of New York, vice chairman, director.
 International Banking Corp., director.
 Prudential Insurance Co. of Great Britain, director.
 Hudson Insurance Co., director.
 Seaboard Surety Co., director.
 Atlantic Mutual Insurance Co., trustee.
 Centennial Insurance Co., director.
 Moore Corp., Ltd., director.
69. Winthrop, Robert :
 Robert Winthrop & Co., general and special partner.
 First National City Bank of New York, director.
 Green Bay & Western Railroad, vice president, director.
 Kewaunee Green Bay & Western Railroad, vice president, director.

69. Winthrop, Robert—Continued
 Stony Point Land Co., director.
 First National City Trust Co., director.
 Seamen's Bank for Savings, secretary, board of trustees; trustee.
 Eagle Fire Insurance Co. of New York, director.
 First National City Safe Deposit Co., director.
 International Banking Corp., director.
 Norwich Union Insurance Co., director.
 U.S. & Foreign Securities Corp., director.
 Wall Street Investing Corp., chairman, advisory council.

MANUFACTURERS TRUST CO.

70. Brush, Alvin G. :
 American Home Products Corp., chairman.
 Manufacturers Trust Co., director.
 American Foundation for Pharmaceutical Education, director.
 Buck Hill Falls Co., director.
 Dime Savings Bank, Brooklyn, trustee.
 Electric Bond & Share Co., director.
 United Medical Service, director.
71. Crandall, Lou R. :
 George G. Fuller Co., chairman.
 Manufacturers Trust Co., director.
 Curtiss-Wright Corp., director.
 Sperry & Hutchinson Co., director.
 Harlem Savings Bank, trustee.
 General Cable Corp., director.
 Home Insurance Co., director.
 Sears, Roebuck & Co., director.
 Flanagan, Horace C. (See Discount Corp.)
72. Franklin, John M. :
 U.S. Lines Co., president, director.
 Manufacturers Trust Co. director.
 Baltimore & Eastern Railroad, director.
 Worthington Corp., director
 Number One Broadway Corp., president, director.
 Roosevelt Steamship Co., president, director.
 U.S. Lines Co. (Canada) Ltd., president, director.
 U.S. Operations, Inc., president, director.
 Atlantic Transport Co., Ltd., director.
 American Merchant Marine Institute, director.
 Home Insurance Co., director.
 Continental Can Co., Inc., director.
 American Bureau of Shipping, director.
 American Steamship Owners Mutual P. & I. Association, Inc., director.
 Laurel Race Course, Maryland State Fair, Inc., director.
73. Gerli, Paolino :
 Manufacturers Trust Co., director.
 American & Foreign Insurance Co., director.
 Belding Hemingway Co., director.
 International Silk Guild, president, director.
 Interstate Department Stores, Inc., director.
 Commodity Exchange, director.
 La France Industries, Inc., chairman.
 Emigrant Industrial Savings Bank, trustee.
 International Silk Association, director.
 Cheney Bros., Inc., vice president, director.
74. Johnston, Oswald L. :
 Simpson, Thacher & Bartlett, partner.
 Manufacturers Trust Co., director.
 Atlas Corp., vice president, secretary, director.
 E. W. Bliss Co., chairman, executive committee; director.
 General Baking Co., director.
 Stern Bros., director.
 Harris-Intertype Corp., director.

74. Johnston, Oswald L.—Continued
 Hidden Splendor Mining Co., director.
 Petro-Atlas Corp., director.
 Electric Bond & Share Co., director.
75. Leithead, Barry T. :
 Overt Peabody & Co., president, director.
 Manufacturers Trust Co., director.
 Cluett Peabody & Co. of Canada, chairman.
 B. F. Goodrich Co., director.
 Travelers Insurance Co., director.
76. Madden, John T. :
 Emigrant Industrial Savings Bank, chairman, trustee.
 Manufacturers Trust Co., director.
 W. R. Grace & Co., director.
 J. P. Maguire & Co., director.
 Coca-Cola Bottling Co. of New York, director.
77. Rabe, William G. :
 Manufacturers Trust Co., chairman, treasury committee; director.
 Hershey Creamery Co., treasury; chairman, executive committee;
 director.
 Allegheny Corp., member, executive committee; director.
 First Geneva Corp., president, director.
 Aeolian-American Co., director.
 Technicolor, Inc., director.
 Bankers Commercial Corp., director.
 Stern Bros., director.
 Beech-Nut Life Savers, Inc., director.
78. Robinson, William E. :
 Coca-Cola Co., chairman, director.
 Manufacturers Trust Co., director.
 Libbey-Owens-Ford Glass Co., director.
 Coca-Cola Export Corp., director.
 Coca-Cola Ltd., Toronto, director.
 Harlem Savings Bank, director.
79. Sargent, Henry B. :
 American Foreign Power Co., president, director.
 Manufacturers Trust Co., director.
 Central Mexico Light & Power, director.
 Cia Brasileira de Forea Electrea, chairman.
 Cia Colombiana de Electricidea, director.
 Cia Cubana de Electricidea, chairman.
 Cia Panamena de Fuerza y Luz, director.
 Cordoba (Argentine) Electric Tramways Construction Co., Ltd.,
 director.
 Cordoba Light & Power Co., director.
 Ebasco International Corp., chairman.
 Empresas Electrica del Equador, Inc., director.
 Empresas Electrica Argentenas, chairman.
 Empresas Electrica Mexicanas, Inc., chairman.
 Guanajuato Power & Electric Co., director.
 Far East Power Corp., chairman, president.
 Northern Mexico Power & Development Co., Ltd., chairman.
 Pernambuco Tramways & Power Co., Ltd., director.
 Puebla Tramway Light & Power Co., chairman.
 Public Utilities Investment Trust, Ltd., chairman.
 Rio Grandense Light & Power Syndicate, Ltd., director.
 South American Power Co., chairman, president.
 Shanghai Power Co., chairman.
 Telephone Co. of Pernambuco, Ltd., director.
 Stanford Research Institute, director.
 American Institute for Foreign Trade, director.
 Electric Bond & Share Co., director.
 U.S. Life Insurance Co., director.

80. Smith, Harold V. :
 Home Insurance Co., chairman, director.
 Manufacturers Trust Co., director.
 Home Indemnity Co., chairman, director.
 Lehman Corp., director.
 Pennsylvania Mutual Life Insurance Co., trustee.
 Gracie Square-River Corp., director.
81. Van Bomel, Leroy Allison :
 National Dairy Products Corp., consultant.
 Manufacturers Trust Co., director.
 New York University, member council.
 Nutrition Foundation, Inc., trustee.
 American Surety Co., trustee.
 Ryder System, Inc., director.
 Transportation Mutual Insurance Co., director.
82. Von Elm, Henry C. :
 Manufacturers Trust Co., honorary chairman, director.
 Sperry & Hutchinson, director.
 George A. Fuller Co., director.
 Home Insurance Co., director; member, finance committee.
 George W. Rogers Constuction Corp., director.
83. Walker, George S. :
 Electric Bond & Share Co., president, director.
 Manufacturers Trust Co., director.
 Ebasco Services, Inc., chairman.
 United Gas Corp., director.
 American & Foreign Power Co., director.
 Schering Corp., director.
 Escambia Chemical Corp., director.
 Chemical Construction Corp., director.
- MORGAN GUARANTY TRUST CO.
- Alexander, Henry C. (See Discount Corp.)
84. Bechtel, Stephen D. :
 Bechtel Corp., president, director.
 Morgan Guaranty Trust Co., director.
 Bechtel International, Ltd., chairman.
 Nuclear Power Group, Inc., director.
 Bechtel International Corp., chairman.
 International Bechtel Builders, Inc., chairman.
 Arabian Bechtel Corp., chairman.
 Pacific Bechtel Corp., chairman.
 Kuwait Bechtel Corp., chairman.
 Bechtel International Co., chairman.
 Bechtel Nuclear Corp., chairman.
 Bechtel Foundation, president.
 U.S. Department of Commerce, chairman, business advisory committee.
 International Bechtel, Inc., chairman.
 Continental Can Co., director.
 Industrial Indemnity Co., director.
 Lakeside Foundation, director.
 Lakeside Corp., president, director.
 Canadian Bechtel, Ltd., chairman.
 Southern Pacific Co., director.
 U.S. Lines Co., director.
 Stanford Research Institute, director.
85. Cabot, Paul C. :
 State Street Research & Management Co., partner.
 Morgan Guaranty Trust Co., director.
 State Street Investment Corp., chairman.
 Eastern Gas & Fuel Association, trustee; member, executive committee.
 National Dairy Products Corp., director; member, executive committee.
 B. F. Goodrich Co., director.
 Continental Can Co., director.
 Ford Motor Co., director.

86. Cheston, Charles Steele:
 Morgan Guaranty Trust Co., director.
 Western Savings Fund Society (Philadelphia), member, board of managers.
 Provident Mutual Life Insurance Co. (Philadelphia), director.
 Philco Corp., director.
 Philadelphia National Bank, director.
 Insurance Co. of North America, director.
 Monsanto Chemical Co., director.
 Mead Corp., director.
 Muskogee Co., director.
 Plax Corp., director.
 Kansas, Oklahoma & Gulf Refinery, director.
 American Airlines, Inc., director.
 Chemstrand Corp., director.
 Indemnity Insurance Co. of North American, director.
 Monsanto (Canada), Ltd., director.
 Cleveland, J. Luther. (See Discount Corp.)
87. Dickey, Charles Denston:
 Morgan Guaranty Trust Co., director; chairman, executive committee.
 Beaver Coal Corp., director.
 Braden Copper Co., director.
 Church Life Insurance Corp., director.
 Church Fire Insurance Corp., director.
 General Electric Co., director.
 Kennecott Copper Corp., director.
 New York Life Insurance Co., director.
 Panhandle Eastern Pipe Line Co., director.
 Western Savings Fund Society of Philadelphia, member, board of managers.
 Merck & Co., director.
 Atlantic Refining Co., director.
88. Josephs, Devereux C. :
 Morgan Guaranty Trust Co., director.
 New York Life Insurance Co., director
 Consolidated Edison Co. of New York, trustee.
 Carnegie Corp., trustee.
 American Smelting & Refining Co., director.
 American Brake Shoe Co., director.
 Smith, Kline & French Laboratories, director.
89. Morgan, Junius Spencer:
 Morgan Guaranty Trust Co., director; member, executive committee.
 Continental Can Co., director.
 Atlantic Mutual Insurance Co., trustee.
 Centennial Insurance Co., trustee.
90. Shanks, Carrol M. :
 Prudential Insurance Co., president, director.
 Morgan Guaranty Trust Co., director.
 Life Insurance Association of America, director.
 National Biscuit Co., president.
 Public Service Electric & Gas Co., director.
 Bigelow-Sanford Carpet Co., director.
 Fidelity Union Trust Co. (Newark), director.
 Institute of Life Insurance, director.
 Georgia-Pacific Corp., director.
 Union Carbide Corp., director.
91. Sharp, Dale E. :
 Morgan Guaranty Trust Co., president, director.
 Standard Accident Insurance Co. (Detroit), director.
 Pilot Insurance Co. (Toronto), director.
 Planet Insurance Co. (Detroit), director.
 Yorkshire Insurance Co., chairman.
 Seaboard Fire & Marine Insurance Co., director.
 Wilson & Co., director.

92. Stetson, Eugene W. :
 Morgan Guaranty Trust Co., director.
 Textile Banking Co., chairman.
 Coca-Cola Co., director ; member, finance committee.
 French American Banking Corp., chairman advisory committee.
 Illinois Central Railroad, director ; chairman, executive committee.
 United Stores Co., director.
 Air Reduction Co., director ; member, executive committee.
 Tri-Continental Corp., director ; member, advisory committee.
 Gulf Atlantic Warehouse Co., director ; chairman, executive committee.
 Tri-Continental Financial Corp., director.
93. Symes, James M. :
 Pennsylvania Railroad, president, director.
 Morgan Guaranty Trust Co., director.
 Norfolk & Western Railway, director.
 Wabash Railroad, director.
 Detroit, Toledo & Toronto Railroad, director.
 First Pennsylvania Banking & Trust Co., director.
 Insurance Co. of North America, director.
 American Railway Engineers Association, member.
94. Wingate, Henry S. :
 International Nickel Co. of Canada, president, director.
 Morgan Guaranty Trust Co., director.
 International Nickel Co. (New York City), president, director.
 Whitehead Metal Products Co., director.
 Alloy Metal Sales, Ltd., director.
 Gap Farms, Inc. (Philadelphia), director.
 Centre d'information Du Nickel, Brussels, director.
 Centre d'information Du Nickel, Paris, director.
 Mond Nickel Co., Ltd., member, advisory committee.
 American Radiator & Standard Sanitary Corp., director.
 Seaman's Bank for Savings, trustee.
 Bank of Montreal, director.
 Canadian Pacific Railway, director.
95. Woodruff, Robert W. :
 Coca-Cola Co., director ; chairman, finance committee.
 Morgan Guaranty Trust Co., director.
 Southern Railway, director.
 Trust Co. of Georgia, director.
 Continental Gin Co., director.
 General Electric Co., director.
 Metropolitan Life Insurance Co., director.
 American Express Co., director.

NEW YORK TRUST CO.

96. Aldrich, Hulbert S. :
 New York Trust Co., president, director.
 National Sugar Refining Co., director.
 Excelsior Savings Bank, trustee.
 Bridgeport Brass, director.
 IBM World Trade Corp., director.
 Noranda Copper & Brass, director.
 Penn-Dixie Cement Corp., director.
 New Britain Machine Co., director.
 American & Foreign Insurance Co., director.
 American Machine & Metals, Inc., director.
 British & Foreign Marine Insurance Co., Ltd., director.
 Globe Indemnity Co., director.
 Liverpool & London & Globe Insurance Co., director.
 National Distillers & Chemical Corp., director.
 Newark Insurance Co., director.
 One Hundred Fifty William Street Corp., director.
 Queen Insurance Co. of America, director.
 Royal Indemnity Co., director.

96. Aldrich, Hulbert S.—Continued
 Royal Insurance Co., Ltd., director.
 Star Insurance Co. of America, director.
 Thomas & Mersey Marine Insurance Co., Ltd., director.
97. Aldrich, Malcolm Pratt:
 Commonwealth Fund, president, director.
 New York Trust Co., director.
 Southern Pacific Co., director.
 Equitable Life Assurance Co. of the United States, director.
98. Anthony, Graham Hudson:
 Veeder-Root, Inc., director; chairman, executive committee.
 New York Trust Co., director.
 Holo Krome Screw Corp., chairman.
 Connecticut Mutual Life Insurance, director.
 Hartford National Bank & Trust, director.
 Hartford Electric Light, director.
 Aetna Insurance Co., director.
 Southern New England Telephone Co., director.
 Mechanics Saving Bank, director.
 Burlington Industries, director.
99. Ballantine, Arthur A.:
 Dewey, Ballantine, Bushby, Palmer & Wood, partner.
 New York Trust Co., director.
 Bowery Savings Bank, trustee.
 New York Life Insurance Co., director.
 General American Investors Co., director.
 Springfield College, trustee.
 Northeastern College, trustee.
 United Hospital Fund of New York, honorary trustee.
100. Dunn, Kempton:
 American Brake Shoe Co., president, director.
 New York Trust Co., director.
 Bucyrus Erie, director.
 Franklin Savings Bank, trustee.
 Dominion Brake Shoe Co., chairman.
101. Jennings, B. Brewster:
 New York Trust Co., director.
 Central Savings Bank of New York, trustee.
 Massie, Adrian M. (See Discount Corp.)
102. Paynter, Richard K., Jr.:
 New York Life Insurance Co., director; vice president; chairman,
 finance committee
 New York Trust Co., director.
 Diocesan Investment Trust of Diocese of New Jersey, trustee.
 Delaware & Bound Brook Railroad, director.
 Employers' Liability Assurance Corp., member, executive committee.
 Otis Elevator Co., director.
 Phoenix Assurance Co., director.
 Seamen's Bank for Savings, trustee.
 General Cable Corp., director.
 Colonial Williamsburg Insurance, trustee.
 Pennsylvania-Reading Seashore Lines, director.
 Princeton Inn, director.
103. Watson, Arthur K.:
 IBM World Trade Corp., president, director.
 New York Trust Co., director.
 Niagara Fire Insurance Co., director.
 American Brake Shoe Co., director.
 Continental Insurance Co., director.

MEMBERSHIP OF U.S. TREASURY ADVISORY COMMITTEES

(1) JOINT ECONOMIC POLICY COMMITTEE OF THE LIFE INSURANCE ASSOCIATION OF AMERICA AND THE AMERICAN LIFE CONVENTION—MEMBERSHIP AS OF JULY 9, 1959

- O. Kelley Anderson (chairman), president, New England Mutual Life Insurance Co., Back Bay Post Office Box 333, Boston, Mass.
- Claude L. Benner, president, Continental American Life Insurance Co., Rodney Square, Wilmington, Del.
- H. W. Brower, president, Occidental Life Insurance Co. of California, Box 2101 Terminal Annex, Los Angeles, Calif.
- Paul F. Clark, chairman of the board, John Hancock Mutual Life Insurance Co., Post Office Box 111, Boston, Mass.
- Louis W. Dawson, president, Mutual Life Insurance Co. of New York, 1740 Broadway at 55th Street, New York, N.Y.
- Frederic W. Ecker, president, Metropolitan Life Insurance Co., 1 Madison Avenue, New York, N.Y.
- Leland J. Kalmbach, president, Massachusetts Mutual Life Insurance Co., 1295 State Street, Springfield, Mass.
- R. B. Richardson, president, Western Life Insurance Co., 600 Park Avenue, Helena, Mont.
- Donald C. Slichter, president, the Northwestern Mutual Life Insurance Co., 720 East Wisconsin Avenue, Milwaukee, Wis.
- Carrol M. Shanks, president, Prudential Insurance Co. of America, Newark, N.J.
- Frazar B. Wilde, president, Connecticut General Life Insurance Co., Hartford, Conn.
- James Ralph Wood, president, Southwestern Life Insurance Co., Post Office Box 2699, Dallas, Tex.

Staff members:

- Dr. James J. O'Leary, director of economic research, Life Insurance Association of America, 488 Madison Avenue, New York, N.Y.
- Claris Adams, executive vice president and general counsel, American Life Convention, 1701 K Street NW., Washington, D.C.
- Eugene M. Thore, vice president and general counsel, Life Insurance Association of America, 1701 K Street, NW., Washington, D.C.

(2) INVESTMENT BANKERS ASSOCIATION OF AMERICA
MEMBERS OF GOVERNMENTAL SECURITIES COMMITTEE, 1959

- Robert B. Blyth, chairman, National City Bank of Cleveland, 623 Euclid Avenue, Cleveland, Ohio
- Milton S. Bosley, National Bank of Detroit, Woodward at Cadillac Square, Detroit, Mich.
- Wendell T. Burns, Northwestern National Bank of Minneapolis, 620 Marquette Avenue, Minneapolis, Minn.
- Dwight W. Chapman, American Trust Co., 464 California Street, San Francisco, Calif.
- F. Newell Childs, C. F. Childs & Co., Inc., 141 W. Jackson Boulevard, Chicago, Ill.
- James A. Cranford, The Atlantic National Bank of Jacksonville, 121 West Forsyth Street, Jacksonville, Fla.
- Stewart A. Dunn, C. J. Devine & Co., 48 Wall Street, New York, N.Y.
- W. Wayne Glover, California Bank, 625 South Spring Street, Los Angeles, Calif.
- Sheldon R. Green, Chase Manhattan Bank, 18 Pine Street, New York, N.Y.
- H. Lyman Greer, The Fifth Third Union Trust Co., Fourth and Walnut Streets, Cincinnati, Ohio
- Alfred H. Hauser, Chemical Corn Exchange Bank, 30 Broad Street, New York, N.Y.
- Hardin H. Hawes, Harris Trust & Savings Bank, 115 West Monroe Street, Chicago, Ill.
- Russell A. Kent, Bank of America N. T. & S. A., 300 Montgomery Street, San Francisco, Calif.
- George B. Kneass, Philadelphia National Bank, 1416 Chestnut Street, Philadelphia, Pa.
- Frederick G. Larkin, Jr., Security-First National Bank of Los Angeles, Sixth and Spring Streets, Los Angeles, Calif.

Ralph F. Leach, Guaranty Trust Co. of New York, 140 Broadway, New York, N.Y.
 Pat G. Morris, The Northern Trust Co., 50 South La Salle Street, Chicago, Ill.
 Robert C. Morris, Bankers Trust Co., 16 Wall Street, New York, N.Y.
 Emil J. Pattberg, Jr., The First Boston Corp., 15 Broad Street, New York, N.Y.
 John H. Perkins, Continental Illinois National Bank & Trust Co., 231 South La Salle Street, Chicago, Ill.
 Lelmont K. Pfeffer, First National City Bank of New York, 55 Wall Street, New York, N.Y.
 L. Sumner Pruyne, The First National Bank of Boston, 67 Milk Street, Boston, Mass.
 Herbert N. Repp, Discount Corp. of New York, 58 Pine Street, New York, N.Y.
 Lockett Shelton, Republic National Bank of Dallas, Dallas, Tex.
 Rudolf Smutny, R. W. Pressprich & Co., 48 Wall Street, New York, N.Y.
 Girard L. Spencer, Salomon Bros. & Hutzler, 60 Wall Street, New York, N.Y.

(3) GOVERNMENT SECURITIES AND THE PUBLIC DEBT COMMITTEE OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS—MEMBERSHIP AS OF JULY 9, 1959

Carl G. Freese (chairman), president and treasurer, Connecticut Savings Bank of New Haven, 47 Church Street, New Haven, Conn.
 Francis P. Burns, president, Beneficial Mutual Savings Bank, 1200 Chestnut Street, Philadelphia, Pa.
 Mr. C. Lane Goss, president, Worcester County Institution for Savings, 365 Main Street, Worcester, Mass.
 Mr. Henry S. Kingman, chairman of the board, The Farmers & Mechanics Savings Bank, 90 South Sixth Street, Minneapolis, Minn.
 Mr. John W. Kress, executive vice president, The Howard Savings Institution, 768 Broad Street, Newark, N.J.
 Mr. Charles J. Lyon, president, Society for Savings, 31 Pratt Street, Hartford, Conn.
 Mr. William A. Lyon, president, Dry Dock Savings Bank, 742 Lexington Avenue, New York, N.Y.
 Mr. Kilgore Macfarlane, Jr., president, Buffalo Savings Bank, 545 Main Street, Buffalo, N.Y.
 Mr. J. Reed Morss, president, The Boston Five Cents Savings Bank, 30 School Street, Boston, Mass.
 Mr. Barrett C. Nichols, treasury, Maine Savings Bank, 15 Casco Street, Portland, Maine.
 John M. Ohlenbusch, senior vice president, The Bowery Savings Bank, 110 E. 42d Street, New York, N.Y.
 Levi P. Smith, chairman of the board, The Burlington Savings Bank, 148 College Street, Burlington, Vt.
 Mr. William H. Smith, president, Holyoke Savings Bank, 143 Chestnut Street, Holyoke, Mass..

Staff members:
 Dr. Grover W. Ensley, executive vice president, National Association of Mutual Savings Banks, 60 East 42nd Street, New York, N.Y.
 Saul B. Klamman, economist, National Association of Mutual Savings Banks, 60 East 42nd Street, New York, N.Y.

(4) ADVISORY COMMITTEE ON GOVERNMENT SECURITIES OF THE SAVINGS AND LOAN BUSINESS—MEMBERSHIP AS OF JULY 9, 1959

W. W. McAllister, Sr., (chairman) chairman of the board, San Antonio Savings & Loan Association, 401 Navarro Street, San Antonio, Tex.
 Edward C. Baltz, president, Perpetual Building Association, 500 11th Street NW., Washington, D.C.
 Wilton T. Barney, president, Orital Savings & Loan Association, 326 Main Street, Hackensack, N.J.
 James E. Bent, president, Hartford Federal Savings & Loan Association, 50 State Street, Hartford, Conn.
 A. J. Broomfield, president, Industrial Federal Savings & Loan Association, 1630 Stout Street, Denver, Colo.
 Henry A. Bubb, president, Capitol Federal Savings & Loan Association, 534 Kansas Avenue, Topeka, Kans.
 C. L. Clements, president, Chase Federal Savings & Loan Association, 1100 Lincoln Road, Miami Beach, Fla.

- Carl Distelhorst, executive vice president, Florida Savings & Loan League, Box 2246, Orlando, Fla.
- William J. Dwyer, president, Franklin Society Federal Savings & Loan, 217 Broadway, New York, N.Y.
- Gustav Flexner, executive vice president, Greater Louisville First Federal Savings & Loan Association, 417 West Market Street, Louisville, Ky.
- Harold P. Halleen, senior vice president, Bell Savings & Loan Association, 79 West Monroe Street, Chicago, Ill.
- Raymond P. Harold, president, Worcester Federal Savings & Loan Association, 22 Elm Street, Worcester, Mass.
- Henry P. Irr, president, Baltimore Federal Savings & Loan Association, Fayette and St. Paul Streets, Baltimore, Md.
- Roy W. Larsen, president, Twin City Federal Savings & Loan Association, 801 Marquette Avenue, Minneapolis, Minn.
- E. C. Sherbourne, president, City Federal Savings & Loan Association, East Jersey Street at Jefferson, Elizabeth, N.J.
- A. D. Theobald, president, First Federal Savings & Loan Association, 111 North Jefferson Avenue, Peoria, Ill.
- Gerrit Vander Ende, president, Pacific First Federal Savings & Loan Association, 204 South 11th Street, Tacoma, Wash.
- Charles A. Wellman, executive vice president, Glendale Federal Savings & Loan Association, 122 West Broadway, Glendale, Calif.
- Paul Westerfield, president, Home Federal Savings & Loan Association, 128 East Fourth Street, Cincinnati, Ohio.
- W. C. Warman, staff vice president (secretary to the committee), United States Savings & Loan League, 221 North La Salle Street, Chicago, Ill.

(5) COMMITTEE ON GOVERNMENT BORROWING OF THE AMERICAN BANKERS ASSOCIATION—MEMBERSHIP AS OF JULY 9, 1959

- Robert V. Fleming (chairman) chairman of the board, the Riggs National Bank, Washington, D.C.
- Henry C. Alexander, chairman of the board, Morgan Guaranty Trust Co. of New York, New York, N.Y.
- Bruce Baird, president, National Savings & Trust Co., Washington, D.C.
- S. Clark Beise, president, Bank of America N.T. & S.A., San Francisco, Calif.
- Kenton R. Cravens, president, Mercantile Trust Co., St. Louis, Mo.
- Fred F. Florence, chairman, executive committee, Republic National Bank of Dallas, Dallas, Tex.
- John M. Griffith, president, City National Bank, Taylor, Tex.
- H. Frederick Hagemann, Jr., president, Rockland-Atlas National Bank of Boston, Boston, Mass.
- N. Baxter Jackson, chairman, executive committee, Chemical Corn Exchange Bank, New York, N.Y.
- David M. Kennedy, chairman of the board, Continental Illinois National Bank & Trust Co. of Chicago, Chicago, Ill.
- Homer J. Livingston, president, the First National Bank of Chicago, Chicago, Ill.
- John J. McCloy, chairman of the board, the Chase Manhattan Bank, New York, N.Y.
- Reno Odlin, president, Puget Sound National Bank, Tacoma, Wash.
- F. Raymond Peterson, chairman of the board, First National Bank & Trust Co. of Paterson, Paterson, N.J.
- Dietrich Schmitz, chairman of the board, Washington Mutual Savings Bank, Seattle, Wash.
- Earl B. Schwulst, president and chairman of the board, the Bowery Savings Bank, New York, N.Y.
- James E. Shelton, chairman of the board, Security-First National Bank of Los Angeles, Los Angeles, Calif.
- Norfleet Turner, president, First National Bank of Memphis, Memphis, Tenn.
- Joseph C. Welman, president, Bank of Kennett, Kennett, Mo.
- A. L. M. Wiggins, chairman of the board, the Bank of Hartsville, Hartsville, S.C.
- Paul I. Wren, executive vice president, Old Colony Trust Co., 1 Federal Street, Boston, Mass.
- Staff members:
- Eugene C. Zorn, Jr. (secretary of the committee), deputy manager and director of research, American Bankers Association, 12 East 36th Street, New York, N.Y.

FEDERAL ADVISORY COUNCIL

[of the Federal Reserve System]

[December 31, 1958]

MEMBERS

- District No. 1—LLOYD D. BRACE, President, The First National Bank of Boston, Boston, Massachusetts.
- District No. 2—ADRIAN M. MASSIE, Chairman of the Board, The New York Trust Company, New York, New York.
- District No. 3—CASIMIR A. SIENKIEWICZ, President, Central-Penn National Bank of Philadelphia, Philadelphia, Pennsylvania.
- District No. 4—FRANK R. DENTON, Vice Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania.
- District No. 5—JOHN S. ALFRIEND, Chairman of the Board and President, National Bank of Commerce, Norfolk, Virginia.
- District No. 6—JOHN A. SIBLEY, Chairman of the Board, Trust Company of Georgia, Atlanta, Georgia.
- District No. 7—HOMER J. LIVINGSTON, President, The First National Bank of Chicago, Chicago, Illinois.
- District No. 8—WILLIAM A. McDONNELL, Chairman of the Board, First National Bank in St. Louis, St. Louis, Missouri.
- District No. 9—GORDON MURRAY, President, First National Bank of Minneapolis, Minneapolis, Minnesota.
- District No. 10—R. CROSBY KEMPER, Chairman of the Board and President, The City National Bank and Trust Company of Kansas City, Kansas City, Missouri.
- District No. 11—WALTER B. JACOBS, President, The First National Bank of Shreveport, Shreveport, Louisiana.
- District No. 12—FRANK L. KING, President, California Bank, Los Angeles, California.

EXECUTIVE COMMITTEE

FRANK R. DENTON, *ex officio*
LLOYD D. BRACE

HOMER J. LIVINGSTON, *ex officio*
ADRIAN M. MASSIE

CASIMIR A. SIENKIEWICZ

OFFICERS

President, FRANK R. DENTON

Vice President, HOMER J. LIVINGSTON

Secretary, HERBERT V. PROCHNOW

Assistant Secretary, WILLIAM J. KORSVIK

FEDERAL RESERVE BANKS AND BRANCHES

[December 31, 1958]

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Robert C. Sprague.....	Harvey P. Hood
New York	John E. Bierwirth.....	Forrest F. Hill
Philadelphia	Henderson Supplee, Jr.....	Lester V. Chandler
Cleveland	Arthur B. Van Buskirk....	Joseph H. Thompson
Richmond	John B. Woodward, Jr....	Alonzo G. Decker, Jr.
Atlanta	Walter M. Mitchell.....	Harlee Branch, Jr.
Chicago	Bert R. Prall.....	J. Stuart Russell
St. Louis	Pierre B. McBride.....	J. H. Longwell
Minneapolis	Leslie N. Perrin.....	O. B. Jesness
Kansas City	Raymond W. Hall.....	Joe W. Seacrest
Dallas	Robert J. Smith.....	Hal Bogle
San Francisco	A. H. Brawner.....	Y. Frank Freeman

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen which meets from time to time to consider matters of common interest and to consult and advise the Board of Governors. A meeting of the Conference of Chairmen was held on December 4-5, 1958, and was attended by members of the Board of Governors, and also by the Deputy Chairmen of the Federal Reserve Banks.

Mr. Hall, Chairman of the Federal Reserve Bank of Kansas City, was elected Chairman of the Conference and of the Executive Committee in December 1957. Mr. Smith, Chairman of the Federal Reserve Bank of Dallas, and Mr. Mitchell, Chairman of the Federal Reserve Bank of Atlanta, served with Mr. Hall as members of the Executive Committee, Mr. Smith also serving as Vice Chairman of the Conference.

At the meeting held in December 1958, Mr. Smith was elected Chairman of the Conference and of the Executive Committee. Mr. Mitchell was elected Vice Chairman and a member of the Executive Committee, and Mr. Perrin, Chairman of the Federal Reserve Bank of Minneapolis, was elected as the other member of the Executive Committee.

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.**DIRECTORS**

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

District 1—Boston

*Term
Expires
Dec. 31*

DIRECTORS*Class A:*

Oliver B. Ellsworth.....	President, Riverside Trust Company, Hartford, Conn.	1958
William D. Ireland.....	President, Second Bank-State Street Trust Company, Boston, Mass.....	1959
Arthur F. Maxwell.....	President, The First National Bank of Biddeford, Biddeford, Maine.....	1960

Class B:

Harry E. Umphrey.....	President, Aroostook Potato Growers, Inc., Presque Isle, Maine.....	1958
Milton P. Higgins.....	President, Norton Company, Worcester, Mass.	1959
Stanley M. Cooper.....	Chairman of the Board, The Fafnir Bearing Company, New Britain, Conn.....	1960

Class C:

Harvey P. Hood.....	President, H. P. Hood & Sons, Inc., Boston, Mass.	1958
Nils Y. Wessell.....	President, Tufts University, Medford, Mass...	1959
Robert C. Sprague.....	Chairman and Treasurer, Sprague Electric Company, North Adams, Mass.....	1960

District 2—New York*Class A:*

Howard C. Sheperd.....	Chairman of the Board, The First National City Bank of New York, New York, N. Y.	1958
Charles W. Bitzer.....	President, City Trust Company, Bridgeport, Conn.	1959
Cyrus M. Higley.....	President and Trust Officer, The Chenango County National Bank and Trust Company of Norwich, Norwich, N. Y.....	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

	<i>Term Expires Dec. 31</i>
DIRECTORS—Cont.	
<i>Class B:</i>	
Clarence Francis	1958
Director, General Foods Corporation, New York, N. Y.	
Lansing P. Shield	1959
President, The Grand Union Company, East Paterson, N. J.	
Augustus C. Long	1960
Chairman of the Board, The Texas Company, New York, N. Y.	
<i>Class C:</i>	
Franz Schneider	1958
Consultant to Newmont Mining Corporation, New York, N. Y.	
John E. Bierwirth	1959
Chairman, National Distillers and Chemical Corporation, New York, N. Y.	
Forrest F. Hill	1960
Vice President, The Ford Foundation, New York, N. Y.	
Buffalo Branch	
<i>Appointed by Federal Reserve Bank:</i>	
John W. Remington	1958
President, Lincoln Rochester Trust Company, Rochester, N. Y.	
Leland B. Bryan	1958
President, First National Bank and Trust Company, Corning, N. Y.	
Vernon Alexander	1959
President, The National Bank of Geneva, Geneva, N. Y.	
E. Perry Spink	1960
President, Liberty Bank of Buffalo, Buffalo, N. Y.	
<i>Appointed by Board of Governors:</i>	
Ralph F. Peo	1958
Chairman and President, Houdaille Industries, Inc., Buffalo, N. Y.	
Raymond E. Olson	1959
President, Taylor Instrument Companies, Rochester, N. Y.	
Daniel M. Dalrymple	1960
Partner and Manager, Pomona Fruit Farms, Appleton, N. Y.	
District 3—Philadelphia	
<i>Class A:</i>	
Lindley S. Hurff	1958
President and Trust Officer, The First National Bank of Milton, Milton, Pa.	
Geoffrey S. Smith	1959
President, Girard Trust Corn Exchange Bank, Philadelphia, Pa.	
William B. Brosius	1960
President, National Bank of Chester County and Trust Company, West Chester, Pa.	
<i>Class B:</i>	
Charles E. Oakes	1958
Chairman of the Board, Pennsylvania Power and Light Company, Allentown, Pa.	
R. Russell Pippin	1959
Treasurer, E. I. du Pont de Nemours & Company, Wilmington, Del.	

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

	<i>Term Expires Dec. 31</i>
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DIRECTORS—Cont.

Bayard L. England.....	President, Atlantic City Electric Company, Atlantic City, N. J.....	1960
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Class C:

Henderson Supplee, Jr.....	President, The Atlantic Refining Company, Philadelphia, Pa.	1958
Lester V. Chandler.....	Professor of Economics, Princeton University, Princeton, N. J.....	1959
Walter E. Hoadley, Jr.....	Treasurer, Armstrong Cork Company, Lancaster, Pa.	1960

District 4—Cleveland

Class A:

King E. Fauver.....	Director, The Savings Deposit Bank and Trust Company, Elyria, Ohio.....	1958
John A. Byerly.....	President, Fidelity Trust Company, Pittsburgh, Pa.	1959
Paul A. Warner.....	President, The Oberlin Savings Bank Company, Oberlin, Ohio.....	1960

Class B:

Charles Z. Hardwick.....	Executive Vice President, The Ohio Oil Company, Findlay, Ohio.....	1958
George P. MacNichol, Jr.....	President, Libbey-Owens-Ford Glass Company, Toledo, Ohio.....	1959
Joseph B. Hall.....	President, The Kroger Co., Cincinnati, Ohio	1960

Class C:

Arthur B. Van Buskirk.....	Vice President and Governor, T. Mellon and Sons, Pittsburgh, Pa.....	1958
Joseph H. Thompson.....	President, The M. A. Hanna Company, Cleveland, Ohio	1959
Aubrey J. Brown.....	Professor of Agricultural Marketing and Head of Department of Agricultural Economics, University of Kentucky, Lexington, Ky....	1960

Cincinnati Branch

Appointed by Federal Reserve Bank:

William A. Mitchell.....	President, The Central Trust Company, Cincinnati, Ohio	1958
Franklin A. McCracken.....	Executive Vice President and Trust Officer, The Newport National Bank, Newport, Ky.	1959
Roger Drackett	President, The Drackett Company, Cincinnati, Ohio	1960
Thomas M. Wolfe.....	President, The Athens National Bank, Athens, Ohio	1960

Appointed by Board of Governors:

Ivan Jett	Farmer, Georgetown, Ky.....	1958
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FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

	<i>Term Expires Dec. 31</i>
DIRECTORS—Cont.	
Anthony Haswell President, The Dayton Malleable Iron Company, Dayton, Ohio	1959
W. Bay Irvine President, Marietta College, Marietta, Ohio	1960

Pittsburgh Branch*Appointed by Federal Reserve Bank:*

Sumner E. Nichols President, Security-Peoples Trust Company, Erie, Pa.	1958
Frank C. Irvine President, First National Bank in Tarentum, Tarentum, Pa.	1959
Lawrence O. Hotchkiss President, The First National Bank of Mercer, Mercer, Pa.	1960
Irving W. Wilson Chairman of the Board, Aluminum Company of America, Pittsburgh, Pa.	1960

Appointed by Board of Governors:

Douglas M. Moorhead Farmer, North East, Pa.	1958
John T. Ryan, Jr. President, Mine Safety Appliances Company, Pittsburgh, Pa.	1959
John C. Warner President, Carnegie Institute of Technology, Pittsburgh, Pa.	1960

District 5—Richmond*Class A:*

(Vacancy)	1958
Robert Gage President, The Commercial Bank, Chester, S. C.	1959
Denver L. Morgan Executive Vice President and Cashier, The Charleston National Bank, Charleston, W. Va.	1960

Class B:

L. Vinton Hershey President, Hagerstown Shoe Company, Hagerstown, Md.	1958
Wm. A. L. Sibley Vice President and Treasurer, Monarch Mills, Union, S. C.	1959
Robert O. Huffman President, Drexel Furniture Company, Drexel, N. C.	1960

Class C:

John B. Woodward, Jr. Chairman of the Board, Newport News Shipbuilding & Dry Dock Company, Newport News, Va.	1958
Alonzo G. Decker, Jr. Executive Vice President, The Black & Decker Manufacturing Company, Towson, Md.	1959
D. W. Colvard Dean of Agriculture, North Carolina State College of Agriculture and Engineering, Raleigh, N. C.	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Baltimore Branch

Appointed by Federal Reserve Bank:

Stanley B. Trott.....	President, Maryland Trust Company, Baltimore, Md.	1958
John W. Stout.....	President, The Parkersburg National Bank, Parkersburg, W. Va.....	1958
James W. McElroy.....	President, First National Bank of Baltimore, Baltimore, Md.....	1959
J. N. Shumate.....	President, The Farmers National Bank of Annapolis, Annapolis, Md.....	1960

Appointed by Board of Governors:

Wm. Purnell Hall.....	President, Maryland Shipbuilding and Drydock Company, Inc., Baltimore, Md.....	1958
Gordon M. Cairns.....	Dean of Agriculture, University of Maryland, College Park, Md.....	1959
Clarence R. Zarfoss.....	Vice President, Western Maryland Railway Company, Baltimore, Md.....	1960

Charlotte Branch

Appointed by Federal Reserve Bank:

I. W. Stewart.....	Chairman of the Board, American Commercial Bank, Charlotte, N. C.....	1958
G. G. Watts.....	President, The Merchants & Planters National Bank, Gaffney, S. C.....	1958
Charles D. Parker.....	Vice Chairman of the Board and First Executive Vice President, First Union National Bank of North Carolina, Charlotte, N. C..	1959
Ernest Patton	Chairman of the Board, The Peoples National Bank of Greenville, Greenville, S. C.....	1960

Appointed by Board of Governors:

T. Henry Wilson.....	President and Treasurer, Henredon Furniture Industries, Inc., Morganton, N. C.....	1958
William H. Grier.....	Executive Vice President, Rock Hill Printing & Finishing Company, Rock Hill, S. C....	1959
George H. Aull.....	Agricultural Economist, Clemson College, Clemson, S. C.....	1960

District 6—Atlanta

Class A:

William C. Carter.....	Chairman and President, Gulf National Bank, Gulfport, Miss.	1958
Roland L. Adams.....	President, Bank of York, York, Ala.....	1959
W. C. Bowman.....	Chairman of the Board, The First National Bank of Montgomery, Montgomery, Ala...	1960

Class B:

Donald Comer	Chairman of the Board, Avondale Mills, Birmingham, Ala.	1958
Joseph T. Lykes.....	Chairman and Director, Lykes Bros. Steamship Company, Inc., Tampa, Fla.....	1959

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Pollard Turman President, J. M. Tull Metal & Supply Company, Inc., Atlanta, Ga..... 1960

Class C:

Walter M. Mitchell..... Vice President, The Draper Corporation, Atlanta, Ga. 1958

Harlee Branch, Jr..... President, The Southern Company, Atlanta, Ga. 1959

Henry G. Chalkley, Jr..... President, The Sweet Lake Land & Oil Company, Lake Charles, La..... 1960

Birmingham Branch

Appointed by Federal Reserve Bank:

Robert M. Cleckler..... President, First National Bank of Childersburg, Childersburg, Ala..... 1958

E. W. McLeod..... Chairman, First National Bank of Decatur, Decatur, Ala. 1958

R. J. Murphy..... Vice President, Citizens-Farmers & Merchants Bank, Brewton, Ala..... 1959

John C. Persons..... Chairman of the Board, The First National Bank of Birmingham, Birmingham, Ala.... 1960

Appointed by Board of Governors:

John E. Urquhart..... Chairman, Woodward Iron Company, Woodward, Ala. 1958

Adolph Weil, Sr..... President, Weil Brothers-Cotton, Inc., Montgomery, Ala. 1959

Selden Sheffield Cattleman, Greensboro, Ala..... 1960

Jacksonville Branch

Appointed by Federal Reserve Bank:

Linton E. Allen..... Chairman, The First National Bank at Orlando, Orlando, Fla..... 1958

W. E. Ellis..... Chairman and President, The Commercial Bank and Trust Company, Ocala, Fla..... 1958

James G. Garner..... President and Chairman, Little River Bank and Trust Company, Miami, Fla..... 1959

C. B. McLeod..... President, Bank of Crestview, Crestview, Fla. 1960

Appointed by Board of Governors:

Harry M. Smith..... President and Manager, Winter Garden Ornamental Nursery, Inc., Winter Garden, Fla. 1958

McGregor Smith Chairman of the Board, Florida Power and Light Company, Miami, Fla..... 1959

J. Wayne Reitz..... President, University of Florida, Gainesville, Fla. 1960

Nashville Branch

Appointed by Federal Reserve Bank:

Stewart Campbell President, The Harpeth National Bank of Franklin, Franklin, Tenn..... 1958

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

C. L. Wilson.....	Chairman and President, The Cleveland National Bank, Cleveland, Tenn.....	1958
Jo H. Anderson.....	President, Park National Bank of Knoxville, Knoxville, Tenn.	1959
P. D. Houston, Jr.....	President, First American National Bank, Nashville, Tenn.	1960

Appointed by Board of Governors:

V. S. Johnson, Jr.....	Chairman of the Board and President, Aladdin Industries, Inc., Nashville, Tenn.....	1958
Frank B. Ward.....	Dean, College of Business Administration, University of Tennessee, Knoxville, Tenn.	1959
W. N. Krauth.....	President and General Manager, Colonial Baking Company of Nashville, Nashville, Tenn.	1960

New Orleans Branch

Appointed by Federal Reserve Bank:

H. A. Pharr.....	President, The First National Bank of Mobile, Mobile, Ala.	1958
(Vacancy)		1958
J. Spencer Jones.....	President, The Citizens National Bank in Hammond, Hammond, La.....	1959
D. U. Maddox.....	President, The Commercial National Bank and Trust Company of Laurel, Laurel, Miss.....	1960

Appointed by Board of Governors:

G. H. King, Jr.....	President, King Lumber Industries, Canton, Miss.	1958
E. E. Wild.....	Rice grower, Midland, La.....	1959
Frank A. Godchaux, III.....	Vice President, Louisiana State Rice Milling Company, Inc., Abbeville, La.....	1960

District 7—Chicago

Class A:

Nugent R. Oberwortmann....	President, The North Shore National Bank of Chicago, Chicago, Ill.....	1958
Vivian W. Johnson.....	President, First National Bank, Cedar Falls, Iowa	1959
Walter J. Cummings.....	Chairman, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.	1960

Class B:

William J. Grede.....	President, Grede Foundries, Inc., Milwaukee, Wis.	1958
William A. Hanley.....	Director, Eli Lilly and Company, Indianapolis, Ind.	1959
G. F. Langenohl.....	Treasurer and Assistant Secretary, Allis-Chalmers Manufacturing Company, Milwaukee, Wis.	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Class C:

Robert P. Briggs.....	Executive Vice President, Consumers Power Company, Jackson, Mich.....	1958
J. Stuart Russell.....	Farm Editor, The Des Moines Register & Tribune, Des Moines, Iowa.....	1959
Bert R. Prall.....	Winnetka, Ill.	1960

Detroit Branch

Appointed by Federal Reserve Bank:

Raymond T. Perring.....	President, The Detroit Bank and Trust Company, Detroit, Mich.....	1958
Ira A. Moore.....	General Vice President, Old Kent Bank and Trust Company, Grand Rapids, Mich.....	1959
William A. Mayberry.....	President, Manufacturers National Bank of Detroit, Detroit, Mich.....	1960
Ernest W. Potter.....	President, Citizens Commercial & Savings Bank, Flint, Mich.....	1960

Appointed by Board of Governors:

C. V. Patterson.....	Executive Vice President, The Upjohn Company, Kalamazoo, Mich.....	1958
J. Thomas Smith.....	President, Detroit Harvester Company, Detroit, Mich.	1959
John A. Hannah.....	President, Michigan State University, East Lansing, Mich.	1960

District 8—St. Louis

Class A:

J. E. Etherton.....	President, The Carbondale National Bank, Carbondale, Ill.	1958
Kenton R. Cravens.....	President, Mercantile Trust Company, St. Louis, Mo.	1959
H. Lee Cooper.....	President, Ohio Valley National Bank of Henderson, Henderson, Ky.....	1960

Class B:

S. J. Beauchamp, Jr.....	President, Terminal Warehouse Co., Little Rock, Ark.....	1958
Harold O. McCutchan.....	Executive Vice President, Mead Johnson & Company, Evansville, Ind.....	1959
Leo J. Wieck.....	Vice President and Treasurer, The May Department Stores Co., St. Louis, Mo.....	1960

Class C:

J. H. Longwell.....	Director, Division of Agricultural Sciences, University of Missouri, Columbia, Mo.....	1958
Pierre B. McBride.....	President, Porcelain Metals Corporation, Louisville, Ky.	1959
Jesse D. Wooten.....	Executive Vice President, Mid-South Chemical Corporation, Memphis, Tenn.....	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Little Rock Branch

Appointed by Federal Reserve Bank:

J. V. Satterfield, Jr.	Chairman of the Board, The First National Bank in Little Rock, Little Rock, Ark.	1958
Donald Barger	President, Peoples Exchange Bank, Russellville, Ark.	1959
J. W. Bellamy, Jr.	President, National Bank of Commerce of Pine Bluff, Pine Bluff, Ark.	1960
E. C. Benton	President, Fordyce Bank and Trust Company, Fordyce, Ark.	1960

Appointed by Board of Governors:

Waldo E. Tiller	President, Tiller Tie and Lumber Company, Inc., Little Rock, Ark.	1958
T. Winfred Bell	President, Bush-Caldwell Company, Little Rock, Ark.	1959
Robert H. Alexander	Owner-operator, Land's End Plantation, Scott, Ark.	1960

Louisville Branch

Appointed by Federal Reserve Bank:

Magnus J. Kreisle	President, The Tell City National Bank, Tell City, Ind.	1958
Merle E. Robertson	Chairman of the Board and President, Liberty National Bank and Trust Company of Louisville, Louisville, Ky.	1959
W. Scott McIntosh	President, State Bank of Hardinsburg, Hardinsburg, Ind.	1960
John G. Russell	President, The Peoples First National Bank & Trust Company of Paducah, Paducah, Ky.	1960

Appointed by Board of Governors:

J. D. Monin, Jr.	Farmer, Oakland, Ky.	1958
David F. Cocks	Vice President and Treasurer, Standard Oil Company (Kentucky), Louisville, Ky.	1959
Philip Davidson	President, University of Louisville, Louisville, Ky.	1960

Memphis Branch

Appointed by Federal Reserve Bank:

J. H. Harris	President, The First National Bank of Wynne, Wynne, Ark.	1958
John K. Wilson	President, The First National Bank of West Point, West Point, Miss.	1959
John E. Brown	President, Union Planters National Bank of Memphis, Memphis, Tenn.	1960
Simpson Russell	President, The National Bank of Commerce of Jackson, Jackson, Tenn.	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

	<i>Term Expires Dec. 31</i>
DIRECTORS—Cont.	
<i>Appointed by Board of Governors:</i>	
Frank Lee Wesson	President, Wesson Farms, Inc., Victoria, Ark. 1958
John D. Williams	Chancellor, The University of Mississippi, University, Miss. 1959
S. L. Kopald, Jr.	Executive Vice President, HumKo Division, National Dairy Products Corporation, Mem- phis, Tenn. 1960
District 9—Minneapolis	
<i>Class A:</i>	
John A. Moorhead	President, Northwestern National Bank of Minneapolis, Minneapolis, Minn. 1958
Harold N. Thomson	Vice President, Farmers & Merchants Bank, Presho, S. D. 1959
Harold C. Refling	Cashier, First National Bank in Bottineau, Bottineau, N. D. 1960
<i>Class B:</i>	
T. G. Harrison	Chairman of the Board, Super Valu Stores, Inc., Hopkins, Minn. 1958
J. E. Corette	President and General Manager, Montana Power Company, Butte, Mont. 1959
Ray C. Lange	President, Chippewa Canning Company, Inc., Chippewa Falls, Wis. 1960
<i>Class C:</i>	
John H. Warden	President, Upper Peninsula Power Company, Houghton, Mich. 1958
Leslie N. Perrin	Director, General Mills, Inc., Minneapolis, Minn. 1959
O. B. Jesness	Agricultural Economist, St. Paul, Minn. 1960
Helena Branch	
<i>Appointed by Federal Reserve Bank:</i>	
J. Willard Johnson	Financial Vice President and Treasurer, West- ern Life Insurance Company, Helena, Mont. 1958
Geo. N. Lund	Chairman of the Board and President, The First National Bank of Reserve, Reserve, Mont. 1958
O. M. Jorgenson	Chairman, Security Trust and Savings Bank, Billings, Mont. 1959
<i>Appointed by Board of Governors:</i>	
Carl McFarland	Missoula, Mont. 1958
John M. Otten	Farmer and rancher, Lewistown, Mont. 1959

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

District 10—Kansas City

Class A:

W. S. Kennedy.....	President and Chairman of the Board, The First National Bank of Junction City, Junction City, Kans.....	1958
W. L. Buntten.....	President, Goodland State Bank, Goodland, Kans.	1959
Harold Kountze	Chairman of the Board, The Colorado National Bank of Denver, Denver, Colo.....	1960

Class B:

E. M. Dodds.....	Chairman of the Board, United States Cold Storage Corporation, Kansas City, Mo.....	1958
K. S. Adams.....	Chairman of the Board, Phillips Petroleum Company, Bartlesville, Okla.....	1959
Max A. Miller.....	Livestock rancher, Omaha, Neb.....	1960

Class C:

Raymond W. Hall.....	Counsel, Gage, Hillix, Moore & Park, Attorneys, Kansas City, Mo.....	1958
Oliver S. Willham.....	President, Oklahoma State University, Stillwater, Okla.	1959
Joe W. Seacrest.....	President, State Journal Company, Lincoln, Neb.	1960

Denver Branch

Appointed by Federal Reserve Bank:

Ralph S. Newcomer.....	Executive Vice President, First National Bank in Boulder, Boulder, Colo.....	1958
Arthur Johnson	President, First National Bank in Raton, Raton, N. Mex.	1958
Stewart Cosgriff	President, The Denver National Bank, Denver, Colo.	1959

Appointed by Board of Governors:

Ray Reynolds	Cattle feeder and farmer, Longmont, Colo.....	1958
Aksel Nielsen	President, The Title Guaranty Company, Denver, Colo.	1959

Oklahoma City Branch

Appointed by Federal Reserve Bank:

R. Otis McClintock.....	Chairman of the Board, The First National Bank and Trust Company of Tulsa, Tulsa, Okla.	1958
C. L. Priddy.....	President, The National Bank of McAlester, McAlester, Okla.	1958
C. P. Stuart.....	President, The Fidelity National Bank & Trust Company, Oklahoma City, Okla.....	1959

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Appointed by Board of Governors:

Phil H. Lowery.....	Owner, Lowery Hereford Ranch, Loco, Okla...	1958
Davis D. Bovaird.....	President, The Bovaird Supply Company, Tulsa, Okla.	1959

Omaha Branch*Appointed by Federal Reserve Bank:*

William N. Mitten.....	Chairman of the Board, First National Bank of Fremont, Fremont, Neb.....	1958
George J. Forbes.....	Chairman of the Board and President, Bank of Laramie, Laramie, Wyo.....	1959
C. Wheaton Battey.....	President, The Continental National Bank of Lincoln, Lincoln, Neb.....	1959

Appointed by Board of Governors:

Manville Kendrick.....	Rancher, Sheridan, Wyo.....	1958
James L. Paxton, Jr.....	President, Paxton-Mitchell Company, Omaha, Neb.	1959

District 11—Dallas*Class A:*

J. Edd McLaughlin.....	President, Security State Bank & Trust Company, Ralls, Tex.....	1958
John M. Griffith.....	President, The City National Bank of Taylor, Taylor, Tex.	1959
Sam D. Young.....	President, El Paso National Bank, El Paso, Tex.	1960

Class B:

J. B. Thomas.....	President and General Manager and Director, Texas Electric Service Company, Fort Worth, Tex.	1958
John R. Alford.....	Industrialist and farmer, Henderson, Tex....	1959
D. A. Hulcy.....	Chairman of the Board, Lone Star Gas Company, Dallas, Tex.....	1960

Class C:

Lamar Fleming, Jr.....	Chairman of the Board, Anderson, Clayton & Co., Inc., Houston, Tex.....	1958
Hal Bogle.....	Rancher and feeder, Dexter, N. Mex.....	1959
Robert J. Smith.....	President, Pioneer Hydrotex Industries, Inc., Dallas, Tex.	1960

El Paso Branch*Appointed by Federal Reserve Bank:*

Thomas C. Patterson.....	Vice President, El Paso National Bank, El Paso, Tex.	1958
F. W. Barton.....	President, The Marfa National Bank, Marfa, Tex.	1959
John P. Butler.....	President, The First National Bank of Midland, Midland, Tex.	1960
Floyd Childress.....	Vice President, The First National Bank of Roswell, Roswell, N. Mex.....	1960

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

*Term
Expires
Dec. 31*

DIRECTORS—Cont.

Appointed by Board of Governors:

E. J. Workman	President, and Director of Research and Development Division, New Mexico Institute of Mining and Technology, Socorro, N. Mex.	1958
D. F. Stahmann	Chairman of the Board and Treasurer, Stahmann Farms, Inc., Las Cruces, N. Mex.	1959
William R. Mathews	Editor and Publisher, The Arizona Daily Star, Tucson, Ariz.	1960

Houston Branch*Appointed by Federal Reserve Bank:*

S. Marcus Greer	Vice Chairman of the Board, First City National Bank of Houston, Houston, Tex.	1958
I. F. Betts	President, The American National Bank of Beaumont, Beaumont, Tex.	1959
W. B. Callan	President, The Victoria National Bank, Victoria, Tex.	1960
L. R. Bryan, Jr.	Vice Chairman of the Board and Chairman of the Executive Committee, Bank of the Southwest National Association, Houston, Houston, Tex.	1960

Appointed by Board of Governors:

Tyrus R. Timm	Head, Department of Agricultural Economics and Sociology, A. & M. College of Texas, College Station, Tex.	1958
A. E. Cudlipp	Vice President and Director, Lufkin Foundry and Machine Company, Lufkin, Tex.	1959
John C. Flanagan	Vice President and General Manager, Texas Distribution Division, United Gas Corporation, Houston, Tex.	1960

San Antonio Branch*Appointed by Federal Reserve Bank:*

Burton Dunn	Chairman of the Executive Committee, Corpus Christi State National Bank, Corpus Christi, Tex.	1958
E. C. Breedlove	President, The First National Bank of Harlingen, Harlingen, Tex.	1959
J. W. Beretta	President, First National Bank of San Antonio, San Antonio, Tex.	1960
Donald D. James	Vice President, The Austin National Bank, Austin, Tex.	1960

Appointed by Board of Governors:

Harold Vagtborg	President, Southwest Research Institute, San Antonio, Tex.	1958
Clarence E. Ayres	Professor of Economics, The University of Texas, Austin, Tex.	1959

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

	<i>Term Expires Dec. 31</i>
DIRECTORS—Cont.	
Alex R. Thomas..... Vice President, Geo. C. Vaughan & Sons, San Antonio, Tex.	1960
District 12—San Francisco	
<i>Class A:</i>	
John A. Schoonover..... President, The Idaho First National Bank, Boise, Idaho	1958
M. Vilas Hubbard..... President and Chairman of the Board, Citizens Commercial Trust and Savings Bank of Pasadena, Pasadena, Calif.....	1959
Carroll F. Byrd..... Chairman of the Board and President, The First National Bank of Willows, Willows, Calif.	1960
<i>Class B:</i>	
Walter S. Johnson..... Chairman of the Board, American Forest Products Corporation, San Francisco, Calif.....	1958
N. Loyall McLaren..... Partner, Haskins & Sells, San Francisco, Calif.	1959
Reese H. Taylor..... Chairman of the Board, Union Oil Company of California, Los Angeles, Calif.....	1960
<i>Class C:</i>	
Y. Frank Freeman..... Vice President, Paramount Pictures Corporation, Hollywood, Calif.....	1958
A. H. Brawner..... Chairman of the Board, W. P. Fuller & Co., San Francisco, Calif.....	1959
Philip I. Welk..... Vice President, Centennial Mills, Inc., Portland, Ore.	1960
Los Angeles Branch	
<i>Appointed by Federal Reserve Bank:</i>	
Anderson Borthwick..... President, The First National Trust and Savings Bank of San Diego, San Diego, Calif...	1958
James E. Shelton..... Chairman, Security-First National Bank of Los Angeles, Los Angeles, Calif.....	1958
Joe D. Paxton..... Chairman of the Board, County National Bank and Trust Company of Santa Barbara, Santa Barbara, Calif.	1959
<i>Appointed by Board of Governors:</i>	
Leonard K. Firestone..... President, Firestone Tire and Rubber Company of California, Los Angeles, Calif.....	1958
Robert J. Cannon..... President, Cannon Electric Company, Los Angeles, Calif.	1959
Portland Branch	
<i>Appointed by Federal Reserve Bank:</i>	
John B. Rogers..... President, The First National Bank of Baker, Baker, Ore.....	1958
J. H. McNally..... President, The First National Bank of Bonners Ferry, Bonners Ferry, Idaho.	1958
C. B. Stephenson..... President, The First National Bank of Oregon, Portland, Portland, Ore.....	1959

FEDERAL RESERVE BANKS AND BRANCHES, Dec. 31, 1958—Cont.

		<i>Term Expires Dec. 31</i>
DIRECTORS—Cont.		
<i>Appointed by Board of Governors:</i>		
William H. Steiwer, Sr.....	Livestock and farming, Fossil, Ore.....	1958
Warren W. Braley.....	Partner, Braley and Graham Buick, Portland, Ore.	1959
Salt Lake City Branch		
<i>Appointed by Federal Reserve Bank:</i>		
Russell S. Hanson.....	Executive Vice President, The First National Bank of Logan, Logan, Utah.....	1958
George S. Eccles.....	President, First Security Bank of Utah, Na- tional Association, Salt Lake City, Utah....	1958
Oscar Hiller	President, Butte County Bank, Arco, Idaho....	1959
<i>Appointed by Board of Governors:</i>		
Geo. W. Watkins.....	President, Snake River Equipment Company, Idaho Falls, Idaho.....	1958
Joseph Rosenblatt	President, The Eimco Corporation, Salt Lake City, Utah	1959
Seattle Branch		
<i>Appointed by Federal Reserve Bank:</i>		
S. B. Lafromboise.....	President, The First National Bank of Enum- claw, Enumclaw, Wash.....	1958
James Brennan	President, First National Bank in Spokane, Spo- kane, Wash.	1958
Joshua Green, Jr.....	President, Peoples National Bank of Washing- ton, Seattle, Wash.....	1959
<i>Appointed by Board of Governors:</i>		
Lyman J. Bunting.....	President, Rainier Fruit Company, Yakima, Wash.	1958
Henry N. Anderson.....	President, Twin Harbors Lumber Company, Aberdeen, Wash.	1959

Representative PATMAN. Are there any other questions by members of the committee?

Representative WIDNALL. I would like to ask a question of you, because you are submitting the statement. All through the statement it says "the Discount Corp. and the seven owners are reported." Where reported?

Representative PATMAN. That is the recognized directors of 1959. All this information is based upon the official record.

Representative WIDNALL. How was it reported that there were seven who jointly owned the Discount Corp., when there are actually five?

Representative PATMAN. Because the seven have directors on the Discount Corp. board. Mr. Repp's testimony is that the two directors of the two banks he says are not part owners, the directors are part owners because they own shares of stocks as directors.

Mr. REPP. May I interrupt just a minute?

Representative PATMAN. Certainly you may.

Mr. REPP. May I say, Mr. Chairman, that I think I would have to consult the shareholders.

Representative PATMAN. You may correct that, or anything else, because all we want is a correct record. We don't want anything to go in that is not explained satisfactorily.

Mr. REPP. Thank you.

Representative REUSS. Mr. Repp, in answer to a question put to you by Senator Bush as to any overall recommendations you might have with respect to the Government securities market, I think you said that in certain instances you could use fuller information. Did I hear you right? If I didn't, you can spell it out.

Mr. REPP. What I attempted to convey, Mr. Reuss, was that it seemed to me that one lesson to be learned from last year's episode was that there was not an awareness, or data available, which showed the extent to which lending was taking place, and that a broadening of this information to include more of the banks of the country, the leading corporations, and also reports to the stock exchange, should put the Federal Reserve bank in a very good position to be more aware of the situation in the future.

Representative REUSS. Thank you. I gather that as long as this information is somehow made available it doesn't matter drastically whether it be made available by the Federal Reserve or the Securities and Exchange Commission or by voluntary action of the dealers concerned, as long as there is some central place. Do you have a preference?

Mr. REPP. I have a preference, yes, sir. If I may just think out loud for a minute, I would say that the proper place to center this would be the Federal Reserve bank. We as dealers report to the Federal Reserve bank our positions and things of that nature. I am suggesting the broadening of this information beyond that now received from dealers. There is one thing that has to be borne in mind in your consideration of this. The objective should be to gather meaningful information which, after careful interpretation, could be put to proper use. After study, I am quite sure that objective could be reached.

The point I have in mind is that if this information is gathered, and it is of interest to the public, fine. However, I am not sure that

the public would be interested in it. It could be subject to misinterpretation because of the timelag between the date of receiving and reporting. If a certain dollar amount were to be published on a given date, the turnover in the market could make the published figure wholly misleading. Such misinterpretation could have undesirable market reaction. I think the data should be lodged in a place where they can be properly interpreted and put to beneficial use.

Representative REUSS. Namely, the Federal Reserve?

Mr. REPP. Yes, sir.

Representative REUSS. However, the Federal Reserve collates that information and makes it available so it is in a sense public information. I suppose we have to rely upon the clarifying activities of the Federal Reserve to keep it from being misused.

Mr. REPP. Whatever information is secured should be studied. How it is used should be a matter of discussion.

Representative REUSS. Certainly it would need to be disclosed to the dealers to be of value.

Mr. REPP. No. I see no reason for that, Mr. Reuss. My thought on it is this: If the information were in the hands of those who are charged with credit conditions and they in turn passed it on to the Treasury, it could be used in a broader sense to aid both the Treasury and the Federal Reserve in their operations. It need not be related back to the dealers or the marketplace in any way.

Representative REUSS. Would you say that this information available to the Federal Reserve and the Treasury should include a statement of the short positions maintained for various issues of securities?

Mr. REPP. I think we are talking about two things. May I answer your last question?

Representative REUSS. I think we are. I was adding the short position to what you were talking about.

Mr. REPP. I was not talking about trading positions before, but if we can revert to your last question, may I say that we now report all our positions to the Federal and they have that information.

Representative REUSS. You report it to the Federal Reserve?

Mr. REPP. Yes, sir; daily.

Representative REUSS. Are you required to do so or do you do it voluntarily?

Mr. REPP. No, we do it voluntarily. We can do it or not as we see fit.

Representative REUSS. I am under the impression that all other dealers do not so report.

Mr. REPP. I have no basis of knowing who does or who does not. I am under the impression most do. We do.

Representative REUSS. Turning to the information available to your own institution, do you get reports on free reserves from the five banking institutions which own your corporation?

Mr. REPP. No, sir. When it comes to a question of free reserves, it is a matter of statistical record every Friday morning in the published Federal Reserve statement.

Representative REUSS. You rely on the Federal Reserve figures?

Mr. REPP. Yes, on the published figures. We follow very carefully all pertinent information to our business. Free reserves are an important indicator.

Mr. CARSON. May I make a suggestion concerning procedure? I am Ralph M. Carson. I have been sitting here. I am associated with Mr. Repp here.

Representative PATMAN. You are an attorney?

Mr. CARSON. Yes. Solely in regard to this chart which has been referred to, and your committee's procedure, may I respectfully suggest that since the validity and propriety of this chart is still under review, and the witness has not completed his statement, the committee might suspend judgment as to whether to receive the chart in the record until the evidence is completed and take a vote on it?

I respectfully suggest the chart is so misleading that it will only confuse the deliberations of the committee and not assist it.

Representative PATMAN. Thank you, sir.

Mr. Repp, do you have any other statement to make in connection with the proceedings of our committee that would enlighten us on matters that we are going into?

Mr. REPP. I have no further statement except to reiterate Mr. Carson's request.

Representative PATMAN. Senator Bush?

Senator BUSH. I would like to observe that I think the request by counsel for Mr. Repp is a very reasonable one and I hope that the chairman will either order that this will be held in abeyance until we get Mr. Repp's written statement, or it be referred to the committee so that the committee can have a chance to decide whether this should go in the record or not.

(Subsequently it was decided that the chart as revised, a revised statement and exhibits by Congressman Patman and a statement submitted by Mr. Repp would be published in the record. (See pp. 1672-1713.)

Senator BUSH. I think it is the most astonishing exhibit I have ever seen. You can practically take any one of these hundreds of companies, Continental Casualty or Metropolitan Life Insurance, and put them in the center of the web and come out with this kind of a picture showing interlocking of interests and so forth.

You could continue it all through the United States from New York to California. You could do that very easily without changing any of the names. I do feel that counsel's suggestion is very appropriate and I hope it will be honored by the chairman of this committee, the acting chairman.

Representative PATMAN. The acting chairman does not desire to pass on it. The whole committee should pass on it.

Senator BUSH. Then we have that assurance?

Representative PATMAN. Certainly. Everything that comes up. We do not want to take advantage of anybody. We have no intention. I do not consider this an advantage. I think the Senator's statement is not a little bit exaggerated, but I do not think all of them would have that many connections.

Senator BUSH. I do not think it is exaggerated.

Representative PATMAN. I am not saying because people are connected together they are doing something wrong or in violation of law or entering into an unlawful conspiracy. There is no charge like that at all.

The charge speaks for itself and anybody can interpret it and we will include every remark Mr. Repp has made or will make and even

counsel is invited to submit briefs if he desires to do so. In the spirit of democracy we would not like to argue about it now.

Mr. CARSON. Mr. Chairman, in the spirit of democracy, I certainly do not want to submit a brief, but it would be very helpful to us in trying to guide the committee if the chairman will be so kind as to say what the charge is which you have just said speaks for itself.

Representative PATMAN. I meant the chart.

Mr. CARSON. I do not think it does speak for itself.

Representative WIDNALL. Mr. Chairman, I would like to second what Senator Bush has suggested, and also interpose this remark.

I think if you carried this chart, which I think was ably characterized by Mr. Repp as meaningless, to its logical conclusions, with circles and lines, you would include practically every bank, every corporation, every institution, every great labor union in this country.

Labor unions have directorates that are interlocking with banks and things like that. There would not be any part of our economy that wasn't included. I just hope that this chart eventually will not get into the record unless it is clearly shown by way of charge and not by chart what is intended by offering it for the record.

Senator BUSH. Mr. Chairman, further to what Mr. Widnall said, there has been no statement by the chairman, who offered this thing, as to what the purpose of offering it is.

Representative PATMAN. It speaks for itself.

Senator BUSH. No, it doesn't. I object to that; it doesn't speak for itself at all.

Representative PATMAN. As far as I am concerned, any person can make his own interpretation of it, with his knowledge of the different concerns, and I am not interpreting it here now. I am not making any statements that would be considered inflammatory or obnoxious or dramatic or anything else. I am trying to submit it as bare facts and if they are not the facts we want it changed. If there are too many changes we will certainly not want to put it in the record.

It is customary for members to put in the record things that they consider to be helpful in what they are investigating. It is not unusual at all. If somebody wants a different chart, it is perfectly all right.

If there is any other person in the audience that would like to be considered for a statement or brief comment, you may stand up and give your name and address and identify yourself.

We are carrying this out, as Senator Bush said, in a spirit of democracy this morning.

Are there any other questions of the witness?

If not, without objection, the committee will stand in recess, subject to the call of the chairman.

(Whereupon, at 12:10 p.m., the committee recessed, to reconvene at the call of the Chair.)