

**NOMINATIONS OF STEPHEN S. GARDNER,
RICHARD R. ALBRECHT, AND
CHARLES A. COOPER**

**HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-THIRD CONGRESS
SECOND SESSION**

ON

**NOMINATIONS OF STEPHEN S. GARDNER, TO BE DEPUTY
SECRETARY OF THE TREASURY, RICHARD R. ALBRECHT,
TO BE GENERAL COUNSEL FOR THE DEPARTMENT OF THE
TREASURY, AND CHARLES A. COOPER, TO BE AN ASSIST-
ANT SECRETARY OF THE TREASURY**

JULY 23, 1974



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1974

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NOMINATIONS OF STEPHEN S. GARDNER, RICHARD R. ALBRECHT, AND CHARLES A. COOPER

TUESDAY, JULY 23, 1974

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

The committee met, pursuant to notice, at 10:06 a.m., in room 2221, Dirksen Senate Office Building, Senator Herman E. Talmadge presiding.

Present: Senators Talmadge, Ribicoff, Mondale, Bennett, and Hansen.

Senator TALMADGE. If there is no objection, we will call Mr. Gardner in and proceed.

Good morning, Mr. Gardner.

Mr. GARDNER. Good morning, sir.

Senator TALMADGE. You have been nominated to be Deputy Secretary of the Treasury.

Do you have any statement you would like to make?

[The biographical information of Stephen S. Gardner follows:]

BIOGRAPHICAL INFORMATION OF STEPHEN S. GARDNER

Member of Girard's staff since 1949. Started as credit trainee in the Banking Department and appointed an officer in 1952. Advanced to Vice President in 1958, Senior Vice President in 1963, Executive Vice President and Director in 1965, President on February 1, 1966 and Chairman of the Board on January 1, 1971.

Serves as a member of the Boards of Directors of Insurance Company of North America, Life Insurance Company of North America, INA Corporation, Narco Scientific Industries, Inc., Budd Company, Amstar Corporation, Philadelphia Contributionship, Millville Manufacturing Company, Philadelphia Facilities Management Corporation and Thomas Emery Sons, Inc. Civic Boards include: Old Philadelphia Development Corporation, Greater Philadelphia Movement, of which he is also Chairman, Greater Philadelphia Chamber of Commerce, Philadelphia Orchestra Association, Food Distribution Center, Hero Scholarship Fund, the YMCA Foundation, Fairmount Park Art Association, Trustee for United Fund, Metro-Chairman National Alliance of Businessmen, Area Manpower Planning Council, Philadelphia College of Art, Southeastern Penna. Economy Dev. Corp., Chairman OIC Fund Raising Drive, Chairman Mayor's Advisory Committee and member of Pennsylvanians for Merit Selection of Judges.

Member of Union League, World Affairs Council, Pennsylvania Economy League, Philadelphia Committee on Foreign Relations, English Speaking Union of the United States, Philadelphia Club, Bank Officers Club, Citizens Committee on Public Education in Phila., Reserve City Bankers, Pennsylvania Society, Harvard Business School Association, Rittenhouse Club, Harvard Club and Willderness Club.

Born in Wakefield, Massachusetts in 1921. Served as Captain in U.S. Army in European Theatre of Operations during World War II. Attended Harvard College, and in 1949 received a Masters Degree from the Harvard Graduate School of Business Administration.

The Gardners live at "Burnbank," Wawa, Pennsylvania. They have five children and six grandchildren, four of whom live with their parents in London.

STATEMENT OF STEPHEN S. GARDNER, CHAIRMAN OF THE BOARD, THE GIRARD CO., GIRARD BANK

Mr. GARDNER. No, sir. I have been in Washington 9 days trying to become familiar with all of the various facets of the Treasury, and I find it a terribly professional department and an exciting opportunity.

Senator TALMADGE. Do you know of any possible conflict of interest that you might have?

Mr. GARDNER. No, sir, I do not, Senator.

Senator TALMADGE. Have you checked with the counsel of the committee about your financial statement, to explore whether or not there is the possibility?

Mr. GARDNER. Yes, sir. I have submitted to the staff of this committee all of the appropriate papers that I believe are required to determine that I do not have a conflict of interest.

Senator TALMADGE. If this committee at any time wants you to testify before it, will you do so?

Mr. GARDNER. I will do so gladly, Senator.

Senator TALMADGE. Do you think any of our American banks are shifting money to Europe where the rate of interest might be 2 percent higher than it is here?

Mr. GARDNER. Do I think they are doing it?

Senator TALMADGE. Yes, sir. Do you have any knowledge?

Mr. GARDNER. No, sir, I do not have any knowledge that they are doing that. They are using Euro-dollars in Europe. It is not the same thing as shifting funds from here. It is more likely in this present climate that they would eventually bring Euro-dollars back.

Senator TALMADGE. Isn't the rate about 14 percent, 13½?

Mr. GARDNER. Yes, sir.

Senator BENNETT. I have been wondering whether in view of the pressure against the volume of credit here, if some of them have not been bringing Euro-dollars over to loan in this country.

Mr. GARDNER. I would not be surprised, sir.

Senator TALMADGE. With this double digit inflation that we are going through at the present time, do you feel there is a possibility of a severe recession in the United States, or a financial collapse?

Mr. GARDNER. I do not think there is a possibility of a serious financial collapse, Senator. I think that double digit inflation is our key problem today. Obviously the important policies of monetary restraint and hopefully a balanced budget are absolutely vital.

I think there are other things we can do. I think this is a curious inflation. We do not have a lack of capacity in many of our consumer goods industries. As a matter of fact, we have excess capacity.

I am hoping that through a judicious application of financial principles and perhaps other controls, not controls in the sense of wage and price controls, we can marshal all of our best thinking, innova-

tion and resources to combat this inflation because I think the inflation is terribly serious.

Senator TALMADGE. As the nominee for Deputy Secretary, do you see your primary role as policymaking or administrative?

Mr. GARDNER. I am hoping, Senator, that the role will be more of the former than the latter. The Secretary has a very heavy commitment. He is a member of almost all of the important economic councils and committees and he needs a Deputy as a generalist to be prepared to help him in this duty. He also, I think, needs a generalist Deputy to be sure that everything at the Treasury is running properly while he is committed to these other or external activities which are important.

Senator TALMADGE. In what area do you think you can make the greatest contribution?

Mr. GARDNER. Well, sir, I have been a manager of a banking or a commercial institution for a number of years. I think I can help in both areas, both in policy and in administration of the various Treasury bureaus, offices and the like.

Senator TALMADGE. You have a very impressive record and background.

What would be your main goals as Deputy Secretary of the Treasury?

Mr. GARDNER. Sir, I am 52. I spent 25 years with one company. My successor in that company is 49. I welcome this opportunity, which was a total surprise to me, to change or to do something new and different. The compelling fact is that our economic conditions in this country are in a very tight position and I think if I can do anything useful to help combat inflation and make a contribution in that area, that would be my main objective and goal.

Senator TALMADGE. How long do you think it would take to accomplish that objective?

Mr. GARDNER. Sir, my service cannot last more than 2½ years. We will need every bit of that.

Senator TALMADGE. When do you think interest rates will reach the peak, and at what level?

Mr. GARDNER. We may already be seeing the first peak at the present level. We noticed a reluctance of some of the banks to raise the rate above 12 at this point. I am hopeful that this fall we will begin to see a gradual diminution of the high interest rates.

Senator TALMADGE. As you know, we have had a failure of a big bank in Germany and a near failure of a big bank here.

Are any of the U.S. banks in serious trouble?

Mr. GARDNER. Sir, I do not know that there are any others in serious trouble. The failures that you refer to were basically failures that resulted from imprudent management of their exchange transactions.

Now, this is a defect in the way they managed their institutions. I think many of our banks are sorely pressed because rates are high, customers are having difficulty, and of course, a bank failure, a general bank failure has to allude to a general failure in the economy. If a bank's loans become sticky or are classified or substandard, any bank can have difficulty. I think it is related to the whole economy.

Senator TALMADGE. Any further questions?

Senator Mondale?

Senator MONDALE. I read where Franklin National Bank was bailed out with several hundred million dollars.

Mr. GARDNER. Yes, sir.

Senator MONDALE. Federal Reserve funds.

Where does that money come from?

Mr. GARDNER. Well, technically I suppose that the Federal Reserve is loaning that money against their loan portfolio at the discount window.

Senator MONDALE. In other words, these are Federal Reserve funds?

Mr. GARDNER. Yes, sir.

Senator MONDALE. Which are lent to Franklin National Bank?

Mr. GARDNER. Through the discount window. I am assuming that is the way the Federal Reserve has done it, sir.

Senator BENNETT. Against adequate collateral.

Mr. GARDNER. Against loans that are discountable, yes, sir.

Senator MONDALE. This is not a grant. It has to be repaid.

Mr. GARDNER. Oh, yes, sir, absolutely. This is the purpose of the discount window. We have seen some criticism of the discount window as a concept, but it is really a port of last resort, if you want.

Senator MONDALE. Sort of a soft window for domestic banks that get in trouble?

Mr. GARDNER. Yes, sir.

And further, the Fed does not normally expect the banks that are not in trouble to use that discount window extensively. In fact, they resist it.

Senator MONDALE. Where does the Fed develop the money that they lend through the discount window?

Mr. GARDNER. Where does the Fed develop the money?

Senator MONDALE. Yes. Do they print it or what?

Mr. GARDNER. I am sure they bring it from their cash resources, sir.

Senator MONDALE. From earnings?

I mean, this is a mystery to me. I have spent 3 or 4 years trying to get \$5, \$10 million for some program, and they just issue out \$1 billion to one bank. I just wanted to know where they get it.

Senator BENNETT. The Fed has the capacity to create money.

Mr. GARDNER. Yes, sir.

Senator BENNETT. But when it creates money, it does so by buying an asset, so instead of the nebulous thing that you might call uncreated money, it now has this collateral that Franklin has given it. When the collateral is repurchased, the money that has paid for it disappears. Again, it is temporary money.

Mr. GARDNER. Senator, you are correct. The Federal Reserve would loan money much in the way a bank loans money. A bank does not physically loan money. It makes a deposit or gives a check to the borrower.

Senator BENNETT. That is right.

Senator MONDALE. I have got one Minnesota matter I would like to take up with you, that is parochial and yet very important. In northwestern Minnesota we have three or four ports of entry which are administered by the Customs Bureau, out of an office in North

Dakota. For several years the office in North Dakota, in my opinion, has tried to discourage entrance into Minnesota, and tried to divert the traffic, and my people are madder than hell about it. A few weeks ago when we confirmed the Assistant Secretary of Treasury who was going to be in charge of the Customs Office, he promised to give this the highest priority in our conversations before confirmation.

I have had some trouble getting his attention since he has been confirmed.

I was wondering if you could ask them to look into that again.

Mr. GARDNER. Assistant Secretary McDonald. Yes, I would be delighted to.

Senator MONDALE. Tell him not to send me any more form letters.

Would you do that, please?

Mr. GARDNER. I will, sir.

Senator MONDALE. Thank you.

Senator TALMADGE. Any further questions?

Thank you very much, sir. You may retire.

Mr. GARDNER. Thank you, Senators.

Senator TALMADGE. Bring in Mr. Richard R. Albrecht, who has been nominated to be General Counsel for the Department of the Treasury.

Mr. Albrecht, you have been nominated to be General Counsel for the Department of Treasury.

Do you have any statement you would like to make?

[The biographical information of Mr. Richard R. Albrecht follows:]

BIOGRAPHICAL INFORMATION OF RICHARD R. ALBRECHT

Born: August 20, 1932, Storm Lake, Iowa.

Legal residence: Washington State.

Marital status: Married (wife, Constance), 4 children.

Education: 1958—University of Iowa, A.B. degree; 1961—University of Iowa, J.D. degree with highest distinction.

Bar: 1961—Washington State.

Military service: April 27, 1955 to January 30, 1958, U.S. Army.

Employment: 1961-1974—associate, then partner, Perkins, Cole, Stone, Olsen & Williams, Seattle, Washington.

Office: 1900 Washington Bldg., Seattle, Washington 98101.

Home: 1115 N.W. 190th St., Seattle, Washington 98177.

STATEMENT OF RICHARD R. ALBRECHT, PERKINS, COIE, STONE, OLSEN & WILLIAMS, SEATTLE, WASH.

Mr. ALBRECHT. No, sir.

I would be happy to answer any questions.

Senator TALMADGE. Do you know of any conflict of interest you might have in that position?

Mr. ALBRECHT. I know of none, sir.

Senator TALMADGE. You have checked with the staff and submitted a financial report?

Mr. ALBRECHT. Yes, I have.

Senator TALMADGE. If this committee wants you to come before it and testify at any time, will you do so?

Mr. ALBRECHT. Most certainly.

Senator TALMADGE. The Customs Court recently handed down a decision stating that the imposition of the 10-percent surcharge on imports in the summer of 1971 by the President and Secretary Connally were an illegal act, and that the U.S. Government owes importers \$500 million.

I know that the case will be appealed in the Court of Customs and Patent Appeals, where our former colleague Jack Miller now sits.

If you should lose in that court, where do you plan to get the \$500 million to pay these importers?

Mr. ALBRECHT. I am sorry, Senator, I really do not know the answer to that question. I understand from the brief exposure I have had to people in Treasury that they are hopeful that that will not occur.

Senator TALMADGE. Since these importers have already passed on the cost of the surcharge to their customers, the refund would be pure windfall.

Are there any unjust enrichment clauses in existing statutes to prevent the Treasury from paying out \$500 million to importers who were not really affected by the surcharge?

Mr. ALBRECHT. I am sorry, I do not know that, Senator, but I expect I am going to have to find out if we are faced with that question.

Senator TALMADGE. Since we are in the process, or will be shortly, of marking up the trade bill, will you provide us any recommendations you may have in dealing with this problem?

Mr. ALBRECHT. I certainly will, recognizing that I will have to do some work in preparing myself to make recommendations.

Senator TALMADGE. Any other questions, gentlemen?

Thank you. You may be excused, Mr. Albrecht. Thank you very much.

Mr. ALBRECHT. Thank you, Senators.

Senator TALMADGE. Ask Mr. Cooper to come in, will you, please?

Mr. Cooper, you have been nominated by the President to be Assistant Secretary of the Treasury?

Do you have any statements you would like to make to our committee?

[The biographical information of Mr. Charles A. Cooper follows:]

BIOGRAPHICAL INFORMATION OF CHARLES A. COOPER

Born: December 23, 1933 in Chicago, Illinois.

Married, three children.

Education: Swarthmore College BA 1955 (Economics); M.I.T. PhD 1960, (Economics); Russian Research Center 1957-58, Harvard University.

Languages: French, Russian.

Professional Experience:

Assistant to the Chairman and economist, Council of Economic Advisers, 1961-63.

Economist, The Rand Corporation, 1963-66.

Economic Advisor to Special Assistant to the President for Civilian Programs in Vietnam (Robert W. Komer), 1966-67.

Associate Director USAID and Economic Counselor, U.S. Embassy, Saigon, 1967-68.

Economist, The Rand Corporation, 1968-70.

Minister-Counselor for Economic Affairs, U.S. Embassy, Saigon, July 1970-May 1973.

Deputy Assistant to the President for International Economic Affairs, NSC, May 1973-present.

Honors: Phi Beta Kappa, 1955; Ford Foundation Fellow, 1957-59; AID Superior Honor Award, 1968; State Department Distinguished Honor Award, 1973.

Publications: Editor, *Economic Development in the Middle East*, 1970, American Elsevier; articles in *Journal of Political Economy* and *Economic Journal*.

**STATEMENT OF CHARLES A. COOPER, DEPUTY ASSISTANT TO
THE PRESIDENT FOR INTERNATIONAL ECONOMIC AFFAIRS,
NATIONAL SECURITY COUNCIL**

Mr. COOPER. No, sir, I have not prepared a statement.

Senator TALMADGE. If this committee wants you to testify before it at any time, will you do so?

Mr. COOPER. I certainly will.

Senator TALMADGE. Now, you are a graduate of MIT and have a broad background, including experience with the Council of Economic Advisers, the Rand Corp. and some of our foreign aid programs. You also seem to know something about the Middle East.

What steps can we take to recycle the petro-dollars?

Mr. COOPER. Well, we are working on that now. I think we will have a better understanding of the situation when Secretary Simon returns. I know he was discussing this with the Saudis, and as we see in the morning paper, the Iranians are lending some money to the British Government. Most of it, though, I think is going to go through the banking system in the form of normal kinds of relatively short or medium term deposits by the Arab oil producers. The banking system itself then, both nationally and internationally, will be trying to channel that to where the requirements are.

Senator TALMADGE. What do you project our balance-of-payments deficit to be this year?

Mr. COOPER. Well, we are still trying to look at that.

Apart from the increased oil prices, we are in pretty good shape, but with that there is going to be quite a significant deficit. I do not have a good projection for the second half of the year at this time. It is one of the briefing sessions I have not yet had.

Senator TALMADGE. Well, would you care to give a curbstone opinion?

Mr. COOPER. It is going to be several billion dollars, I think.

Senator TALMADGE. What is several billion dollars?

Mr. COOPER. My impression is that we are talking about perhaps \$5 billion, but I really have not had a good briefing on the balance-of-payments outlook. That is actually scheduled for tomorrow in my schedule.

Senator TALMADGE. Do you feel that interest rates in this country and abroad reflect the competition for scarce capital?

Mr. COOPER. The competition for scarce capital and inflation.

Senator TALMADGE. Is the capital scarce because all of it is going to the Middle East?

Mr. COOPER. No. Capital is scarce because inflation has an upsetting effect on people's savings behavior and because there is still very strong demand both in the private sector and in the public sector for capital projects. I think recently there has been some foreign borrowing, which has pretty much tailed off, as I understand it, and we would not expect to see much more foreign borrowing on net for the rest of the year. And of course, there will be substantial influx of capital from the oil surplus countries, but as long as inflation unfortunately remains where it is, I think these interest rates are going to have to stay fairly high. Otherwise there is no assurance of any reasonable return, and that is, I think, at least as important as the supply and demand picture, and to holding interest rates up where they are.

Senator TALMADGE. Do you know of any possible conflict of interest you might have in this position?

Mr. COOPER. No, I do not, sir.

Senator TALMADGE. You have submitted a net worth statement to the staff?

Mr. COOPER. Yes, I have.

Senator TALMADGE. Any further questions?

Senator BENNETT. No questions.

Senator TALMADGE. Thank you very much, Mr. Cooper.

Mr. COOPER. Thank you.

[Whereupon, at 10:20 a.m., the committee proceeded to the consideration of other business.]

