NOMINATIONS

1637-1

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF WILLIAM J. DRIVER, ADMINISTRATOR OF VETERANS' AFFAIRS-DESIGNATE; FREDERICK LEWIS DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS-DESIGNATE; SHELDON S. COHEN, COMMISSIONER OF INTERNAL REVENUE-DESIGNATE; AND MITCHELL ROGOVIN, ASSISTANT GENERAL COUNSEL IN THE DEPARTMENT OF THE TREASURY (CHIEF COUNSEL FOR THE INTERNAL REVENUE SERVICE)-DESIGNATE

JANUARY 18, 1965

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WEDNESDAY, JANUARY 13, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:25 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Long, Douglas, Talmadge, McCarthy, Hartke, Ribicoff, Williams, Bennett, Morton, and Dirksen.

Also present: Elizabeth Springer, chief clerk.

The CHAIRMAN. The meeting will come to order.

NOMINATION OF WILLIAM J. DRIVER, TO BE ADMINISTRATOR OF THE VETERANS' ADMINISTRATION

The CHAIRMAN. The first order of business is the nomination of W. J. Driver, of Virginia, to be Administrator of Veterans' Administration to which office he was appointed during the last recess of the Senate.

Mr. Driver, do you care to make a statement of your experience in addition to the biographical sketch furnished by the Veterans' Administration, which I now place in the record?

(The biographical sketch and statement of Mr. Driver follow:)

VETERANS' ADMINISTRATION,
INFORMATION SERVICE,
Washington, D.C., December 29, 1964.

William J. Driver, selected by President Johnson to be the Administrator of Veterans' Affairs, is the first career Federal employee to hold that post.

He has been with the agency since February 1946, with the exception of an interval of 2 years during the Korean conflict when he returned to active military service.

He served in the Contact and Administrative Services, the Compensation and Pension Service, and then later directed the entire benefits program as Chief Benefits Director before becoming Deputy Administrator. Driver brings to his new assignment a more thorough understanding of the VA program than any of his post-World War II predecessors.

He holds the Veterans' Administration's two highest awards, the Exceptional Service Medal and the Meritorious Service Medal. In 1964, he attained national prominence when he was awarded the Career Service Award of the National Civil Service League.

His wartime service brought him other awards. He served during World War II as a commissioned officer with headquarters, Adjutant General, European Theater of Operations, from 1942 until his separation from active duty in 1946. His military decorations include recognition from Great Britain and France as well as the United States. He holds the Legion of Merit, the Bronze Star, the Order of the British Empire, and the Croix de Guerre.

During the Korean conflict, he served with the office of the Assistant Chief of Staff, U.S. Army. He returned to the VA in August 1953.

Mr. Driver came with the VA in February 1946 as special assistant to the assistant administrator for Contact and Administrative Service. He later served as director of the records management service; director of the planning and field supervision service, and special representative to the Assistant Administrator, all in the Contact and Administrative Services.

It was during this period that he attended law school at George Washington University at night and earned his LL.B. degree in 1952. He was admitted to the bar in the District of Columbia that same year.

Following his Korean conflict service, he became staff assistant to the Chief Benefits Director, and in February 1956, he was named Director, Compensation and Pension Service, an office responsible for the disbursement annually of approximately $3.5 billion in benefit payments to more than 3 million veterans or their dependents.

In January 1958, he became Acting Chief Benefits Director, and in February 1959, he was named to the post of Chief Benefits Director. He was named Deputy Administrator, second in command of the VA, in February 1961.

Mr. Driver was born May 9, 1918, in Rochester, N.Y., and received his high school education in that city. He underwrote his college education at Niagara University by employment with a Rochester insurance firm and received his degree in business administration, cum laude, from Niagara in 1941.

He married the former Marian McKay, the daughter of professor-emeritus of economics, Marion K. McKay of the University of Pittsburgh, where Professor McKay is also chairman of the civil service commission.

The Drivers have two sons, Joe, 13, and Kellie, 9, and make their home in Falls Church, Va.

Mr. Driver has been principally responsible for many of the important achievements that have occurred in the Veterans' Administration in recent years. These include:

The veterans pension law, Public Law 86-211, which is more equitable to veterans and taxpayers.

The work measurement and performance standards program which provides knowledge essential in improving operations and the quality of service.

Effective planning, not only to anticipate and meet organizational problems, such as declining workloads in certain areas, but also to improve organizational effectiveness as such.

The large-scale application of automatic data processing and the establishment of a new Department of Data Management to provide a completely coordinated agencywide approach which will enable VA to realize more fully the potentials of ADP personnel skills and equipment.

Mr. DRIVER. Thank you, Mr. Chairman, I have been in the Veterans' Administration in one capacity or another since 1946. I had 5 years' service in World War II before I arrived and I went back in service in 1951 for 2 more years during the Korean emergency. All of my adult working career after leaving college and being drafted into the Army has been either in the Army or with the Veterans' Administration.

Prior to receiving the appointment from the President on the 2d of this month I had been the Deputy Administrator for 4 years to the previous Administrator.

In advance of that I had been the Chief Benefits Director. In that position I supervised the activities of all regional offices wherein the benefit programs, as distinguished from medicine, are administered.

Prior to that I had been Director of the Compensation and Pension program, and in advance of that a management analyst in a general administrative capacity.

I have served with each Administrator since General Bradley, and find the Veterans' Administration stimulating and extremely interesting.

The CHAIRMAN. I believe Senator Douglas has some questions.

Senator LONG. Might I have a question first?

First, let me say this, Mr. Driver, I am happy to see your name down here. I think you are eminently qualified for the job and I am sure you have done a fine job in the past and you will do a fine job in the future. I just want to ask about one matter.

When we were in conference on this veterans insurance matter our House friends held out but they finally came out for a compromise which from my point of view was going to make 50 percent of the veterans eligible. A fellow could be eligible for this insurance with zero disability providing the disability was in an area where if it were more serious it would be compensable, and I just hear by the grapevine some pressure is being brought to bear on you to try to be restrictive in who you make eligible. You intend to administer this thing the way we had in mind that about 50 percent of the veterans would be eligible for this insurance?

Mr. DRIVER. Absolutely, Senator. And there is no difference with anyone, I think, on the point of service-connected disability. If it is a zero percent disability, which merely means you get a rating in name only without any money, but which could become worse, that is, a case of flat feet, zero percent disability, could, with aggravation and complications increase to a rateable degree of disability. Such a man could be eligible for insurance.

The difficulty we are having is in regard to a person who has no service-connected disability. Some of the Members on the other side want to be certain that a non-service-connected veteran cannot get insurance with the VA program if he can secure it commercially.

Senator LONG. In my own case, my ears ring; they will ring forever. Fooling around with demolition did that to me. Do I understand because that is impairment in my hearing I would be eligible?

Mr. DRIVER. If it is service connected, absolutely; regardless of the degree; yes, sir.

Senator LONG. Right. I see.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Driver, I, too, want to express my pleasure at your appointment, you have had a very distinguished record in the Veterans' Administration. I think you are almost uniquely qualified. There is one question I would like to ask about the medical service, if I may.

In 1951 I was chairman of a subcommittee in the Committee on Labor and Public Welfare which went into the question of the medical service inside VA. We found that when Dr. Magnuson had been appointed initially after the Second World War as head of the medical service, that the law was interpreted and, generally, broadly so carried out, as to make the Chief Medical Director the real director of the medical services and the hospitals.

After he left, the Administrator took over the direction of the medical service, and out in the field you would have the chief civilian officer in the hospitals more or less giving orders on general medical policy to the doctors and for the local medical chiefs.

We went into that carefully. We made a recommendation that it was the intent of Congress that the Chief Medical Director of the Veterans' Administration should be the principal medical authority of the agency with primary authority to control, manage, and operate its medical and hospital program.

I would like to ask, first, if you approve of that recommendation and then, second, whether that recommendation has been carried out in the nearly 14 years that have elapsed since it was made.

Mr. DRIVER. I certainly do approve of it, Senator, and I think that it has been carried out. There have been some differences in the past that I have been familiar with before I became associated with the medical program, when I became Deputy Administrator, for example, which gets down to the question of whether something is medical or administrative. I think as a result of the consideration given to these problems that today we have an absolutely perfect relationship in terms of the Administrator's responsibilities and the Chief Medical Director's responsibilities.

Senator DOUGLAS. Has that been crystallized in administrative orders or is this——

Mr. DRIVER. Well, the organizational manuals of the Veterans' Administration and the delegations from the Administrator specify exactly what the Chief Medical Director is responsible for, and I believe they do so to his satisfaction, and they clearly state that anything having to do with medical matters is the principal primary responsibility of the Chief Medical Director, and the present Chief Medical Director and I certainly have a fine relationship. I have a thorough respect for him as a physician and I believe we have no differences on this subject. I believe also he has talked with Dr. Magnuson.

Senator DOUGLAS. You can always get a tame doctor who will go along with the big boss.

Mr. DRIVER. On that point, Senator, if I could, Dr. McNinch was Dr. Hawley's assistant during the war. I am sure you would agree that Dr. Hawley and Dr. Magnuson were two of the stanchest advocates of a strong medical program, the independence of the medical program, certainly from civil service or anything of that sort and I can assure you that Dr. McNinch is of the same stripe and if there were differences he would make them known.

Senator DOUGLAS. Well, I have had—I don't think I am betraying any confidence to say I have had a talk with Dr. Magnuson and he is a pretty responsible fellow.

Mr. DRIVER. Yes.

Senator DOUGLAS. And he doesn't feel it has been carried out.

Mr. DRIVER. If there is any way in which it hasn't that could be brought to Dr. McNinch or to me, I assure you that in the spirit of this which I am familiar with, they will be carried out.

Senator DOUGLAS. Thank you very much.

It would be satisfactory if Dr. Magnuson got in touch with you?

Mr. DRIVER. Absolutely, absolutely, Senator.

The CHAIRMAN. Any further questions?

Senator DIRKSEN. Mr. Chairman.

The CHAIRMAN. Senator Dirksen?

Senator DIRKSEN. Mr. Driver, in connection with the program to phase out certain facilities and certain services by the Veterans' Administration, is that done on recommendation of VA or does it come essentially from the Budget Bureau?

Mr. DRIVER. The phasing out and the selection of the locations, the amount of dollars concerned, is directly related to studies that have been in progress in the Veterans' Administration over the past several years. There has been, I assure you, and I am sure you are aware of this extreme pressure from the Bureau of the Budget in carrying out the President's program to economize wherever we can without impinging on essential service, and because of this I would say that perhaps in the Veterans' Administration there has been an acceleration of weeding out of areas which we consider marginal and in places where we could devote money to better purposes.

Senator DIRKSEN. Have the specific determinations now been made?

Mr. DRIVER. Yes; they have, Senator.

Senator DIRKSEN. Have they been released?

Mr. DRIVER. There is a story in this morning's paper which I understand stems from information distributed from some member that lists essentially the plan. An official announcement because of this is being made this afternoon and I am having letters hand delivered to each Member of the Congress who is affected.

Senator DIRKSEN. Does it show all the installations?

Mr. DRIVER. Yes, Senator.

Senator DIRKSEN. Facilities, and mergers?

Mr. DRIVER. Yes, sir; it does.

(The chairman subsequently received the following letter explaining the proposed changes referred to above.)

JANUARY 13, 1965.

HON. HARRY FLOOD BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accord with our policy of keeping you informed, I want to tell you of our plans to streamline operations in the Veterans' Administration through adjustments to be made in our field structure.

These changes provide for continued high quality service to veterans and a savings to taxpayers in administrative or overhead costs amounting to some $23,500,000 in fiscal year 1966.

The past decade has seen many changes in all programs administered by the Veterans' Administration, as well as significant changes in the management of these programs. Many of the benefit programs established to assist veterans in readjusting to civilian life are phasing out and will terminate in the not too distant future. Indeed, some have already done so; and, as is to be expected, participation in many of these programs has dropped sharply. At the same time, we have improved and simplified our operational procedures to maintain maximum efficiency at the lowest cost. As a part of our management improvement program, we have converted some of our benefit programs to automatic data processing, utilizing the most versatile electronic computers yet devised. Still other programs and functions, such as personnel data and payroll, are presently being converted to automatic data processing.

In our medical programs, we have seen significant breakthroughs in medical science which have greatly altered the type and nature of medical care and the facilities necessary for providing such care. Tuberculosis is a good example of this. Where formerly we had 21 hospitals devoted exclusively to long-term care of veterans with tuberculosis, today, as a result of chemotherapy, we have little need for entire hospitals devoted to nothing but the care of tuberculosis patients. The progress of medical knowledge requires additional diagnostic and therapeutic tools. The inability to provide these within the confines of existing physical plants has made some of our hospitals obsolete. These obsolete hospitals must be inactivated and replaced with modern facilities, if we are to continue to provide American veterans with the broadest possible spectrum of medical care. Hospitals also were established in some areas that now have a more than proportionate declining veteran population. As the number of hospital beds we may provide is limited, it is important that in establishing replacement beds, we place them where the greatest need exists and near the medical schools with which we are affiliated.

The characteristics of our domiciliary members have also undergone significant changes in recent years. This program was initially established to provide a home for indigent veterans who could not sustain themselves in their communities. Today we have a vast social security program which, together with increased veteran pensions, is providing more and more veterans with assurance of freedom from financial want. Additional wide-ranging programs on both the Federal and local level are also providing more facilities to these veterans as well as to the rest of the population.

As you know, to cope with these changes, we have, in recent years, adjusted and readjusted our organizational pattern to keep pace with the changing needs. We have closed some hospitals; we have relocated others; we have merged some regional offices; closed a number of small VA offices, and consolidated program functions.

We have recently completed a thorough analysis of our programs and operations, both in the Department of Medicine and Surgery and the Department of Veterans Benefits. We find that additional organizational changes must be made if we are to continue to achieve maximum operational efficiency and economy, and at the same time maintain our high standards of service. Accordingly, I have approved the following actions:

Close the following hospitals:

VA Center, Bath, N.Y.
VA Hospital, Lincoln, Nebr.
VA Hospital, Castle Point, N.Y.
VA Hospital, Rutland Heights, Mass.
VA Hospital, Grand Junction, Colo.
VA Hospital, Dwight, Ill.
VA Hospital, Fort Bayard, N. Mex.
VA Hospital, Brecksville, Ohio (Broadview Heights Division).
VA Hospital, Miles City, Mont.
VA Hospital, Sunmount, N.Y.
VA Hospital, McKinney, Tex.

Close the following domiciliaries:

Bath, N.Y.
Thomasville, Ga.
White City, Oreg.
Clinton, Iowa.

Merge the following regional offices:

State	Merging station	Receiving station
New York [1]	Albany	New York.
	Syracuse	Buffalo.
Pennsylvania	Wilkes-Barre	Philadelphia.
Ohio	Cincinnati	Cleveland.
Missouri	Kansas City	St. Louis.
Louisiana	Shreveport	New Orleans.
Texas	Lubbock	Waco.
	San Antonio	Houston.
Alaska	Juneau, Alaska	Seattle, Wash.
Delaware	Wilmington, Del	Philadelphia, Pa.
Nevada	Reno, Nev	Los Angeles, Calif.
Vermont	White River Junction, Vt	Boston, Mass.
New Hampshire	Manchester, N.H	Do.
North Dakota	Fargo, N. Dak	St. Paul, Minn.
South Dakota	Sioux Falls, S. Dak	Do.
Wyoming	Cheyenne, Wyo	Denver, Colo.

[1] Brooklyn and New York functions will be consolidated under 1 manager, but remain in the same physical locations.

To insure that uninterrupted service will be continued at the same level, a VA office in the former regional office city will continue direct personal services to veterans, their beneficiaries, and others involved in VA program activities. A staff of employees will be retained at these offices for this purpose.

In our Department of Veterans Benefits, for a number of years we have been adjusting our resources to the changing demand for benefits. These adjustments began soon after the peak workloads of the postwar years had passed. Initially, our actions involved the reduction of employment in regional offices and insurance activities, and in the past 10 years staffing dropped over 50 percent. In more recent years, major changes to the field organization were accomplished, reducing substantially the number and size of our offices in the local community.

In recent years, four regional offices have been merged with other offices. In each instance it was determined that the office into which the workload was consolidated could serve the VA public effectively and efficiently. This has been substantiated by actual experience.

One of the immediate benefits to be achieved by the consolidation of these offices is a substantial recurring annual salary savings. The economy factor is important, but continued provision of high quality service to veterans requires equal emphasis. Our planning considerations took this into account.

Since the VA's major objective is to provide high quality service to all veterans and their beneficiaries on a timely basis regardless of their location with respect to regional offices, we have given much thought to the important factors that contribute to provisions of service. We considered especially the factors of communications and distance as they affected service. In a recent analysis of regional offices, it was found that in fiscal year 1964 approximately 90 percent of contacts with regional offices were by mail and about 10 percent by personal contact or telephone. Further exploration to determine whether distance was a deterrent in securing benefits confirmed our belief that it has had no adverse effect. Veterans who are great distances from regional offices rely on the mails more heavily than do those who live nearby, but they obtain the same effective service.

In the scheduled consolidations, we are generally merging small offices with larger offices. This has the advantages of causing the least disruption of operations, necessitates the transfer of fewer people, and receiving stations generally have all programs. This results in greater savings because operating cost is less per work unit produced at the larger stations.

With reference to our hospital program, the general guidelines used in determining which hospitals are marginal and necessitate closing are obsolescence of physical plant, which would be unduly costly to modernize; limited demand for hospitalization due to remote location; difficulty in attracting the number and caliber of professional staff required to assure a high quality of medical care; and the capability of surrounding VA hospitals to expand the boundaries of the geographic area served.

The domiciliary system in the Veterans' Administration has undergone gradual but profound changes from its inception dating back to the 19th century. To provide a complete spectrum of medical care, domiciliary activities must be integrated with hospital activities. In line with the general VA policy of affiliating hospitals with medical schools, or any other level of higher professional activity, the integration of hospital-domiciliary activities will result in improved care.

The relocation plan calls for offsetting a substantial portion of the total domiciliary operating bed loss by activating additional beds at most of the remaining domiciliaries pending reevaluation of nationwide domiciliary needs. A further offset will result from authority given by the Congress which permits VA to plan for nursing-type care, both in VA installations and in State or private facilities.

We expect to complete all of these actions before June 30, 1965, some of them before April 1, 1965. As stated earlier, the total savings to be realized in fiscal year 1966 will be approximately $23,500,000.

We have a high regard for the welfare of our employees and assure you that all employees who cannot be retained at their present location will be given an opportunity to follow their function to another field station, where applicable, or accept an offer of a position at another VA station. The VA is placing restrictions on hiring at its installations throughout the country. This will give maximum opportunity for placement of employees affected by these changes. The cost of moving will be paid by the Government.

The decision to take these actions was not arrived at lightly. The feasibility of each was carefully considered. In every instance, primary consideration was given to our ability to continue to provide high quality service. I assure you this will be maintained throughout the Veterans' Administration.

Sincerely,

W. J. DRIVER, *Administrator*.

Senator DIRKSEN. Have you gotten any reaction from the service organizations on this?

Mr. DRIVER. No; I have had——

Senator DIRKSEN. American Legion?

Mr. DRIVER. I have had about six telegrams this morning all of them coming from local posts. I have had no reaction at all from the national officers. However, I am meeting with all of them this afternoon at 3 o'clock.

Senator DIRKSEN. I see.

That is all, Mr. Chairman.

Senator WILLIAMS. How much are the expected savings as a result of this plan?

Mr. DRIVER. Just at 23½ million.

Senator WILLIAMS. Where will this show up in this year's budget? Will it be expenditures below last year or what? The reason I asked is that I have supported all of these reorganization plans under Mr. Truman and Mr. Eisenhower and have been greatly disappointed with them because of times we found we consolidated two or three agencies and in the consolidation we ended up with a superstructure which each of these agencies kept running full blast and as a result it really cost us more money than it did before.

I don't suggest that that is the case here but I am asking where will this show up in the budget so that we can tell our constituents, who may be affected, that there really are savings because——

Mr. DRIVER. It is in two areas, Senator Williams.

There are about $3 million tied to the consolidation of the regional offices.

Senator WILLIAMS. Their appropriation will be that much less?

Mr. DRIVER. Their appropriation will be that much less in 1966, for fiscal 1966.

Senator WILLIAMS. It will be that much less than it was in fiscal 1965?

Mr. DRIVER. That is right, sir. About $3 million. The remaining $20.5 million is due to the domiciliary and hospital consolidations. Nearly all of that money will be applied to implementing Public Law 88-450 which authorized us and directed us to establish 4,000 nursing home beds in the medical system. Instead of asking for additional money to do this, we will use most of that to activate these nursing home beds in the medical program.

Senator WILLIAMS. Then that won't show up in the budget?

Mr. DRIVER. Well, there will be several items directly keyed to the nursing home bill which had seven or eight parts, and the amounts of money attributed to those in the 1966 budget, will come out of the savings as the result of consolidations.

Senator WILLIAMS. I mean will there be places——

Mr. DRIVER. Where you can see the amounts.

Senator WILLIAMS (continuing). Where we can compare this year's appropriation with last year's appropriation to find the reductions?

Mr. DRIVER. Yes, you will. It is something I might add which the Bureau of the Budget has been careful to document.

Senator WILLIAMS. Will you furnish for us a list of those reductions where we can find them because many of us are going to have this question to answer.

Mr. DRIVER. I will, sir.

(The information subsequently submitted by Mr. Driver follows:)

JANUARY 14, 1965.

HON. HARRY FLOOD BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In my letter of January 13, I informed you of our plans to merge 17 regional offices with other offices and close 11 hospitals and 4 domiciliaries. As a result of further discussion of this subject during my appearance before your Committee yesterday, I would like to explain the impact of these changes on our 1966 budget.

We estimate savings of $23.5 million in fiscal year 1966 from these reorganizations. Of this amount, $3 million is attributable to the merging of regional offices: $15.5 million, to closing of 11 hospitals; and $5 million, to closing of 4 domiciliaries. These are net savings which will reduce our 1966 appropriation requirements by these amounts.

Our regional office operations are funded under the "General operating expenses" appropriation. Our requirements for 1966 under this appropriation are approximately $5 million less than those for 1965. Three million dollars of this reduction is attributable to the merger of regional offices.

Our hospital and domiciliary programs are funded under the "Medical care" appropriation. The estimated savings from closing of hospitals and domiciliaries of $20.5 million are applied in the 1966 budget as offsets against additional and expanding program requirements. Approximately $18 million of the savings will be applied to implementation of the nursing home care program authorized under Public Law 88-450 and provision of drugs to pensioners authorized under Public Law 88-664. The balance is related to implementation of new treatment modalities and strengthening of professional medical staff. In addition to these requirements, the 1966 budget reflects rising operational costs, resulting in a net increase of approximately $23 million over 1965. Had the savings from the hospital and domiciliary closings not been reflected in the budget, the total increase in the medical care appropriation would have been $43.5 million rather than $23 million.

I will be pleased to furnish a more detailed analysis of the 1966 budgetary impact of these reorganizations as soon as preparation of the 1966 budget has been completed.

Sincerely,

W. J. DRIVER, *Administrator.*

Identical letters were written to the other 16 members of the Committee on Finance:

Democrats:
- Russell B. Long
- George A. Smathers
- Clinton P. Anderson
- Paul H. Douglas
- Albert Gore
- Herman E. Talmadge
- Eugene J. McCarthy
- Vance Hartke
- J. W. Fulbright
- Abraham A. Ribicoff

Republicans:
- Frank J. Williams
- Frank Carlson
- Wallace F. Bennett
- Carl T. Curtis
- Thruston B. Morton
- Everett M. Dirksen

Senator WILLIAMS. And if there is a straight reduction——

Mr. DRIVER. That one is easy, on the general operating side.

Senator WILLIAMS (continuing). And not a transfer?

Mr. DRIVER. Yes, sir.

Senator WILLIAMS. I saw in one of the papers there that many of these employees could get—it was suggested that Members of Congress could assure these employees that they would all get Government jobs elsewhere. Is that true?

Mr. DRIVER. Yes. We will assure all of them that we will make them an offer of a job elsewhere.

Senator WILLIAMS. Then how do you reduce the payroll—that is what I was wondering, is this just a switch from one office to another?

Mr. DRIVER. No. We have two things at work. We have 150,000 full-time employees and 20,000 part-time employees and overall we have about a 2 percent turnover per month. In addition to that when we move an element, and we, as you know, because of declining programs have discontinued literally thousands of small offices and some large offices, we find that invariably no more than a third of the employees, even with a job offer will move somewhere else. They will get a job at some other element under their own initiative locally. Because of that, we can assure you that with fewer people remaining after the consolidations we can still make an offer to everyone affected.

Senator WILLIAMS. And in this year's budget the number of employees that are provided for the Veterans' Administration will be reduced?

Mr. DRIVER. In the administrative area.

Senator WILLIAMS. By the amount that is recommended in this year's budget?

Mr. DRIVER. In the general operating expense area as distinguished from medicine it will be reduced. In the medical area the budget will be increased. The nursing home program for one thing, and the number of patients treated, despite fewer operating beds, is increasing every year because of the turnover and that sort of thing. But I will, in association with the budget which will be forwarded the week of the 20th, sometime, make certain that you do get an explanatory letter that keys in directly with the VA so you can see directly how these changes can be accounted for.

Senator WILLIAMS. That will be reasonably satisfactory.

Senator DIRKSEN. Are you finished, John?

Senator WILLIAMS. Yes.

Senator DIRKSEN. Is the offer at every civil service level?

Mr. DRIVER. No, sir; it is not. Most of the turnover is in the medical area where we have 130,000 employees. The turnover is more in the lower grade employees than it is in the higher grade employees. This is always true. The likelihood of acceptance on the part of an employee when you remove his job is always higher. It is the person in a lower grade who finds difficulty in picking up and moving, it is true, but we will pay his moving expenses and to the extent we can, save him from economic loss, if he is willing to move.

Senator DIRKSEN. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator MCCARTHY. This is not directly related but, Mr. Driver, here you said the budget puts extreme pressure on the agency. How do they put it?

Mr. DRIVER. Extreme pressure I don't think adequately describes it, Senator McCarthy. What they did was to revive a list of areas we had mutually considered in the past, many of which had been placed in low priority for consideration in terms of the budget, and they asked, with more emphasis this year, that we furnish a final report to the President and the Bureau as to whether or not we should move in these areas.

For example, we have been delaying the deactivation of certain marginal hospitals waiting until we got farther along in the reconstruction program. Now, that is over 4 years underway, and we feel that we have enough new beds in position around the country, and especially in position where veterans have moved since World War II, that we can close out marginal operations and rely on the newer hospitals where we can give better care and get faster turnover.

Senator MCCARTHY. You would have done that anyway without pressure from the Bureau?

Mr. DRIVER. Yes.

Senator MCCARTHY. Do they say, "Do it faster or else"?

Mr. DRIVER. The "or else" comes when the Budget doesn't have the money.

Senator McCARTHY. They won't give you the money?

Senator WILLIAMS. How many employees do you think you will have after making an overall reduction?

Mr. DRIVER. I can't supply you a figure in the medical area, I am sorry, Senator. If I could furnish that figure, I would appreciate being able to document it better. Most of the money attributed in the $23 million savings is due to reduction in salaries; most of the money.

Senator WILLIAMS. Yes.

Mr. DRIVER. There is an offsetting increase in putting these nursing beds into operation and that is where I fall out a little bit. I would like to—if I might supply you with the exact figures and I can do that by location if you would like.

Senator WILLIAMS. Overall, either way.

Mr. DRIVER. I would be glad to do that.

The CHAIRMAN. Furnish that for the record?

Mr. DRIVER. Yes. Our 1966 average employment will be about 2,800 less than it would have been had we not closed these stations.

(The following data was subsequently furnished by Mr. Driver:)

Estimated savings from closing or merging VA facilities—Summary, fiscal year 1966

	If continued in operation (average employment)	To be retained in VA system (average employment)	Estimated savings	
			Average employment	Cost (in thousands)
Hospitals:				
Bath, N.Y.	347	149	198	$1,714
Brecksville, Ohio	185	73	112	503
Castle Point, N.Y.	267	113	154	1,344
Dwight, Ill.	261	77	184	1,512
Fort Bayard, N. Mex.	262	76	186	1,464
Grand Junction, Colo.	179	46	133	1,129
Lincoln, Nebr.	314	89	225	1,945
McKinney, Tex.	345	112	233	1,993
Miles City, Mont.	126	33	93	848
Rutland Heights, Mass.	518	265	253	1,700
Sunmount, N.Y.	462	255	207	1,348
Subtotal, hospitals	3,266	1,288	1,978	15,500
Domiciliaries:				
Bath, N.Y.	182	56	126	1,100
Clinton, Iowa	160	49	111	1,100
Thomasville, Ga.	168	60	108	1,200
White City, Oreg.	214	74	140	1,600
Subtotal, domiciliaries	724	239	485	5,000
Regional offices:				
Manchester, N. H.	51	27	24	202
White River Junction, Vt.	38	8	30	253
Fargo, N. Dak.	48	29	19	140
Sioux Falls, S. Dak.	45	29	16	118
Cheyenne, Wyo.	34	14	20	177
Reno, Nev.	24	(1)	25	263
Shreveport, La.	54	43	11	79
Juneau, Alaska	17	2	15	105
Wilmington, Del.	27	22	5	38
Wilkes Barre, Pa.	139	128	11	84
New York and Brooklyn	701	675	26	220
Albany, N. Y.	60	45	15	127
Syracuse, N. Y.	83	67	16	118
Lubbock, Tex.	145	121	24	182
San Antonio, Tex.	148	123	25	206
Cincinnati, Ohio	286	234	52	388
Kansas City, Mo.	170	134	36	300
Subtotal (regional offices)	2,070	1,700	370	3,000
Grand total, VA	6,060	3,227	2,833	23,500

The CHAIRMAN. Any further questions?

Senator DIRKSEN. Mr. Driver, in the normal budget procedure your divisions and bureaus estimate pretty well what they will need for the coming fiscal year. Then I assume one by one they sit down with you and with your budget officer and go over all these estimates and you then make a determination. Then when this policy has been completed for every division head you then consolidate it and you are ready to sit down with the Budget Bureau?

Mr. DRIVER. That is right.

Senator DIRKSEN. How many people does the Budget Bureau assign when you sit down with them?

Mr. DRIVER. About a dozen.

Senator DIRKSEN. A dozen?

Mr. DRIVER. Yes, sir.

Senator DIRKSEN. All who are somewhat knowledgeable?

Mr. DRIVER. Different areas—some in medicine, some in this phase of medical operation, supply; yes, sir.

Senator DIRKSEN. As a general thing, how many periods would they allocate to going into the budget with you and your associates before a final figure is contrived?

Mr. DRIVER. Each of these budget examiners is in constant contact during the year with the departmental people, the Medical Department, the Veterans' Benefits Department, the Insurance Department, and they would have at least a quarterly review of everything—current operations, expectations in the coming year.

I would normally in the course of a year have three meetings with the Director of the Budget and his principal assistants, and mine, and as a result of those meetings we adjust current operations and we set a figure for the year that is coming up about 18 months off, and then we keep slowly working toward that with the people working for me and his assistants in constant contact.

Senator DIRKSEN. Now, when you and the Budget have agreed pretty well on a figure for the Veterans' Administration, I assume you sit down with the President, don't you?

Mr. DRIVER. Yes, sir—if we have disagreements. If we are in total agreement, and this has not been our fortune, if there is total agreement, I understand you don't have a meeting. In our case we did not have total agreement and we had a meeting with the President.

Senator DIRKSEN. One meeting or more?

Mr. DRIVER. I had three meetings with his assistant and one with him.

Senator DIRKSEN. Over how long a period?

Mr. DRIVER. About a 30-day period.

Senator DIRKSEN. How long were these sessions?

Mr. DRIVER. Well, some of them were as many as 2 or 3 hours. The one with the President was about half that.

Senator DIRKSEN. That is all.

The CHAIRMAN. Any further questions?

Senator MORTON. Mr. Chairman, what percentage, Mr. Driver, of the total expenditures by the Veterans' Administration are strictly statutory in that they are pensions or disability allowances or funds, that are paid out as a result of a direct specific program enacted by the Congress?

Mr. DRIVER. In the medical program, of course, you are treating people whom you determine need treatment. That program costs about a billion and a quarter dollars each year. In the benefit programs where we are giving checks to people we are spending over $4 billion and our total budget remaining is something like $300 or $400 million.

Senator MORTON. Thank you.

The CHAIRMAN. Any further questions?

If not, thank you very much, Mr. Driver.

Mr. DRIVER. Thank you, sir. Thank you, gentlemen.

NOMINATION OF FREDERICK LEWIS DEMING, TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

The CHAIRMAN. The next nomination on the agenda is that of Mr. Frederick Lewis Deming, of Minnesota, to be Under Secretary of the Treasury for Monetary Affairs.

The Chair now places in the record your biographical sketch.

(The biographical sketch of Mr. Deming follows:)

BIOGRAPHIC RÉSUMÉ

Name: Frederick Lewis Deming.

Address: 4401 East Lake Harriet Boulevard, Minneapolis, Minn.

Born: Des Moines, Iowa, September 12, 1912.

Married: Corinne Inez Wilson, February 4, 1935.

Children: Frederick Wilson, December 29, 1935; Richard Louis, December 25, 1936.

Education: Woodward Grammar School, St. Louis, Mo., graduated June 1925; Cleveland High School, St. Louis, Mo., graduated June 1929; Washington University, St. Louis, Mo., A.B., June 1934, A.M., June 1935, Ph. D. (economics), June 1942.

Professional career:

August 1941–April 1957, Federal Reserve Bank of St. Louis; assistant manager, research department, 1941–47; manager, research department, 1947–48; assistant vice president, 1948–50; vice president, 1951–52; first vice president, 1953–57.

April 1957–January 1965, president, Federal Reserve Bank of Minneapolis.

Other:

April–June 1956, Chief, banking advisory mission to Chief of State, Republic of Honduras.

November–December 1960, central bank consultant, Government of the Republic of China, Taipei, Taiwan.

Bi-State Development Agency, St. Louis (Missouri commissioner) 1954–57.

Council on Foreign Relations, New York, 1953 to present.

Member of board of trustees, Macalester College, St. Paul, 1958 to present (president of board of trustees 1960–63).

Vice president, Upper Midwest Research & Development Council and chairman of its research committee, 1958 to present.

Director, North Star Research Institute, Minneapolis, 1963 to present.

Director, United Fund of Hennepin County, 1960 to present (president, 1960–61).

Chairman, Minnesota World Affairs Center, 1963 to present.

President, Minnesota State Junior College Board, 1963 to present.

Trustee, Westminster Presbyterian Church, Minneapolis, 1959 to present.

The CHAIRMAN. Take a seat, Mr. Deming. Is there any statement you care to make, sir?

Senator MCCARTHY. Mr. Chairman, could I be heard for just a moment? I would like to introduce Mr. Deming to the committee and highly commend him as an old friend and an outstanding economist.

Mr. DEMING. Thank you, Senator. I have no statement to make, Senator. You have my biographical sketch, I believe, and I am, I hope, ready for any questions that you may have.

The CHAIRMAN. Have you got any conflicts of a financial character?

Mr. DEMING. No, sir. I sent in a financial statement. I have one here if it would interest you. I have no stocks. This consists of cash, car, cash value of life insurance, retirement system, residence, furniture, and personal property, an automobile and some savings bonds.

Senator DOUGLAS. Take at least one of the Franciscan oaths of poverty.

Mr. DEMING. I haven't taken the oath, Senator. It has just worked that way.

Senator DOUGLAS. You observe the practice.

(Discussion off the record.)

Senator LONG. I don't know whether the majority of the Congress feels that way, they will vote on it, but I would hope we would use devices like this interest equalization tax to tighten up on interest rates if need be in preference to trying to chase these interest rates up as they go up in France, England, and Germany and elsewhere, and I would be curious to know what your general attitude is on that subject?

Mr. DEMING. Senator, I don't think anybody in the Federal Reserve System, or as far as I know anybody in the Treasury, is interested in seeing the long-term interest rate in this country rise, and this interest equalization tax, I think has helped a great deal on that.

As far as short-term interest rates are concerned, particularly those with respect to Treasury bills, and so on, it has been the policy to try to hold that rate up and hold it competitive with rates abroad because that short-term money moves fairly rapidly. But the policy objective, which I think has been fairly successfully achieved, is to sort of twist this thing so the short rates move up higher competitively but to keep pressure off the long rate.

I noticed one statistic that was sort of impressive. At the end of 1964 the yield on long-term Government bonds was 4.20 percent; it was 4.19 percent just exactly a year before, so that indicates a great deal of stability in the long-term rate.

Senator WILLIAMS. Are you going to have difficulty with your interest ceiling of 4¼ percent?

Mr. DEMING. Senator, we have been skating, as you know, just below this rate. I think that this can be operated under for the foreseeable future. There seems to be quite a flow of long-term savings and the long-term rate doesn't show a tendency to move up. Just as a plane——

Senator WILLIAMS. The short-term rates are not covered by that ceiling?

Mr. DEMING. No.

Senator WILLIAMS. That would be 5 years?

Mr. DEMING. Yes. It is always possible, I think, that at some time you might run into a financing situation where the 4¼ rate would be difficult, and if that were the case, I assume that we would come down and try to talk to you about it.

The CHAIRMAN. Any further questions?

Senator DOUGLAS. May I ask a question?

You have had a distinguished fellow townsman of yours who occupied the same position that you have now been appointed to.

Mr. DEMING. Mr. Baird.

Senator DOUGLAS. Yes. He floated a 5-percent issue and it was obviously the declared policy of the Treasury at that time to raise the long-time interest rate on governments to 5 percent. Some of us protested that on the ground that we did not believe that this reflected the actual productivity of money in the market and it was an artificial increase in the interest rate which would have an adverse effect upon private business, and despite the pressure against this, we refused to agree to removal of the statutory limit of 4¼ percent.

That has been some years, 5 or 6 in the past, and I submit that we were proved correct, and that Mr. Baird was proved wrong.

Now, we hope that this infection, if I may say so, for high interest rates which started in Minneapolis, home of our distinguished and beloved colleague, has not spread to you. We know how potatoes— I have just been reading about the Irish potato famine, how this infection spread and ruined the potato crop. We hope it doesn't ruin the Minneapolis crop of bankers.

Senator McCarthy. I say, Paul, we have an earlier tradition of low interest rates, Populistic, Progressive, and Farmer Laborites which I think would override the Baird influence.

Senator Douglas. I know. I would just like to feel Mr. Deming out on this.

Do you expect to move for a 5-percent interest rate under your administration?

Mr. Deming. No. I am not infected with any bias toward high interest rates, Senator. I think that really any Treasury official who is responsible for borrowing money to finance the Government would like to do this as cheaply as he possibly could, and so that if I have a bias in doing the job it would be to borrow as economically as could be possible, with the one exception of the short rate when you have got a balance-of-payments problem such as you have.

If you ran into a financing situation where the requirements pushed you higher, why, as I say, I think we would come down. But I hope, I share the same opinion that my immediate predecessor, Mr. Roosa, had on this, that we would be able to operate for the time being within the 4¼-percent ceiling.

Senator Long. Could I ask this question?

How much money do you really think is involved in the balance of payments on this short-term rate? I read somewhere there are around $600 million involved.

Mr. Deming. Yes. Anything when you get into——

Senator Long. Does that sound like a fair guess to you, about $600 million?

Mr. Deming. Well, the guesses of experts on this are that there are somewhere between a half billion and a billion dollars where the funds would be sensitive to fairly small differentials in short-term interest rates. This would make an appreciable difference on that.

Senator Long. And we can take care of it through the interest equalization tax if we want to tighten up on it?

Mr. Deming. Not so much on the short-term money.

Senator Long. You are talking about a half billion dollars. We figure we improved our situation. If we put it on bank loans we can sure do it.

Mr. Deming. There are two things here. One is bank loans to foreigners, and here is where the interest equalization tax or perhaps moral suasion could have some effect. But people who own balances, who own money, can shift it from one place to another to get a rate of return, and a foreigner, for example, instead of buying a U.S. Treasury bill at, let's say, at 3.85 percent, which is approximately what it is at the present time, may be able to buy a Canadian Treasury bill at 4 percent, in which case he may decide to put his money in Canada. Or the British Treasury bill is at 6.4 percent, which might make him send his money to England. It is those moneys that also are affected by short-term interest rates. It is something connected with but distinct from the rate on bank lending.

Senator LONG. Let me be sure how far you depart from that estimate of $600 million. That is the estimate of how much, I have heard of how much, money might be outside the country rather than inside the country on the balance-of-payments side of it, if we didn't let the short-term rating up.

Mr. DEMING. This is a figure, I think, that has been used, referring to shifts of liquid funds abroad—in the order of magnitude of $600 million. The amount of money that would move from the United States to some other countries in a limited period of time currently is estimated, this "hot money" thing, at about that figure. But that figure could be bigger or it could be smaller; nobody knows exactly how much that is.

Senator LONG. Here is the thought that occurred to me and if I am in error you can correct me. But I gain the impression that trying to keep $600 million of "hot money" over here we proceed to boost, let's say boost, interest rates by 2 percent, that is the best justification for it. Let's say, suppose it is 1 percent. On your public and private debt that is going to cost you, let's see, what is the latest figure on the debt, about, we have a ceiling of $325, $315 billion, all right, so you pay $3,150 million in pursuit of $600 million which to me is sort of backward.

So, it seems to me you would do better to just tighten up on your interest equalization tax and make it a 2-percent tax rather than 1 percent tax and apply it to bank loans and make it a very strict, rigid tax giving you the authority to make some exceptions where exceptions were necessary, to have some regulations, and meet the problem that way rather than put that on.

Of course, probably the private debt is a trillion dollars, and 1 percent on that works out to be about $10 billion a year, so a $10 billion tax on borrowers for the benefit of lenders just to pursue $600 million, $10 billion tax to chase $600 million doesn't make a lot of sense to me.

Mr. DEMING. Senator, if I might just make a couple of comments on that.

Senator LONG. Because what you are paying is 20 times as big as what you are chasing.

Mr. DEMING. I would say in that sort of a situation it wouldn't be good business to do it but I don't think it is quite that kind of a situation.

First of all, the interest rates that have gone up have been the short-term interest rates on Treasury bills and that is not the total debt. The total debt under 1 year at the present time is on the order of magnitude of about $90 billion instead of the $318 billion that, I believe, Senator, is the present level of the Federal debt.

Second, they haven't gone up by 2 percent. They have moved up in the last 3 months or so by about a quarter of 1 percent, and this has kept us reasonably competitive with the situation abroad. I think we have got a reasonably good business bet in trying to keep that money here or to attract some from abroad at the present rate structure.

Senator LONG. When I came to Washington 16 years ago we weren't trying to compete with France and England for "hot money" as an excuse for giving the public higher interest rates, and I would hope we wouldn't try to sell the public debt, but to try to bring the interest rates down rather than to keep them at the high level we found them. We Democrats made a lot of politics about it and we did a lot of talking and by the time we got in—I would like to see us do something about it. Here are interest rates with the public paying $10 billion a year in interest rates more than they have to. Maybe I am just too much of a Populist on this but generally speaking I tend to regard interest rates as a tax on the poor for the benefit of the rich so here we proceed, especially when they get higher than they need be.

So, here we have interest rates at least $10 billion more than they ought to be, in my judgment, and then we announce a $2 billion war on poverty. It seems to me as though you would make a bigger contribution to get the interest rates down.

Senator DOUGLAS. And, also, we don't keep the longtime interest rates down.

Senator LONG. That is where the money is.

Senator DIRKSEN. We would save that issue for the next campaign. [Laughter.]

Senator LONG. I wish you would make an issue of it.

Senator WILLIAMS. What is the average interest rate on our national debt this year; that is, the most recent figures that you have?

Mr. DEMING. I don't have that, Senator. I should, I suppose, but I don't.

Senator WILLIAMS. Do you break that average down in your Department in two categories, one for your short term—that is, below 5 years—and one above?

Mr. DEMING. Yes; it is broken down in various ways. There is an interest rate computation on the debt as a whole, where you just simply average out the——

Senator WILLIAMS. That is the whole $318 billion?

Mr. DEMING. Yes, and then there are tables that are computed. I don't have it in my head at the present time.

Senator WILLIAMS. Will you furnish me the average interest rates of the past 10 years of the debt as a whole? I would just like to see the trend.

Mr. DEMING. For the past 10 years.

Senator LONG. May I add to that question, ask for 20, go back 20.

Mr. DEMING. Average interest rate on the debt.

Senator LONG. Last 20 years.

How about new issues, too, what the average was on new issues so we can see how that got in there.

Senator WILLIAMS. That can all be included.

Senator DOUGLAS. What are the quotations on the magnificent five's that Mr. Baird obtained?

Mr. DEMING. Yes.

(The following tables were subsequently submitted to meet the above requests.)

TABLE 1.—*Computed annual interest rate on the public debt by class of security*

[In percent]

Date	Total public debt	Marketable issues: Total [1]	Marketable issues: Bills [2]	Marketable issues: Certificates	Marketable issues: Notes	Marketable issues: Treasury bonds	Nonmarketable issues: Total	Nonmarketable issues: Savings bonds [3]	Nonmarketable issues: Tax and savings notes	Nonmarketable issues: Other	Special issues
June 30:											
1945	1.936	1.718	0.381	0.875	1.204	2.314	2.473	2.789	1.076	2.000	2.436
1946	1.996	1.773	.381	.875	1.239	2.307	2.567	2.777	1.070	2.000	2.448
1947	2.107	1.871	.382	.875	1.448	2.307	2.593	2.765	1.070	2.423	2.510
1948	2.182	1.942	1.014	1.042	1.204	2.309	2.623	2.759	1.070	2.414	2.588
1949	2.236	2.001	1.176	1.225	1.375	2.313	2.629	2.751	1.290	2.393	2.596
1950	2.200	1.958	1.187	1.163	1.344	2.322	2.569	2.748	1.383	2.407	2.589
1951	2.270	1.981	1.569	1.875	1.399	2.327	2.623	2.742	1.567	2.717	2.606
1952	2.329	2.051	1.711	1.875	1.560	2.317	2.659	2.745	1.785	2.714	2.675
1953	2.438	2.207	2.254	2.319	1.754	2.342	2.720	2.760	2.231	2.708	2.746
1954	2.342	2.043	.843	1.928	1.838	2.440	2.751	2.793	2.377	2.709	2.671
1955	2.351	2.079	1.539	1.173	1.846	2.480	2.789	2.821	2.359	2.708	2.585
1956	2.576	2.427	2.654	2.625	2.075	2.485	2.824	2.848	------------	2.713	2.705
1957	2.730	2.707	3.197	3.345	2.504	2.482	2.853	2.880	------------	2.718	2.635
1958	2.638	2.546	1.033	3.330	2.806	2.576	2.892	2.925	------------	2.718	2.630
1959	2.867	2.891	3.316	2.842	3.304	2.619	2.925	2.961	------------	2.714	2.694
1960	3.297	3.449	3.815	4.721	4.058	2.639	3.219	3.293	------------	2.715	2.772
1961	3.072	3.063	2.584	3.073	3.704	2.829	3.330	3.408	------------	2.713	2.803
1962	3.239	3.285	2.926	3.377	3.680	3.122	3.364	3.449	------------	2.670	2.891
1963	3.360	3.425	3.081	3.283	3.921	3.344	3.412	3.482	------------	2.770	3.003
1964	3.560	3.659	3.729	------------	3.854	3.471	3.462	3.517	------------	2.913	3.238
Dec. 30, 1964	3.602	3.696	3.854	------------	3.811	3.536	3.537	3.528	------------	3.622	3.248

[1] Includes Panama Canal bonds prior to 1961, postal savings bonds prior to 1956, and conversion bonds prior to 1947.

[2] Computed on basis of discount value.

[3] Based on rates to maturity applied against amounts outstanding.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Jan. 19, 1965.

TABLE 2.—*Treasury bonds issued for cash or in refunding maturing securities, 1945–64*

Issue date [1]	Description	Term to maturity (Years)	Term to maturity (Months)	Amount issued (Millions of dollars)	Effective rate (Percent yield)
1945—June 1	2½ percent, June 15, 1967-72	27	½	7,967	2.500
	2¼ percent, June 15, 1959-62	17	½	5,284	2.250
	1½ percent, Dec. 15, 1950	5	6½	2,635	1.500
Nov. 15	2½ percent, Dec. 15, 1967-72	27	1	11,689	2.500
	2¼ percent, Dec. 15, 1959-62	17	1	3,470	2.250
1952—Mar. 1	2⅜ percent, Mar. 15, 1957-59	7	½	927	2.375
July 1	2⅜ percent, June 15, 1958	5	11½	4,245	2.375
1953—Feb. 15	2½ percent, Dec. 15, 1958	5	10	620	2.500
May 1	3¼ percent, June 15, 1978-83	30	1½	1,606	3.250
Nov. 9	2¾ percent, Sept. 15, 1961	7	10	2,239	2.750
Dec. 1	2½ percent, Dec. 15, 1958 [2]	5	½	1,748	2.500
1954—Feb. 15	2½ percent, Nov. 15, 1961	7	9	11,177	2.500
Aug. 15	2⅛ percent, Nov. 15, 1960	6	3	3,806	2.125
Dec. 15	2½ percent, Aug. 15, 1963	8	8	6,755	2.500
1955—Feb. 15	3 percent, Feb. 15, 1995	40	0	1,924	3.000
July 20	do [1]	39	7	821	3.000
1957—Oct. 1	4 percent, Oct. 1, 1969	12	0	657	4.000
Dec. 2	3⅞ percent, Nov. 15, 1974	16	11½	654	3.875
1958—Feb. 14	3 percent, Feb. 15, 1964	6	0	3,854	3.000
	3½ percent, Feb. 15, 1990	32	0	1,727	3.500
Feb. 28	3 percent, Aug. 15, 1966	8	5½	1,484	3.000
June 3	3¼ percent, May 15, 1985	26	11	1,135	3.222
June 15	2⅝ percent, Feb. 15, 1965	6	8	7,388	2.625
1959—Jan. 23	4 percent, Feb. 15, 1980	21	1	884	4.071
Apr. 1	4 percent, Oct. 1, 1969 [2]	10	6	619	4.000
1960—Apr. 5	4¼ percent, May 15, 1975-85	25	1½	470	4.250
Aug. 15	3⅞ percent, May 15, 1968 [2]	7	9	1,070	3.875
Nov. 15	3¾ percent, May 15, 1966	5	6	1,213	3.750
Dec. 15	4 percent, Oct. 1, 1969 [2]	8	9½	148	3.932
1961—Aug. 1	3⅞ percent, May 15, 1968 [2]	6	9½	749	3.981
Nov. 15	3¾ percent, May 15, 1966 [2]	4	6	2,384	3.811
	3⅞ percent, Nov. 15, 1974 [2]	13	0	517	3.974
Dec. 20	3⅞ percent, May 15, 1968 [2]	6	5	320	3.964
1962—Jan. 24	4 percent, Oct. 1, 1969 [2]	7	8½	1,114	4.038
Apr. 18	3¾ percent, Aug. 15, 1968	6	4	1,258	3.750
May 15	3⅞ percent, Nov. 15, 1971	9	6	1,204	3.939
Aug. 15	4 percent, Feb. 15, 1969	6	6	1,844	4.000
	4¼ percent, Aug. 15, 1987-92	30	1	365	4.191
Nov. 15	4 percent, Feb. 15, 1972	9	3	2,344	4.000
Dec. 15	3⅞ percent, Nov. 15, 1971 [2]	8	11	41	3.942
	4 percent, Feb. 15, 1980 [2]	17	2	34	4.041
1963—Jan. 17	4 percent, Feb. 15, 1988-93 [3]	30	1	250	4.008
Feb. 15	3⅝ percent, Aug. 15, 1968 [2]	5	6	2,490	3.750
Apr. 18	4⅛ percent, May 15, 1989-94 [3]	31	1	300	4.093
June 20	4 percent, Aug. 15, 1970	7	2	1,906	4.000
1964—May 15	4¼ percent, May 15, 1974	10	0	1,532	4.250

[1] Or interest starting date on reopening of existing issues.
[2] Reopening of existing issue.
[3] Sold at competive bidding.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Jan. 19, 1965.

TABLE 3.—*Treasury bonds issued in advance refundings June 1960 to January 1965*

Issue date [1]	Description	Term to maturity		Amount issued (millions)	Effective yield to maturity based on— Par plus (or minus) cash payments [2]	Price of eligible issue plus (or minus) cash payments [2] [3]
		Years	*Months*		*Percent*	*Percent*
1960—June 23	3⅞ percent, May 15, 1968	7	11	$320	3.93	4.14
Oct. 3	3½ percent, Nov. 15, 1980	20	1½	643	3.50	3.92
	3½ percent, Feb. 15, 1990 [4]	29	4½	993	3.50	3.96
	3½ percent, Nov. 15, 1998	38	1½	2,343	[5] 3.50	[5] 3.96
1961—Mar. 15	3⅜ percent, Nov. 15, 1966	5	8	2,438	3.38	3.63
	3⅝ percent, Nov. 15, 1967	6	8	3,604	[5] 3.60	[5] 3.75
Sept. 15	3½ percent, Nov. 15, 1980 [4]	19	2	1,273	[5] 3.32	[5] 4.16
	3½ percent, Feb. 15, 1990 [4]	28	5	1,298	[5] 3.52	[5] 4.22
	3½ percent, Nov. 15, 1998 [4]	37	2	1,187	[5] 3.57	[5] 4.19
1962—Mar. 1	4 percent, Aug. 15, 1971	9	5½	2,805	[5] 3.85	[5] 4.10
	4 percent, Feb. 15, 1980 [4]	17	11½	563	3.98	4.20
	3½ percent, Feb. 15, 1990 [4]	27	11½	900	[5] 3.42	[5] 4.20
	3½ percent, Nov. 15, 1998 [4]	36	8½	934	[5] 3.49	[5] 4.18
Sept. 15	4 percent, Aug. 15, 1972	9	11	2,579	[5] 4.08	[5] 4.06
1963—Mar. 15	3⅞ percent, Nov. 15, 1971 [4]	8	8	1,515	[5] 3.99	[5] 3.97
	3⅞ percent, Nov. 15, 1974 [4]	11	8	1,074	[5] 3.99	[5] 3.97
	4 percent, Feb. 15, 1980 [4]	16	11	1,130	[5] 4.06	[5] 4.04
Sept. 15	3⅞ percent, Nov. 15, 1968	5	2	1,591	[5] 4.07	[5] 4.02
	4 percent, Aug. 15, 1973	9	11	3,894	[5] 4.15	[5] 4.15
	4⅛ percent, May 15, 1989–94 [4]	30	8	1,259	[5] 4.21	[5] 4.21
1964—Jan. 22	4 percent, Aug. 15, 1970 [4]	6	7	2,223	[5] 4.15	[5] 4.16
	4¼ percent, May 15, 1975–85 [4]	21	4	749	[5] 4.27	[5] 4.25
July 22	4 percent, Oct. 1, 1969 [4]	5	2	3,726	[5] 4.06	[5] 4.08
	4⅛ percent, Nov. 15, 1973	9	3½	4,357	[5] 4.22	[5] 4.23
	4¼ percent, Aug. 15, 1987–92 [4]	28	0½	1,199	[5] 4.25	[5] 4.24
1965—Jan. 15	4 percent, Feb. 15, 1970	5	1	4,350	(6)	[5] 4.18
	4⅛ percent, Feb. 15, 1974	9	1	3,112	(6)	[5] 4.24
	4¼ percent, Aug. 15, 1987–92 [4]	27	7	2,236	(6)	[5] 4.25

[1] Interest starting date.
[2] Plus cash payments by subscribers, minus cash payments to subscribers.
[3] Prices are mean of bid and ask at Noon on day before announcement.
[4] Reopening of existing issue.
[5] Weighted average yield based on amounts of eligible issues exchanged.
[6] Not available.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Jan. 19, 1965.

TABLE 4.—*Range of market prices of 5-percent notes due Aug. 15, 1964, issued Oct. 15, 1959*

[Closing bid prices per $100 of face value;[1] decimals are 32d's]

	High		Low	
	Price	Date	Price	Date
During:				
1959	$101.09	Oct. 21, 1959	$100.09	Dec. 4, 1959
1960	105.20	Dec. 30, 1960	100.17	Jan. 6, 1960
1961	105.28	May 12, 1961	103.07	Dec. 12, 1961
1962	104.07	Apr. 4, 1962	102.25	Dec. 31, 1962
1963	102.28	Jan. 6, 1963	100.24	Dec. 31, 1963
1964	100.28	Jan. 16, 1964	99.31	Aug. 12, 1964
Overall	105.28	May 12, 1961	99.31	Aug. 12, 1964

[1] As reported by the Federal Reserve Bank of New York.

Source: Office of Debt Analysis, Jan. 19, 1965.

Senator WILLIAMS. They have been paid off.

It is my understanding that the 5 percents were sold to avoid raising the long-term interest rates. We had been financing an unusual large percentage of our debt on a short-term basis.

Mr. DEMING. Yes; the argument was, as Senator Douglas knows, with the four and a quarter ceiling rate on the longer terms you couldn't sell long-term bonds at that rate and the Treasury argued it was forced to go to an issue under 5 years and price it at 5 percent to make it salable.

Senator WILLIAMS. That was my understanding. Can you foresee a possibility where you would be caught in the same box where you would have to either raise the short-term rates to higher level than the four and a quarter perhaps up to 5 percent, should Congress refuse to comply with your request should you come down and ask to have the four-and-a-quarter-percent rates removed or increased?

Mr. DEMING. I can foresee a possibility but I don't think it is a probability and I don't think it's a probability at least for the immediate future.

Senator WILLIAMS. But you are within five points of the ceiling now.

Mr. DEMING. Yes. We have been moving right below it.

Senator WILLIAMS. I know you are.

Mr. DEMING. And this last bond that was part of this advance refunding, the long one, was at a four-and-a-quarter-percent rate. But it is selling at a premium in the market so the effective yield on that is less than four and a quarter percent.

Senator DOUGLAS. You can avoid that difficulty, if you ever get pinched, by simply throwing the issues open for competitive bidding, and then you will get an adjustment in price which will give you a market yield and if that is above 4.25 providing it is honest, competitive bidding, OK. So, I don't think you need legislate. You just need to have competitive bidding.

Now, I see no reason why you should have these gentlemen's agreements with representatives of the bankers to determine what the interest rate is. I happen to believe in the free competitive market, and I see no reason why it shouldn't be applied to monetary matters as well. You do it partially, why not go through it all the way. I got Mr. Dillon to do this twice. The first time it was a real success and he said the second time wasn't a success. But I am asking you to keep an open mind on this question of competitive bidding.

Mr. DEMING. I will, Senator. I think this needs further exploration, but as you have said the first one was a howling success. The second one wasn't, so we have got one on each side.

Senator DOUGLAS. I understand.

Well, if Mickey Mantle could bat 500 percent——

Mr. DEMING. I will remember that.

Senator WILLIAMS. Assuming that you did put the bonds on competitive bidding and your bids were at 4.3, you would not be allowed to accept that bid under existing law.

Senator DOUGLAS. Oh, yes, yes; the law does not prohibit you. It is stated rate of interest, it is not yield.

Mr. DEMING. There is an opinion from the Attorney General to that effect, as I understand it, Senator.

Senator DOUGLAS. Yes.

Senator WILLIAMS. Do you mean that you can sell a four-and-a-quarter-percent bond at 90?

Mr. DEMING. At a discount. Well, to put it, Senator, the other way, that you can sell a bond with a coupon rate at four and a quarter percent but discount it so that the yield would be above four and a quarter percent.

Senator WILLIAMS. You could sell a four-and-quarter-percent bond as low as 90 or 80?

Mr. DEMING. I hope we won't have to do that.

Senator WILLIAMS. I do, too, but is this the Attorney General's ruling that conceivably you could do that?

Mr. DEMING. The Attorney General has so stated. I haven't seen this opinion. I am fairly new at this, but I am told this is the interpretation.

Senator WILLIAMS. Well, don't you think that would be a rather dangerous precedent, even worse than changing the rate, the coupon rate.

Senator DOUGLAS. Providing it is a duly competitive price, I would not object to it because that would mean that was what you had to pay in order to get the money. I simply object to artificially forced high interest rates.

Senator WILLIAMS. Assuming that instead of selling a 5-percent bond at par you sold a 4½-percent bond at 90; does that not mean that the man who buys this bond can then convert this 10-point spread, which is really a part of interest, as capital gains rather than pay the regular income tax. Would this not be a tremendous tax windfall for the higher tax brackets; isn't that true? Could you not conceivably sell a 1½-percent bond for 50; they then could convert practically all of their interest to capital gains, and thereby put a ceiling of 25 percent on the tax on income that the man would normally be paying 70 percent. I am surprised the Senator from Illinois would support that principle.

Senator DOUGLAS. You put the ceiling on capital gains, John, not I.

Senator WILLIAMS. Oh no, this would give a man a chance to convert a portion of his interest payments to capital gains, would it not?

Mr. DEMING. I think your argument, Senator, is probably perfectly correct. I don't think that you would find a Treasury financing situation where you really would be selling bonds at as deep a discount as you contemplate.

Senator WILLIAMS. I hope not. I don't think we should. I am just saying that when you reach this 4½-percent ceiling that you should face it openly and get the corrective legislation rather than to detour around by the back door and try to kid somebody that you are holding interest rates down.

Mr. DEMING. Well, personally, I would be more comfortable—I haven't done enough research on this to answer this completely with complete certainty. I think, Senator Douglas, that my personal opinion is that the feeling of the Congress has been that the 4½-percent rate was to be a rate ceiling on coupon and on yield when it was issued. But I am not trying to argue with the Attorney General. It just seems to me this was the intent, and I think I would be a little more comfortable not selling—I hope we would not have to sell them at a substantial discount is what I am saying.

Senator TALMADGE. May I ask a question, Mr. Chairman.

I regard the dollar deficit of the gold drain as one of the most serious problems facing our country today. I would like to have your views on that and your recommendations as to what to do to correct it.

Mr. DEMING. Senator, I think this is one of the really difficult problems that faces the country today.

We have done—of course, I think, we have gone a considerable way in bringing ourselves into better balance. You are familiar with the figure——

Senator TALMADGE. I see a lot of reports, though, that indicate that the gold loss this year will probably be a billion dollars.

Mr. DEMING. Well, I hope it isn't that large. The gold loss last year was quite small. It will probably be larger this year. But we have reduced the overall deficit in the balance of payments largely through increasing our spread between exports and imports. Our balance on trade and services has been steadily improving, which indicates that this country is in a pretty strong competitive position internationally, and this is quite important.

Senator TALMADGE. Agreed, but that is something the Government can't necessarily control.

Mr. DEMING. Yes, and I was going to come to more of this.

The deficit that we have is at the present time sort of a joint product. We are still losing some funds on such governmental expenditures as we make abroad. These are matters of international political affairs and I think governmental policy is aimed at trying to reduce the foreign exchange drain of both military and foreign aid expenditures through tying aid and reducing military expenditures abroad where this can be accomplished. The big drain last year has been capital outflow and this has taken the form of bank lending abroad both on short term and long term, of direct investment abroad, and of portfolio investment—that is selling of foreign securities in our markets.

The latest figures I have seen on this run roughly this way: It is roughly a $5 billion capital outflow in total; the amount of bank lending abroad this year was about a billion and a half or more of this; the capital issues sales in this country in spite of the interest equalization tax have been about a billion dollars; and direct investment is in the order of $2 billion. There are some other items in this figure.

In terms of recommendations, I think we have got to look fairly hard at this bank lending abroad. This subject is under study and we have got to see what we can do with it.

Senator TALMADGE. How much are we investing abroad annually now?

Mr. DEMING. In bank lending it is about a billion and a half or more.

Senator TALMADGE. How much are we receiving back on earnings?

Mr. DEMING. That is direct investment you are talking about. Last year our direct investment abroad was a little over $2 billion and the dividend income flowing in from that and previous investments last year grosses on the magnitude of $3½ to $4 billion.

Senator TALMADGE. In other words, the inflow was about twice what the outflow was from direct investment?

Mr. DEMING. Direct investment.

Senator TALMADGE. And equal to about direct investment and bank loans?

Mr. DEMING. Yes.

Senator MORTON. What is the third factor?

Mr. DEMING. The selling of securities in American markets by foreigners. A lot of that is——

Senator DOUGLAS. Stock you mean.

Mr. DEMING. These are primarily bonds, Senator. These are securities that are sold in the American capital markets.

Senator MORTON. U.S. securities.

Mr. DEMING. You see there are three things here; one is that underdeveloped countries were excluded from the interest equalization tax and Canada was exempted from the interest equalization tax, and some foreigners have found the American market attractive not merely from the rate standpoint but just because it happens to function very well. These figures are not final, it is an estimate. It looks like about a billion dollars net.

Senator DOUGLAS. Has the sale of stocks increased?

Mr. DEMING. Not that I know of. But don't take that as a definitive answer because I just don't know it that well.

Senator WILLIAMS. Bank lendings have increased substantially.

Mr. DEMING. Bank lending has increased, particularly term loans of banks, and this has perhaps been a response to the interest equalization tax. Some of these borrowings that would have taken place in the capital markets have been shifted over into the term lending of banks. We have been getting reports on this—Senator Gore's amendment, of course, made this necessary—for the past year and this subject is under study, or I guess you would say it has been under constant study during this past year.

Senator TALMADGE. How much free gold do we have now, something on the order of a billion and a half?

Mr. DEMING. We have roughly between \$15 and \$15½ billion worth of gold and about \$13 billion of that is locked up in the gold cover.

Senator TALMADGE. How much has De Gaulle announced his intention to convert this year?

Mr. DEMING. Well, what the French have said so far is that they will take \$150 million in gold. This is the thing that has been in the papers during the last week.

Senator TALMADGE. For what period?

Mr. DEMING. This is now.

Senator TALMADGE. When are they going to make another dip?

Mr. DEMING. I don't know when they are going to make another pass at the gold. Their foreign exchange in dollar form is roughly a billion 300 million dollars or a little more at the present time. The dollar loans that they have from us and from Canada, are roughly \$700 million and it can be assumed, I believe, that they wouldn't borrow \$700 million from the United States and Canada and then bring in gold claims on this, so this is being regarded as \$700 million they wouldn't convert.

Senator MCCARTHY. And \$600 million they can operate on?

Mr. DEMING. Well, perhaps \$400 million or more they need to operate on so somewhere between a billion one and a billion two would be the minimum amount of dollars that they would want to hold. If they acquire, Senator, additional reserves as their balance of payments grow stronger, I suppose the French might convert some of those into gold. The margin at the present time, which is what they would have over and above this billion one or billion two that seems to be pretty much an irreducible minimum of what they could hold in dollar form, is not very great. The only announcement they have made is this $150 million.

Senator TALMADGE. I have seen something to the effect that short-term claims held by foreigners abroad now amounts to in the order of $25, $26, $27 billion, is that correct?

Mr. DEMING. That is correct.

Senator TALMADGE. In other words, that could be presented for gold claims?

Mr. DEMING. Well, no, that is the total. And, of course, no private individual can get gold from this country. It has to go through——

Senator DOUGLAS. Couldn't they deposit their claims?

Senator TALMADGE. Foreign central banks.

Senator DOUGLAS. Foreign central banks and the foreign central banks——

Mr. DEMING. Yes, they could. But, as you know, Senator, they have to keep working balances and a good proportion of this, unless they feared devaluation of the dollar——

Senator TALMADGE. Couldn't they convert their own dollars into Swiss francs and other foreign currency?

Mr. DEMING. Yes; they could do that.

Senator TALMADGE. If they do this they would immediately go into the central foreign bank.

Mr. DEMING. But just to do business they have to have a good block of these dollars and, Senator, despite the gold losses, the dollar is still the strong currency of the world, of course, and we want to keep it that way.

Senator TALMADGE. But what I am trying to find out is isn't it right critical if these folks decide to call and say "We want gold."

Mr. DEMING. It would be very critical if they decided to call and say they wanted gold.

Senator TALMADGE. All right.

What do you recommend we do about it?

Mr. DEMING. I think we have got to do something about the gold cover.

Senator DIRKSEN. Herman, may I interpose a question?

Senator TALMADGE. Surely.

Senator DIRKSEN. I gather from press accounts that the bill which Congressman Patman has introduced or will introduce, will call for the removal of the gold cover from the commercial bank deposits with the Federal Reserve, is that correct?

Mr. DEMING. This is what is reported, Senator. This subject is under study and I don't think that is a final recommendation yet.

Senator DIRKSEN. Well now——

Mr. DEMING. So far as I know.

Senator DIRKSEN (continuing). The accounts I have read thus far say that this is an administration bill and I would have to gather that it comes up here with administration blessing. That would connote obviously there has been consultation between Treasury and Federal Reserve and others.

Mr. DEMING. Yes.

Senator DIRKSEN. Have you or has anybody within your knowledge sat in on consultations with respect to that move?

Mr. DEMING. Yes. I have not. But there have been—this has been under study.

In a broad sense, there are three possible approaches to this: One is the bill that Congressman Reuss has introduced which would take all of the gold cover off and free it completely.

One would be just to reduce the 25-percent level to some lower figure, say 10 or 15 percent, which is essentially the action that was taken in 1945 or 1946 when the then 40- and 35-percent requirements were reduced to 25 percent.

A third way would be to take off the cover on either the deposits or the notes.

Now, the deposits are roughly $20 billion. The note issue is roughly $35 billion. So that you have got—what does that work out to, 7 to 4. If you took it off of the deposits it would free up about 5 billion. If you took it off the notes it would free up somewhere between 7 or 8 billions.

Senator DOUGLAS. If my colleague would permit me, isn't another factor which needs to be considered; namely, there is going to be an increase in note issue and expansion of credit during the coming year and assuming, say, roughly a 3 or 4 percent growth, total of, say, $2 billion, this would require further reserves of 500 million.

Mr. DEMING. Yes.

Senator DOUGLAS. So that your margin of a billion and a half at the end of next year will probably be down to a billion, isn't that true?

Mr. DEMING. Yes.

Senator DOUGLAS. If nothing else happens.

Mr. DEMING. Yes. If the gold position of the United States remained absolutely unchanged and we had the economic expansion that everybody hopes for over the next 2 years, you would come right close to running against the 25-percent gold cover.

Senator DOUGLAS. Mr. Deming, I have a $20 Federal Reserve note here, I would like gold for it.

Mr. DEMING. I am getting out of the Federal Reserve System, Senator, and I can't do that.

Senator DOUGLAS. But I will have you act as my agent. Can you get me gold for that?

Mr. DEMING. No, sir.

Senator DOUGLAS. Here is a $5 bill, Federal Reserve note. I would like gold for that?

Mr. DEMING. No, sir.

Senator DOUGLAS. Now, here is a $1 bill formerly redeemed in silver, but I read on it "Federal Reserve note. This note is legal tender for all debts public and private" and I would like gold on that.

Mr. DEMING. No, sir. Not for this.

Senator MCCARTHY. You can't even get silver.

Mr. DEMING. Not for these you can't. For a silver certificate.

Senator TALMADGE. If the Government of Mexico had those they could get gold for all of them?

Mr. DEMING. Yes.

Senator DOUGLAS. What is the use of maintaining a gold reserve when you can't get gold on presentation? You don't get it for the notes. Suppose a bank, which is a depository in the Federal Reserve System, asked to have its deposit converted into gold, it couldn't get gold. What is the use of covering that gold when nobody can get it internally?

Mr. DEMING. Well, the United States, along with some small countries, is the only Nation which really has a fixed gold reserve requirement against its central banking liabilities.

Senator TALMADGE. What nations are they?

Mr. DEMING. I don't know. Nevertheless, and this is, I guess, in good measure an emotional question—Senator Douglas being an economist views it through somewhat clearer eyes—there is a great emotional appeal that gold has, and I think that the—did I say something wrong?

Senator MCCARTHY. No; you are right.

Senator DOUGLAS. It reminds me of the opening opera of the Wagnerian cycle.

Senator MCCARTHY. You give the Congress too much credit.

Mr. DEMING. Being an economist. There is a great emotional appeal in this and the fact that the French want a larger gold reserve is an indication of this.

There also is from the, I suppose, from any country's standpoint a desire to hold its international reserves in a form that has unchanging value, whereas if you hold them in the currencies of another country there is at least a possibility of devaluation.

Senator WILLIAMS. How are your stocks of silver?

Mr. DEMING. Senator, the silver stocks are probably not high enough to meet the coinage need indefinitely. This subject is under intensive study. I read some long memorandums on that since I have come down here to do some work in the Treasury. As you know, the coinage situation has become quite acute.

Senator WILLIAMS. Would you furnish for us a record of your inventories of silver for the past 5 years?

Mr. DEMING. Oh, yes; sure.

(The information requested follows:)

TABLE 5.—*U.S. silver stocks, 1960–64*

[In troy ounces and dollars]

As of Dec. 31	In bullion back of silver certificates		In silver dollars		In other silver bullion [1]		Total	
	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars
1960	1,741,839,335.5	2,252,075,098.77	124,862,183.9	161,437,975	123,528,745.3	88,899,932.12	1,990,230,264.7	2,502,413,005.89
1961	1,730,539,335.5	2,237,464,997.77	101,039,729.6	130,637,226	28,457,383.6	24,183,871.64	1,860,036,448.7	2,392,286,095.41
1962	1,654,494,335.4	2,139,144,189.75	73,642,576.3	95,214,644	36,987,896.9	30,478,599.35	1,765,124,808.6	2,264,837,433.10
1963	1,532,538,548.6	1,981,463,980.59	22,097,981.1	28,571,127	25,223,063.6	18,802,183.90	1,579,859,593.3	2,028,837,291.49
1964	1,190,266,480.5	1,538,930,397.89	2,288,156.8	2,958,425	17,857,032.9	16,768,271.09	1,210,411,670.2	1,558,657,093.98

[1] Free silver carried at cost value, other at monetary value.

Source: Daily Statement of the U.S. Treasury, Office of Domestic Gold and Silver Operations, Jan. 15, 1965.

Senator WILLIAMS. Is it not true that you are soon going to be confronted with the question of changing the silver content of these coins?

Mr. DEMING. I don't know the answer to that completely because this is under study, but the reason for this $1 Federal Reserve note that Senator Douglas handed me is because of the relative shortage in the silver stocks.

Senator TALMADGE. Getting back to the gold situation a moment now, gold never has been devalued, has it?

Mr. DEMING. Currencies are devalued against gold, Senator.

Senator TALMADGE. All right.

Mr. DEMING. Or revalued sometimes.

Senator TALMADGE. Does the German mark have anything behind it except the Government? Germany says they will pay what? What is it they say they will pay?

Mr. DEMING. The mark in terms of the dollar is—there are 4 marks to the dollar.

Senator TALMADGE. All right.

What does Germany use to guarantee their mark or the——

Mr. DEMING. Well, they preserve their foreign exchange position by having reserves on which they can draw to meet their balance-of-payments needs.

Senator TALMADGE. On what, dollars or gold or both?

Mr. DEMING. They hold their reserves mainly in gold or dollars.

Senator TALMADGE. What I am trying to get at is: What supports a government's currency?

Mr. DEMING. Well, there are two things: One of the things that support the government's currency is the confidence of the people that it is acceptable. This is acceptable, domestically.

Senator TALMADGE. What creates that confidence?

Mr. DEMING. Well, the strength of the economy and confidence in the government itself pursuing well-balanced policies.

Senator TALMADGE. I assume the weakness in the pound now is caused by the pound deficits in England, and the inflationary spiral——

Mr. DEMING. Yes.

Senator TALMADGE (continuing). And so on.

Mr. DEMING. Yes. There is—there has been, as evidence of these changes, some evident lack of confidence in the ability of the British to hold the value of the pound at $2.80.

Senator TALMADGE. Suppose they don't, then what?

Mr. DEMING. Well, if they don't, then people who hold pounds at the present time would find themselves with pounds that were worth less in value in terms of other currency.

Senator TALMADGE. What would that do to the dollar?

Mr. DEMING. If the British devalued the pound at the present time it would have some considerable impact on the dollar. But this would depend (*a*) on whether there was any appreciable devaluation, and (*b*) whether the other countries tried to follow it up. What it would do, if everybody devalued against the dollar, would be to make the dollar expensive and would hurt our exports. I don't think the British are intending to devalue the pound. I think they are very strongly opposed to this, and I think that they can hold it.

Senator TALMADGE. I would think any government would be violently opposed to devaluing their currency, wouldn't they?

Mr. DEMING. Well, under certain circumstances, which do not exist in Britain, this may be the only course that is open to them.

Senator TALMADGE. That is what I mean, circumstances would compel action and not a willing desire to see it devalued; isn't that right?

Mr. DEMING. That is right.

Senator TALMADGE. If Britain devalues their pound is it your judgment that many other countries will follow suit because of the competitive advantage it might give to them?

Mr. DEMING. I think this would depend entirely on how much the devaluation was and what the competitive situation was at the time. I don't think this is answerable, Senator, at the present time. And I also think that the British, as I said, are determined to hold the value of the pound at $2.80.

Senator TALMADGE. Suppose they finally devalued at 25 percent? What, in your judgment, would other governments, including our own, do?

Mr. DEMING. If they devalued by 25 percent I would think that would be far more than they would have to devalue by to keep their goods competitive.

If they devalue by 25 percent I think we would have a very difficult situation to deal with.

Senator TALMADGE. All right.

What do you anticipate that France, Holland, and Belgium would do and other countries under those circumstances?

Mr. DEMING. I think you might find a wave of devaluation.

Senator TALMADGE. In other words, you believe devaluation would be pretty much across the table by the powers?

Mr. DEMING. Yes; because this is a standard of keeping your goods competitive in the market, and if you can buy goods in Britain 25 percent less than you can buy at the present time this would be the place to buy, and the French and Germans would sell less.

Senator TALMADGE. Would this compel us to follow suit?

Mr. DEMING. If everybody did 25 percent we would certainly want to review our position. That is about as far as I want to go on this.

Senator TALMADGE. Suppose Mr. De Gaulle and Mr. Erhard were to get together this evening and say, "we are going to present a billion and a half dollars to the U.S. Government tomorrow for gold."

What would we do?

Mr. DEMING. If they presented it—we are in an unequivocal position on this—we would honor it. We would pay them the gold.

Senator TALMADGE. Where would that leave the——

Mr. DEMING. This would leave us right up against the limit——

Senator TALMADGE. Put $1 over the limit. What would we do then?

Mr. DEMING. In that case the Federal Reserve System would suspend the requirements, which it can do.

Senator TALMADGE. What would happen to the stock market and the economic shock waves that would go out over the world?

Mr. DEMING. Senator, if something like this happened I think you would have some very, very serious economic problems.

Senator TALMADGE. That is my thinking. That is the reason I was trying to question you at some length on this and see what you recommended we ought to do about it.

Mr. DEMING. Well, for the entire balance-of-payments program, the administration is going into this matter and the President, I assume, is going to send out a balance-of-payments message.

Senator TALMADGE. All right.

Supposing he makes this recommendation that he is going to support Patman's bill which I understand will uncover the deposits with the Federal Reserve.

Mr. DEMING. If this is the bill the administration would put in, $5 billion.

Senator TALMADGE. This would go to the degree of $5 billion?

Mr. DEMING. Plus better than a billion and a half we have got this would give you between $6 and $7 billion of free gold.

Senator TALMADGE. What has been our annual gold drain, annually?

Mr. DEMING. It has varied considerably.

Senator TALMADGE. The last 10 years, say.

Mr. DEMING. I can't give you an average because I don't have it in my mind but I can give you a range.

Senator TALMADGE. It has been around a billion to a billion and a half a year, hasn't it?

Mr. DEMING. I don't think it has run that high for the 10-year period.

Senator TALMADGE. On the average.

Mr. DEMING. We have come down from $25 billion to $15 billion. We have lost almost $10 billion in gold since 1949, as I recall the figures.

Senator TALMADGE. About 15. In other words, a little less than a billion a year if you put the average over the 15-year period.

Mr. DEMING. Slightly more than $600 million a year.

Senator TALMADGE. All right.

Suppose the situation remains the same, and we continue to lose gold at that rate that would only buy time for about 6 years.

Mr. DEMING. But we would not, I hope, do this. There are two things that need to be said about this gold drain. One is that in the early years of the gold drain while we weren't exactly trying to lose gold we were perfectly happy in a sense; we had a lot of gold and we wanted to have it more widely distributed.

Senator TALMADGE. Right; in fact, we encouraged by offshore procurement and other ways.

Mr. DEMING. That is right. So the first losses on gold were not resisted in any way by the United States. It has been really since 1957 that this problem has faced us.

Now, the gold drain last year was about $125 million. The year before that it was in the neighborhood, as I recall it, about $500 million, is that correct, Senator? I don't remember the figures precisely.

Senator DOUGLAS. Yes.

Mr. DEMING. This year I don't know what the figures will be. I would hope we would control or stop our balance-of-payments drain.

Senator TALMADGE. What is our present dollar deficit?

Mr. DEMING. I think capital flows at the present time——

Senator TALMADGE. Capital flow, analyze what you mean by capital flow specifically.

Mr. DEMING. This includes direct investment abroad.

Senator TALMADGE. All right, how much is that direct investment?

Mr. DEMING. $2 billion in round figures.

Senator TALMADGE. Direct investments $2 billion, all right, go ahead.

Mr. DEMING. A billion dollars in sales of new securities by foreigners in our markets.

Senator TALMADGE. Sale of security $1 billion. All right.

Mr. DEMING. Bank lending abroad in total on the order of a billion and a half.

Senator TALMADGE. A billion and a half. All right, now there are a few other items you haven't mentioned. How about military?

Mr. DEMING. That isn't counted in the capital flow figure.

Senator TALMADGE. What I am trying to find out is how our dollars get overseas and become a gold drain, how much does the military contribute to that?

Mr. DEMING. At the present time the total drain on military expenditures and foreign aid for a year is in the neighborhood of between $2½ to $3 billion net.

Senator TALMADGE. All right, how much does the foreign aid——

Senator DIRKSEN. When you speak of military you include soldiers spending abroad?

Mr. DEMING. Yes.

Senator TALMADGE. And procurement abroad?

Mr. DEMING. Yes.

Senator MCCARTHY. Everything?

Mr. DEMING. That is military and foreign aid.

Senator TALMADGE. That is both, military and foreign aid. How about tourists?

Mr. DEMING. Well, it is a little difficult to talk about tourism, because you see we get income from people who buy our services and travel over here we get an inflow.

Senator TALMADGE. But isn't that a net loss of about $2 billion?

Mr. DEMING. And we spend money when we send tourists overseas. The total balance on our goods and services account is over $7 billion in our favor, so if you take the tourists out of that, if you treat this thing separately, you would get a bigger balance——

Senator TALMADGE. I am asking about tourists specifically now.

Mr. DEMING. I don't know the figure.

Senator TALMADGE. What is it, Senator Douglas, about $2 billion?

Senator DOUGLAS. No, I think the excess is about a billion four or five.

Senator MORTON. A billion three last year and that is included in your $7 billion of export, import and services, goods and services, is a plus seven for us, and that is after taking off the loss of tourism, so if you separated that out then you have got to add that into your assets side.

Senator TALMADGE. So, in order to correct this dollar deficit then, potential gold flow, we have got to attack these five separate items either individually or collectively.

Mr. DEMING. Yes. I think, Senator, what you try to do in this is, first of all, you try to make yourself have a bigger export balance overall. Now, if this means curtailing tourist expenditures from the United States this is one way of doing this. My personal preference would be to try to get more tourists to come to the United States.

Senator TALMADGE. I agree but that is something we can hope for and not control.

Mr. DEMING. Well, it can be promoted, I think, and probably we can.

Senator TALMADGE. We have passed laws to promote this now and I think it went on with some success, maybe not as great as we had anticipated. But it seems to me when you start correcting problems you have to get out of the dream world and get into the world of reality that the Government can control and not hope for.

Senator DOUGLAS. May I say something?

I think there is a compensatory factor which is at work which should reassure us, and should not cause us a panic, and that is the fact that as gold moves abroad even though they try to sterilize it by the central banks it will have an effect in increasing the price levels in those countries, and this is already evidenced by the fact that the German and French price levels have been rising.

Now, wholesale price levels have been constant.

Now, this is inevitably going to stimulate an increased flow of exports from the United States and, therefore, increase the favorable balance of goods, at least, and there is a plus factor.

There is another reason, too, I think, that as more capital goes abroad which would naturally be used in less profitable lines, and you would, therefore, expect a fall in the rate of interest abroad and, therefore, diminution in the differential and in other words, that some of these compensatory factors which operated in the case of the old gold standard will continue to work in a somewhat different form.

So, that while the problem is very serious and I think the questions of the Senator from Georgia are very penetrating, I do hope we don't panic over this matter. I believe that if we remove the gold cover, and I see no logical reason for maintaining it on the high level deposits of the member banks in the Federal Reserve System or on notes issued, to remove the gold cover we will be in the strongest position of any country in the world.

The gold reserves of England are not more than $2 billion. I don't think the gold reserves of Germany are more than $2 billion, gold reserves. The rest is in the form of dollar reserves.

Senator TALMADGE. Will the Senator yield at that point?

Senator DOUGLAS. Sure.

Senator TALMADGE. Germany does have, though, a tremendous inflow of capital rather than loss of marks, as I recall it, do they not? Doesn't that contribute to the strength of the mark very substantially?

Senator DOUGLAS. What I mean to say is if they get tough we can get tough, too, in spite of the fact that our loans are longtime loans and theirs tend to be short time. If they want to do it, we have weapons with which to meet legitimate claims, and we can cause them trouble.

Senator RIBICOFF. Will the Senator from Georgia yield?

Senator TALMADGE. Certainly.

Senator RIBICOFF. I, too, believe the Senator from Georgia has been raising some pertinent and penetrating questions for future policy. Pursuing the line of questioning of the Senator from Georgia, wouldn't it be the better part of wisdom on the part of the United States, if we are going to remove the gold cover, either totally or in part, to do it when the dollar is strong than to wait until a situation develops where the dollar may be under pressure.

Mr. DEMING. Oh, yes; I think unquestionably.

Senator RIBICOFF. And since you can see from the line of questioning of the Senator from Georgia, and I think he is maybe driving at that, that the dollar will become increasingly under pressure, aren't we better off doing this soon instead of waiting when it would cause a panicky situation that the Senator from Georgia seemed to indicate might develop and I think he is right.

Mr. DEMING. I do, too, and I think, as Senator Douglas mentioned earlier, that without any change in the gold situation, without our losing a nickel's worth of gold from here on out, the very expansion of the economy will force an expansion in the cerdit base which will run us up against this ceiling within a year or two, and so that the time to do this is now. A good many people think the time to have done this was perhaps 4 or 5 years ago.

Senator RIBICOFF. Isn't basically everything we have been talking about, interest equalization tax, and other situations, essentially palliative, not going to solve this unless you strike at the two reasons; tourist, and foreign aid and military costs abroad?

In other words, what do we do? We have a favorable trade balance of about $5 or $6 billion a year, if you just take trade by itself, so we have that. Now, we have been embarked almost 20 years on foreign aid and military aid programs and we are in a situation of having helped France and the other nations now, De Gaulle and the others come and say we have given them the opportunity to put in their checks and ask for gold out of what we have poured over there. I mean, how long do we continue doing this?

Mr. DEMING. Well, Senator, you raise a very difficult point.

Senator RIBICOFF. I know. But it is the difficult questions that are the bothersome ones that are causing the trouble.

Mr. DEMING. That is right.

On the aid, it is now pretty well tied, and the net foreign exchange loss on aid is relatively small. We are moving more and more toward a balance on this.

On the direct military expenditures abroad, I think this is a matter of high international and military policy, and I just am simply not competent to judge whether these expenditures should be raised, lowered, or held.

Senator TALMADGE. Will the Senator yield at that point? I think you have raised a very, very pertinent point, Abe. What I was trying to lead up to in my questions and I think you have summarized very well is, aren't we placing too big a burden on the dollar for us to carry?

Mr. DEMING. If we don't do anything to resolve this balance of payments, if we just let it go I think we would be placing too big a burden on the dollar to carry. But I think we are moving, and I think we are moving in the direction that we should be, and I would not regard some of the measures that are taken here as being just palliative, Senator Ribicoff. I think the interest equalization tax should be regarded as a temporary kind of a measure because we want our capital markets to be free, and to afford entry for people to use them. We want to be the world's banker in this case.

At the moment we can't afford to do it completely and so this needs to go on.

But as we move, as we maintain our costs here relative to costs abroad, as we move toward bigger export balances, bigger trade balances on this thing, and I don't think, Senator, this is dreaming, I think this is attainable, we will find that our balance-of-payments deficit will continue to shrink.

Senator RIBICOFF. Mr. Chairman, the thought occurs to me, and it is brought out by the questions of the Senator from Georgia and the exchange, that it is very probable that within 6 or 9 months we are going to be faced with this problem. I am wondering, Mr. Chairman, if you would consider, whoever the proper people from the Treasury to be, to come up and brief this committee some time on a number of problems. The sterling crisis in London, the impact, potential impact, on the United States of the sterling crisis, how the International Monetary Fund and all the various national banks got together to solve this sterling crisis and how effective was it. The impact on the future economy of this country and the dollar on the maintenance of the gold cover. If there is to be consideration to withstand the pressures abroad from the constant flow of gold and if we are to go off the gold cover when would be the proper time, and I wonder if it wouldn't be part of our education and better to be able to handle the problem in the future if we would be able to take a look at this now instead of 6 or 9 months or a year from now when we are to be confronted with it. I mean if the chairman thought there was any value in it, I think I need some instruction, I would be very frank with you.

The CHAIRMAN. I think that is an excellent idea.

Mr. DEMING. The Treasury will be delighted to do that.

Senator DIRKSEN. Mr. Chairman, I hope in that connection they can find a miracle man who can give us some answers which are prompted by the experience I had on the House Banking Committee many, many years ago, further back than I care to remember when Marriner Eccles was Chairman of the Federal Reserve Board and he was testifying that afternoon, and on that very afternoon the afternoon press came out with a statement to the effect that an unnamed spokesman, speaking for the White House, said that this country could withstand a public debt of $55 billion.

So, at once that question was submitted to Mr. Eccles. What did he think was the level of debt beyond which we could not safely go? He says, "I think it is that damn point where the humble and frugal people of the country will undertake to haul their savings out of banks and stick it in the old family sock and put it under the mattress."

Now, Mr. Deming, if you have a miracle man around who knows just where that point is, and that is the thing that disturbs me about all this gold business, what is the psychological point? What is the psychological point where it begins to cave in? Just the rumblings caused the pound to lose 4 cents the other day. But to make this a reality, take off this gold cover so that people may say, "Well, instead of gold cover we now have a gold-plated cover," which is what is really done, what is its impact, not only here but everywhere in the world and that is an unmeasurable limit, I would say.

Senator WILLIAMS. I would like for him to include in the recommendation and report as to what extent the internal deficits contribute toward the instability of the dollar. Can we sit back and say that once we have solved our balance-of-payments problem we are out of trouble on the dollar or do we have to give some consideration to the continued deficits?

Senator DOUGLAS. If I may be permitted to make a comment, I think it is well known that in 1946 the total Federal debt amounted to approximately $267 billion, and the gross national product was approximately $200 billion, and the ratio of the debt to the gross national product was as 133 to 100.

Now, it is $318 billion, gross national product of $624 billion, ratio of the Federal debt to gross national product is not 133 to 100 but 53 to 100, and I think that before people take fright on these issues they should realize these figures.

Senator DIRKSEN. There is one difference. When that happened before you still had enough war fever in the country to make people rather oblivious to it, and the second——

Senator DOUGLAS. There can't be a run on gold internally because you have seen the incoming Under Secretary refuse to give me gold successively of a $20 bill, $5 bill, $1 bill; nobody can get gold.

If I were the president of a member bank in the Federal Reserve System, and asked to have my deposit in the Federal reserve bank redeemed in gold, what fortune would I have?

Mr. DEMING. None. You can't get it. It is used as the base for an international payments system, but internally the currency is not convertible at all.

Senator DIRKSEN. I was going to complete my story. You had the war fever of people so oblivious to it but since that time the little guy has come into the market in a great big way, and the best way I can illustrate it is the last time I saw my twin brother out home I said, "What's doing down at that Commonwealth Edison plant?" and we talked about various things and he said, "Oh, everybody is souped up on the market."

I said, "What do you mean?"

He says they now get more copies of the Wall Street Journal in every department of that plant than they do the local papers, and every department now has a market boss, so to speak. They trust him with the money and after studying the journal they conclude what stocks to buy, and it is just meetings all over the place and they are the guys who take the run when the time comes, when the psychological wave hits them, and I don't minimize the danger that confronts us one moment.

Senator DOUGLAS. You may very well have a decrease in stock prices, I don't doubt that. It may well be that the ratio of prices to earnings look to me inflated but there will not be the run on banks that we had before. We have got a bank guarantee law and you cannot convert—you can demand money, even to demand money, $20 bills, $5 bills, and $1 bills, you cannot demand that gold be given for the money.

So, there is no danger of an internal run on gold, just none at all, and I don't think there is any danger of an internal run on banks. But there may well be a fall in stock prices. But people took their chances on that when they bought it.

Senator WILLIAMS. I have been interested in the comments of both Senators from Illinois but I would also like to have your comment as to whether you think there is any danger in these continued deficits?

Mr. DEMING. Do you mean, Senator, if we always had a deficit; yes, I think there would be danger. But I am not at all unsympathetic to the present approach that you try to balance the budget over a long cycle, that you would have deficits at times when you need to stimulate the economy, surpluses at times when you didn't want to stimulate the economy but wanted to hold it back.

Senator WILLIAMS. But over a cycle you do feel there should be——

Mr. DEMING. That it should be roughly in balance.

Senator WILLIAMS. It should be in balance?

Mr. DEMING. Yes.

Senator WILLIAMS. And that gets back to the question: When, at what point in the economy, do you create the surpluses and when do you create the deficits? Do you create your surpluses during the period of the depression or otherwise?

Mr. DEMING. You create your surpluses under this approach, Senator, at times when the economy is booming, because this constitutes a deflationary drag on the economy and would be anti-inflationary.

Senator WILLIAMS. What has been the position of our economy for the past 3 years?

Mr. DEMING. We have had an economy that I think I would characterize as growing very nicely.

Senator WILLIAMS. And what has been the position of our deficits for the past 3 years?

Mr. DEMING. We have had deficits for the past 3 years.

Senator WILLIAMS. Growing in proportion——

Senator MCCARTHY. Growing nicely. [Laughter.]

Senator WILLIAMS. If you think the economy is booming now, and we are not supposed to create surpluses, just when do you visualize the economy getting to the point where it would be boomed high enough where you could balance the budget?

Mr. DEMING. I think, Senator, that the deficits of the past 3 years, and particularly the current one, have to be looked at a little differently than the standard one because this is a reflection of the tax cut which I think is well designed to add a great deal of stimulus to the economy.

Now, the President said yesterday afternoon in talking to a group of people who were here to participate in a savings bond campaign that he anticipates the deficit in the forthcoming year to be—I think he said—considerably smaller than it was in the previous year. So this means you are moving in this sort of an economic cycle in the right direction. I don't know when it will come into exact balance but the balance ought to be attained in the cycle as a whole.

Senator MCCARTHY. I didn't think we were moving in terms of cycles any more, Fred.

Mr. DEMING. I am thinking in terms, Senator, of a long swing.

Senator MCCARTHY. Relatively. We are moving upward.

Mr. DEMING. That is what I said; I hope we can keep it forever.

Senator DOUGLAS. The Federal debt is not increasing in the same proportion as the gross national product?

Mr. DEMING. As you pointed out, yes, Senator; it is not.

Senator DOUGLAS. 133 to 50.

Mr. DEMING. Two to one.

Senator DOUGLAS. And one-third to one isn't bad compared to one-half.

Mr. DEMING. Yes.

Senator WILLIAMS. Is the reduction of our deficit to be the result of increased national income or reduced expenditures?

Mr. DEMING. Senator, I can't answer that question. The President's budget message is going in toward the end of this month and I just don't know.

Senator WILLIAMS. In my opinion your balanced budget is just a visionary hope.

Mr. DEMING. I think it is something more than that but I simply can't answer the question definitely. I don't know.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Deming.

NOMINATION OF SHELDON S. COHEN TO BE COMMISSIONER OF INTERNAL REVENUE

The CHAIRMAN. The next nomination on the agenda is that of Sheldon S. Cohen, to be Commissioner of Internal Revenue. I place in the record a biographical sketch of Mr. Cohen.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF SHELDON S. COHEN

Home address: 5518 Trent Street, Chevy Chase, Md.

Born: June 28, 1927, Washington, D.C.; son of Pearl and the late Herman Cohen.

Family: Married, Faye Fram, of Baltimore, Md., 1951; four children.

Schools:

High School: Calvin Coolidge High, Washington, D.C.

College: A.B. (with special honors), George Washington University 1950.

Law school: Juris doctor (with distinction) (A average) (completed in 2 years) 1952.

Honors:

Special honors in accounting, George Washington University.

First in law school class.

Recipient of Charles W. Dorsey scholarship.

Editorial and business secretary, George Washington Law Review.

Case Notes editor, George Washington Law Review, Order of Coif.

Admitted to bar:

U.S. District Court for the District of Columbia 1952.

U.S. Court of Appeals for the District of Columbia 1952.

U.S. Supreme Court 1956.

Tax Court of the United States 1956.

Certified public accountant (Maryland) 1953.

Teaching positions:

George Washington Law School, associate professorial lecturer, 1958 to date.

Howard University Law School, lecturer, 1957-58.

Lecturer: Numerous university and professional groups.

Professional positions:

Chief Counsel, Internal Revenue Service, January 6, 1964.

Partner, Arnold, Fortas & Porter, 1229 19th Street NW., Washington, D.C., 1963-64.

Associate, Arnold, Fortas & Porter, 1960-62.

Associate, Stevenson, Paul, Rifkind, Wharton & Garrison, 1614 Eye Street NW., Washington, D.C., 1956-60.

Legislative attorney, Chief Counsel's office, Internal Revenue Service, Washington, D.C., 1952-56.

Accountant in CPA's office while attending law school, 1950-52.

Member:

Bar Association of the District of Columbia and its tax committee.

American Bar Association and its section on taxation and several of its committees.

Federal Bar Association and its tax committee.

Community activities:

Assistant treasurer and director, Jewish Community Center of Greater Washington.

Second vice president, director, Jewish Social Service Agency.

Military service: Active duty U.S. Naval Reserve, 1945-46.

Senator DANIEL B. BREWSTER, of Maryland. Mr. Chairman, may I introduce my fellow Marylander.

Thank you very much, Mr. Chairman, and members of the committee. Sheldon Cohen is an old friend of mine for whom I have the greatest respect.

He is a graduate in accounting and law from George Washington University where he had an amazing scholastic record in leading his class in every field that he undertook. He was formerly a partner in a leading law firm here in Washington; is now Chief Counsel of the Internal Revenue Service, so his background gives him experience both in Government and in his profession of law and accounting, and enjoys just the very highest reputation, the very best reputation, for his integrity and ability with the members of the bar and in his community, in the State of Maryland, and I, with great sincerity, recommend him to the Senate Finance Committee and respectfully request, Mr. Chairman, that this committee, in its wisdom, confirm the President's nomination.

I thank the chairman and gentlemen very much for allowing me to come here and introduce my friend to the committee.

The CHAIRMAN. Thank you. We are very glad to have you.

Mr. Cohen, do you have any statement?

Mr. COHEN. Mr. Chairman——

The CHAIRMAN. I think the committee knows you and about your career which has been very satisfactory and efficient in every way.

Senator DIRKSEN. When did you appear last?

Mr. COHEN. I appeared last, I believe in March, sir, when I was appointed General Counsel of the Internal Revenue Service.

I have no long statement. I scribbled out a few ideas last evening that I might say to you at this time. The Commissioner's job is really essentially one of administration. He takes the law as he finds it and attempts to administer it fairly and justly and according to the intent of this committee and the Congress and I believe in that wholeheartedly.

It is the foundation of our legal system that the Administrator should not try to impose his own social and economic views on the law.

However, if history repeats itself, and I am sure it will, there are going to be problems that will come up in our dynamic and free enterprise economy that no one thought of last year or no one thought of a couple of days ago, and in consultation with the best staff that we can gather and the Chief Counsel's office, we will try to answer those problems as best we can in the light of the congressional intent as we can glean it from the records.

The most important thing, I think, we have to maintain is the confidence of the public in our system, and to do that we have to have two things, I think: absolute integrity, and fairness, and we have some great people, some wonderful people, in the service. Our integrity is good; our inspection service has been rooting out any of the corrupt and evildoers that we can discover, and I have encouraged Mr. Acree and his staff that on my taking office, if the Congress wills, I will continue to emphasize that particular program.

At the same time during my short stay in the Chief Counsel's office in conjunction with the Commissioner, we had an intensified program of fair and impartial administration, trying to emphasize courtesy and a dispassionate nature of decisionmaking and we intend to keep that up to the best of my ability. I hope I am up to that exacting task my predecessor, Mr. Caplin, and his predecessor have done their best to build up a fine, able service, and I hope to do it as they did in the past.

Senator DIRKSEN. Where is Mortimer now?

Mr. COHEN. He is practicing law here in town. He also teaches one seminar at the University of Virginia.

Senator WILLIAMS. Mr. Cohen, having been critical of the Department on occasions, I wish to say that the Department should be commended for the manner in which you have handled the New York situation. I think you moved in very efficiently when trouble developed there.

Mr. COHEN. Thank you, sir. We will probably, as I understand from Mr. Acree, have some more of that. He has some more leads and we are going to keep after it as best we can.

Senator WILLIAMS. I think you took the proper steps in handling it yourself and in moving forward.

The CHAIRMAN. Are there any further questions?

Senator DIRKSEN. I have a specific question and maybe I shouldn't ask it but it is there anyway.

When they indicted the 29 electrical firms in Philadelphia and fined them nearly $2 million the Commissioner and also the service took the position that those were not penalties and, therefore, they were deductible for tax purposes, meaning, of course, the fines that were imposed.

Now, they are also up against this question of making restitution under the treble damage clause under antitrust laws. They are settling most of them but it is still going to be a considerable while before they conclude it. Had the thing gone to a conclusion and had everybody gotten his claim validated it probably would have cost these companies $400 million. I thought the view expressed by the Bureau and the Commissioner was exactly correct.

But I see now they are under pressure by the chairman of the House Judiciary Committee and the chairman of the Subcommittee on Antitrust of the Senate Judiciary Committee, of which I happen to be a member, and I presume, without being too direct, that the Bureau would stand by the position that it has taken in that matter.

Mr. COHEN. Senator, your statement was correct except in one minor respect. The penalties that they paid to the Government as fines and litigation costs of the criminal action were not deductible.

Senator DIRKSEN. That is right. I am thinking of the treble damages.

Mr. COHEN. Only the civil aspects were.

Senator DIRKSEN. Yes.

Mr. COHEN. The chief of staff of the Joint Committee on Internal Revenue Taxation has requested some information from us. We have submitted it and I believe the joint committee will probably go into that ruling. If you ask me my personal opinion, I signed that GCM on which Mr. Caplin based his decision. There are other alternatives, and in some nature we knew it was controversial and other people might have different views but I believe it is a correct interpretation of the law, sir. I am sure we will go into that with the joint committee on the appropriate occasions.

Senator WILLIAMS. Mr. Cohen, one other question and if you would rather answer it later in a letter it is all right. I discussed this with you the other day. I have had two or three complaints from farm areas that they are having to itemize their total expense accounts, the same as provided in business expense accounts. In cases where they are using their car both for business and pleasure they have been allocating the cost of the car's operation on what was determined to be a reasonable basis. Now some of the agents in certain areas are throwing that allocation out unless the farmer can present a daily diary for every little trip that he has carrying to town to get a spigot or get a part for a motor.

As I understand it that is not the way the law was administered prior to these most recent months, and as I understand it that is not the manner in which the Department intends it to be.

Mr. COHEN. That is not the way I understand the rule, sir. As I mentioned to you the other time, we intend to look into that and you indicated you would probably send us the particular form or whatever it was about which the particular person complained to you so that we can really get to the core of the problem. We will be glad to do that.

Senator WILLIAMS. I will do that. That was my understanding.

Mr. COHEN. It is not my understanding of any national ruling.

Senator WILLIAMS. It is my understanding that law meant a reasonable allocation was in order.

Mr. COHEN. In the case of an automobile. We are not dealing in that area with the entertainment expense which has a special statute.

Senator WILLIAMS. I think that is what has confused these agents.

Mr. COHEN. Yes.

Senator WILLIAMS. I will discuss it with you further later.

Mr. COHEN. Fine, sir.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Cohen.

Mr. COHEN. Thank you, sir.

Senator BREWSTER. Thank you, Mr. Chairman.

NOMINATION OF MITCHELL ROGOVIN, TO BE AN ASSISTANT GENERAL COUNSEL IN THE DEPARTMENT OF THE TREASURY (CHIEF COUNSEL FOR THE INTERNAL REVENUE SERVICE)

The CHAIRMAN. We have another Virginia appointee, Mitchell Rogovin, to be Assistant General Counsel in the Department of the Treasury.

(The biographical sketch of Mr. Rogovin follows:)

BIOGRAPHY OF MITCHELL ROGOVIN, 4100 DUNCAN DRIVE, ANNANDALE, VA.

Personal data:

Age and birthplace: December 3, 1930; New York City.

Marital status: Married to Sheila Anne Ender of New York City, January 31, 1954. Three children: Lisa Shea, 8; Wendy Meryl, 5; and John Andrew, 3.

Education:

College: A.B., Syracuse University (1952); majored in political science, Maxwell School of Citizenship.

Law schools: LL.B., University of Virginia (1954); DuPont scholarship; research assistant.

LL.M., Georgetown University (1960); masters degree in taxation.

Career summary:

1954–58: U.S. Marine Corps; officer-in-charge, trial section, Camp Pendleton (1956–58).

1958–61: Office of Chief Counsel, IRS; trial attorney.

1961–64: Assistant to the Commissioner, IRS:

Assistant to the Commissioner on technical matters.

Chairman, Exempt Organization Council (responsibility for examination and reevaluation of service position in subchapter F).

IRS witness at Patman committee hearings on "Federal Supervision of Foundations and Charitable Trusts."

IRS liaison with various Federal agencies and departments.

Principal IRS representative on Cuban prisoner exchange.

Special recognition:

1963: Treasury Department Special Service Award.

1964: Commissioner's Award.

1964: Second Treasury Department Special Service Award.

Military service:

Military service: 1954–58, U.S. Marine Corps; Captain, U.S. Marine Corps Reserve.

Professional activities:

Admission to practice: Virginia State Bar; Virginia Supreme Court of Appeals; U.S. Tax Court; U.S. Court of Military Appeals; U.S. Supreme Court.

Memberships: Virginia Bar Association; American Bar Association; Federal Bar Association; Phi Delta Phi Legal Fraternity.

Committees:

Chairman, Federal Bar Association Committee on Taxation (1964–65).

Joint ABA–FBA Committee on Standards of Tax Practice.

Published articles: "Exempt Organizations: New Procedures and Current Policies Within the IRS," 20 J. of Taxation 28 (1964); "Description of Internal Revenue Service Policy Toward Exempt Foundations," 14 Va. L. Weekly (Dicta) Comp. 73 (1963); "Book Review," 14 J. of Legal Ed. 538 (1962); "Book Review," 30 Fordham L. Rev. 395 (1961); "Methods and Objectives of the Revenue Service's Audit Program for Exempt Organizations," 6th N.Y.U. Biennial Conf. of Charitable Fds. 229 (1963); "Tax Exemption: Current Thinking Within the Service," 22 N.Y.U. Inst. on Fed. Tax 945 (1964); "Revenue Rulings and Other Publications: 1963," 9 Tax Conf. Proc., College of William and Mary 17 (1963); Responsibilities, Duties, and Tax Practice," 31 Calif. CPA Q. 11 (1963); "The Charitable Enigma: Commercialism," U. So. Cal. 1964 Tax Inst.

Lectures: Federal Tax Institutes sponsored by New York University, University of Chicago, University of Southern California, University of Virginia, University of West Virginia, University of Denver, St. Louis Universary, College of William & Mary, Syracuse University.

Teaching experience:

Pallomar College: Instructor, English and business law (1956–57).

University of Virginia Law School: Guest lecturer, seminar on tax problems and procedure (1958–64).

Georgetown University Law Center: Adjunct professor, tax problems of exempt organizations (1964–65).

Practising Law Institute: Faculty member (1963–64).

Mr. ROGOVIN. I have no prepared statement, I would just merely say that I would echo all of Mr. Cohen's statements as to the philosophy and integrity and the desire to put before the American public a tax law that is administered and interpreted both fairly, honestly, and reasonably by the Chief Counsel's office in conjunction with the Internal Revenue.

The CHAIRMAN. Any questions?

Senator WILLIAMS. You have been with the Service for quite a while?

Mr. ROGOVIN. Yes, sir; I have been most recently assistant to Commissioner Caplin for 4 years, before that I was in the Chief Counsel's office as an attorney.

The CHAIRMAN. I am familiar with his service which has been very satisfactory.

Senator DIRKSEN. Mr. Chairman, I have no questions, but I have one observation. Perhaps the only way this can be handled is legislatively, but I managed in behalf of a widow and some grandchildren and children to secure approval of a claim for a hundred thousand dollars on behalf of a former colonel in the War Department or in the Army, who had invented the bazooka, actually the Government built $300 million worth. They wouldn't let him complete his patent until the war was over, and then he completed his patent and then they were giving him nothing for it. I decided he ought to get something and after I wrangled that through both Houses, suddenly discovered that the Internal Revenue came along with a sliding encumbrance and said, "You owe Uncle Sam $66,666."

Well, that didn't leave very much for a widow and three grandchildren, and a son and a daughter-in-law. So, in the next Congress I had to go through that agony all over again, and get it put through the Senate and then go and appear before a House committee and lobby every member on the committee in order to get it passed. It then contained a provision that it was exempt from tax. I know the Bureau got out a very long ruling on the subject.

Mr. ROGOVIN. Yes, sir.

Senator DIRKSEN. I didn't agree with it but I presume, in good faith, that they felt that that was a proper ruling under the circumstances. But in our case every time you have a claim, and all of them go to judiciary, you are almost compelled to put in a provision that the award is not subject to any Federal tax.

Mr. ROGOVIN. Yes, sir.

Senator DIRKSEN. But that is settled ruling, I take it, with the Bureau.

Mr. ROGOVIN. Yes, sir. We had some problem, if you will recall, with the funds given to Nisei-Americans a few years back and the tax impact on their awards. I think this is one of the recurring tax problems and, of course, the Treasury will be very glad to work with the Senate on any of these private bills to make sure that what the Congress wants is effectuated. But unless there is some provision with regard to taxation we would have to apply the normal statute.

Senator DIRKSEN. I doubt the wisdom of a statute that would exempt in every case every award because you can't quite tell what the circumstances are. But unless a person who is introducing the bill watches it rather closely he is going to be trussed up by that ruling by your regulations division.

Mr. ROGOVIN. I would think in considering the appropriateness of an award the last thing that anyone considers is that it will be diminished, they come up with a hard figure and I think it is quite important where appropriate to bring in the tax aspect of it.

Senator DIRKSEN. That is right.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you.

(Whereupon, at 12:10 p.m., the committee adjourned, subject to call of the Chair.)

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