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NOMINATIONS

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HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS FIRST SESSION

ON

NOMINATIONS OF MRS. ELIZABETH R. SMITH, TREASURER OF THE UNITED STATES-DESIGNATE; HENRY H. FOWLER, UNDER SECRETARY OF STATE-DESIGNATE; ROBERT V. ROOSA, UNDER SECRETARY OF STATE FOR MONETARY AFFAIRS-DESIGNATE; AND JOHN S. GLEASON, JR., ADMINISTRATOR OF VETERANS' AFFAIRS-DESIGNATE

JANUARY 25, 1961

Printed for the use of the Committee on Finance



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**NOMINATIONS OF MRS. ELIZABETH R. SMITH, TO BE
TREASURER OF THE UNITED STATES; HENRY H.
FOWLER, TO BE UNDER SECRETARY OF TREASURY;
ROBERT V. ROOSA, TO BE UNDER SECRETARY OF
TREASURY FOR MONETARY AFFAIRS; AND JOHN S.
GLEASON, JR., TO BE ADMINISTRATOR OF VET-
ERANS' AFFAIRS**

WEDNESDAY, JANUARY 25, 1961

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

The committee met, pursuant to call, at 10:20 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Long, Smathers, Douglas, Gore, McCarthy, Hartke, Fulbright, Williams, Carlson, Bennett, Butler, and Morton.

Also present: Senator Engle, of California; Senator Dirksen, of Illinois; Senators Javits and Keating, of New York; and Theodore F. T. Crolius, administrative assistant to Senators Javits.

Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The meeting will come to order.

The Chair recognizes Senator Clair Engle, who will introduce Mrs. Elizabeth R. Smith, of California, who has been nominated to be Treasurer of the United States.

Senator ENGLE. Thank you very much, Mr. Chairman and members of the committee.

I am honored this morning to introduce Mrs. Elizabeth Rudel Smith, of Kentfield, Calif., who has been nominated to be U.S. Treasurer by President Kennedy.

This is a double pleasure, Mr. Chairman, because Mrs. Smith is a longtime personal friend and a public servant who is held in the highest regard in her home State of California and elsewhere.

Mrs. Smith has just resigned her post of assistant labor commissioner for the State of California to which she was recently appointed by Governor Brown. She has been a member of the Governor's business advisory committee.

She served as Democratic National Committeewoman from California since 1956.

Her experience in government affairs began when she interned with Coro Foundations of San Francisco, a nonprofit educational foundation which specializes in students who are interested in government.

Later she served as a member of the staff of that foundation.

In the business world she has been equally active as a director of the Rudel Machinery Co., Ltd., of Montreal, Canada, until September of 1960.

She served as the founder of the Ross Valley Women's Shop, in Kentfield, Calif., and in other capacities.

From 1948 to 1950 she was the feature editor and reporter of the San Rafael Independent Journal, a daily newspaper.

At the same time, Mrs. Smith has found time to be active in civic work of various kinds and serves, for example, as a director of the San Francisco Junior League, and vice president of the county Red Cross chapter in her home community.

Born in Canada of American parents, she attended schools in Montreal and New York; attended Smith College, and graduated from the University of Michigan with a B.A. degree in Far Eastern civilizations.

Mr. Chairman, I take great pleasure in introducing Mrs. Smith, and I hope that she will have a favorable consideration of this committee.

Thank you for your kindness.

(The biographical sketch of Mrs. Smith follows:)

BIOGRAPHICAL DATA, ELIZABETH RUDEL SMITH

Born Montreal, Canada, 1911, of American parents, Clarence M. and Mary May Rudel.

Primary education in private schools in Montreal. Secondary education at the Masters School, Dobbs Ferry, N.Y. Attended Smith College 2½ years, transferred to University of Michigan, where received A.B. degree in Far Eastern civilizations. Internship in public affairs, Coro Foundations, San Francisco.

CIVIC

Treasurer, Presbyterian Orphanage, San Anselmo, Calif.; vice president, Red Cross chapter, Marin County; member, board of directors, San Francisco Junior League; and publicity chairman, school bond elections, Marin County.

BUSINESS

Director, Rudel Machinery Co., Ltd., Montreal, Canada, until September 1960; founder, Ross Valley Shop (women's clothes), Kentfield, Calif. (sold 1947); appointed assistant labor commissioner, State of California, December 1960 (resigned January 13, 1961); staff member, Coro Foundation, 1952-53; invented and patented a fire starter (sold 1959); reporter and feature editor, San Rafael Independent Journal (daily), 1948-50.

POLITICAL

(Between 1950 and 1961)

California, national committeewoman, Democratic, 1956; chairman, Marin County Democratic Central Committee; director, California Democratic Council; cochairman, coordinator, or northern California manager in most statewide Democratic campaigns in California since 1954; member Governor Brown's business advisory committee.

The CHAIRMAN. Mrs. Smith, I have had the pleasure of two conferences with you in my office, and I personally am very much pleased with your appointment.

Have you any comment or statement to make to the committee?

STATEMENT OF MRS. ELIZABETH SMITH, NOMINEE TO BE
TREASURER OF THE UNITED STATES

Mrs. SMITH. I would just like to answer any questions they might have, sir.

The CHAIRMAN. I think you filed a statement with the committee with respect to any conflict of interests, which I do not imagine could exist.

Mrs. SMITH. Should any occur to you, sir, I would be very happy to dispose of whatever holding that might be.

The CHAIRMAN. I will ask that the statement of your holdings be put into the record.

(The document referred to follows:)

To Whom It May Concern:

The following list of bonds and stocks represents the securities held in the investment management account of Elizabeth Rudel Smith.—DODGE COX.

A/C 467

Alum Rock Union S/D, Nov. 1, 1969.....	5,000
California Toll Bridge.....	5,000
Richmond San Rafael A, 3 $\frac{7}{8}$, Sept. 1, 1992.....	5,000
American Tel and debs, 4 $\frac{3}{4}$, Nov. 1, 1992.....	5,000
United Air Lines conv, 4 $\frac{7}{8}$, Dec. 1, 1985.....	5,000
Ford Motor Co.....	60
E. I. du Pont de Nemours & Co.....	20
Union Carbide Corp.....	40
Abbott Laboratories.....	75
Merck & Co.....	40
General Electric Co.....	60
International Business Machines Corp.....	10
Minneapolis-Honeywell Regulator Co.....	30
Great American Insurance Co.....	100
CIT Financial Corp.....	70
National Dairy Products Corp.....	70
International Nickel Co. of Canada, Ltd.....	75
United States Steel Corp.....	50
Continental Oil Co.....	80
Royal Dutch Petroleum Co.....	75
Standard Oil Co. of Indiana.....	100
Norfolk & Western Ry. Co.....	45
Southern Ry. Co.....	100
Goodyear Tire & Rubber Co.....	102
Consolidated Edison Co.....	65
Florida Power & Light Co.....	70
Panhandle Eastern Pipe Line Co.....	80
United Control Corp.....	200

One thirty-second interest in Wanner lease (oil) of Kissilger Petroleum, Ltd; one-sixteenth interest in Young lease (oil) of Clyde G. Kissilger; and 509 shares in Dodge and Cox Mutual Fund.

The CHAIRMAN. Any questions?

Senator DOUGLAS. I will merely say this—excuse me, Mr. Chairman.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. I merely say this, Mr. Chairman, I understand Mrs. Smith has a very fine signature, and I think we all hope to see her signature many times.

The CHAIRMAN. Not only that, she has a very fine face, too. It will look good on the dollar bill. [Laughter.]

Senator GORE. Did you say there were two conferences in your office?

The CHAIRMAN. I tried to get a third, but I could not get any excuse for it.

Senator KERR. I would like to ask a question off the record.

(Off the record discussion.)

The CHAIRMAN. Thank you, Mrs. Smith.

Senator ENGLE. Thank you, Mr. Chairman.

NOMINATION OF HENRY H. FOWLER, TO BE UNDER SECRETARY OF THE TREASURY

The CHAIRMAN. The next appointment is that of Henry H. Fowler of Virginia to be Under Secretary of the Treasury.

(The biographical sketch of Mr. Fowler follows:)

HENRY H. FOWLER

(Designated for Appointment as Under Secretary of the Treasury)

Born: Roanoke, Va., September 5, 1908.

Home: Alexandria, Va.

Education: Jefferson High School, Roanoke, Va.; Roanoke College, 1925-29; Yale University Law School, 1929-33.

Marital status: Married.

Experience: 1933-34: Private law practice; Covington, Burling & Rublee, Washington, D.C. 1934-39; Attorney, Tennessee Valley Authority. 1939: Assistant General Counsel, Tennessee Valley Authority. 1939-40: Chief counsel, Senate Subcommittee on Education and Labor. 1941: Special Counsel, Federal Power Commission. 1941-44: Assistant General Counsel, Office of Production Management and War Production Board. 1944: Economic adviser, U.S. Mission for Economic Affairs, London. 1945: Special Assistant to Administrator, Foreign Economic Administration. 1946-51: Private law practice as senior member of Fowler, Leva, Hawes & Symington. 1951: Deputy Administrator, National Production Authority. 1952: Administrator, National Production Authority. 1952-53: Administrator, Defense Production Administration. 1952-53: Director, Office of Defense Mobilization. 1952-53: Member of National Security Council. 1953—: Resumed private law practice with Fowler, Leva, Hawes & Symington. Present position: Senior partner in law firm of Fowler, Leva, Hawes & Symington at 1701 K Street NW., Washington, D.C.

Awards: Distinguished alumni award of Tau Kappa Alpha (1958); distinguished alumni award of Roanoke College (1958).

Other associations: Member of Commission on Money and Credit, 1958 to present. National Committee on Government Finance of the Brookings Institution, 1960 to present. Trustee of Roanoke College, the Funds of the Protestant Episcopal Church in the Diocese of Virginia. Member of the American Law Institute, American Bar Association, Bar Association of the District of Columbia, Alexandria Bar Association and Virginia State Bar Association. Member of Council on Foreign Relations.

The CHAIRMAN. Mr. Fowler, you may make any statement you wish.

STATEMENT OF HENRY H. FOWLER, NOMINEE TO BE UNDER SECRETARY OF THE TREASURY

Mr. FOWLER. Mr. Chairman and gentlemen, I believe there has been distributed to you an autobiographical sketch which outlines my career since birth.

I will not comment further except to say that since graduating from law school my career has been roughly divided into two halves. I had two periods of service as a Government employee, and an equal period

of time I have been engaged in the private practice of law in my own firm.

I have also submitted to the chairman a letter setting forth the intended disposition of my private affairs should be confirmed, in order to comply with both the law and the proprieties that affect the assumption of this office.

If confirmed, I shall withdraw from my present occupation in private law practice and divest myself of any right to share in fees earned by the partnership after the date of my assumption of office, pursuant to a settlement agreement which is to be executed before I assume office.

I shall also sell or give away my security holdings except for a few minor interests for which I have paid no more in any case than \$4,000.

It is also my intention to resign as a member from two private commissions which have been concerned with studies of problems of money and credit and research in the tax policy and Government finance field.

While it may well be that the law concerning conflicts of interests does not require these steps, it has seemed to me that compliance is in keeping with the proprieties and is desirable.

As to my views, I have read very carefully and studied the testimony of Secretary Dillon which he gave recently before this committee, and I find my own views in substantial accord with the positions taken by him.

I have no further comments, but will be glad to try to answer any questions from the committee.

The CHAIRMAN. Let me see, you gave to me the schedule of securities that you have?

Mr. FOWLER. Yes, Senator.

The CHAIRMAN. And I assume that can be made a part of the record?

Mr. FOWLER. I filed with you a letter more or less incorporating the express intention here.

The CHAIRMAN. I would like to say Mr. Fowler has divested himself of all securities excepting a participation certificate in American Lowell, Inc., \$4,000; debentures of the St. Paul Ammonia Products Co., \$3,018; 225 shares of common stock of St. Paul Ammonia Products, Inc., \$502.50; 4,000 shares of common stock of the Western Nuclear Corp., not more than \$4,000.

Mr. FOWLER. That is correct.

(The letter together with the schedule referred to follows:)

WASHINGTON, D.C., January 24, 1961.

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

MY DEAR MR. CHAIRMAN: This letter sets forth the intended disposition of my private affairs should I be confirmed by the Senate for the office of Under Secretary of the Treasury, in order to comply with both the law and the proprieties that affect the assumption of this office.

If confirmed, I shall—

1. Withdraw from the private practice of law with the partnership of Fowler, Leva, Hawes & Symington at 1701 K Street NW., Washington 6, D.C.;
2. Divest myself of any right to share in fees earned by that partnership after the date of my assumption of office, pursuant to a settlement agreement

with the partnership which will be executed before I assume office, a copy of which I will submit to you upon execution ;

3. Sell or give away all of my security holdings except for those listed on the attached sheet ; and,

4. Resign from the Commission on Money and Credit established in 1958 by the Committee on Economic Development and the Ford Foundation to study money and credit problems, and the National Committee on Government Finance of the Brookings Institution established in 1960 to advise that institution on the expenditure of funds made available to it on tax policy research.

Naturally, I shall be glad to answer any questions that you or other members of the committee would wish to address to me concerning these or any other arrangements that would seem advisable to assure compliance with the letter and spirit of our laws concerning conflicts of interest. With the arrangements prescribed, I am not aware of any additional steps that should be taken.

Respectfully yours,

HENRY H. FOWLER.

Schedule of securities to be retained

	<i>Cost price</i>
(1) Participation certificate, American Lowell, Inc.....	\$4,000.00
(2) Debentures of St. Paul Ammonia Products Co.....	3,018.00
(3) 225 shares of common stock of St. Paul Ammonia Products, Inc..	502.50
(4) 4,000 shares of common stock of the Western Nuclear Corp.....	(1)

* Not more than \$4,000.

The CHAIRMAN. Any questions, Senator Kerr ?

Senator KERR. No questions.

The CHAIRMAN. Any questions ?

Thank you very much, Mr. Fowler.

Mr. FOWLER. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair recognizes Senator Keating, who will introduce Mr. Robert V. Roosa, of New York, to be Under Secretary of the Treasury for Monetary Affairs.

Senator Keating.

Senator KEATING. Mr. Chairman and members of the committee, my colleague, Senator Javits, was held up by a little plane trouble, and asks that he be associated with the remarks which I make.

I am delighted to introduce a distinguished New Yorker, Mr. Robert V. Roosa, who is the nominee for Under Secretary of the Treasury for Monetary Affairs.

The position to which Mr. Roosa has been named is an extremely important one, as this committee knows, in view of our present domestic economic picture, and in view of our critically important international balance of payments situation.

I am sure that Mr. Roosa's answers to your questions on matters affecting these issues will be of interest to the committee.

Mr. Roosa is extremely well qualified for this high post. He has ably served his country and in the State of New York for many years.

He is a competent and experienced economist, has made an outstanding record as vice president of the New York Federal Reserve Bank. He has been with the bank some 15 years, and has been vice president for the past 4 years.

Prior to coming with the bank, and during his early years there, he taught economics and established himself as a real expert in the fields which he will now supervise as Under Secretary of the Treasury.

I am confident that Robert Roosa will be a firm and articulate advocate of sound fiscal monetary policies, and will demonstrate a

realistic and sensible attitude toward the financing of our Federal Government.

This is Mr. Roosa's first political post. He comes to this position more as a public servant than as a member of either of our two great political parties.

I know that he will work for the benefit of our entire Nation in the fine spirit of a dedicated and energetic public servant.

I am very happy to introduce him to the committee, having been given this privilege, and to urge favorable action by the committee.

The CHAIRMAN. Senator Javits has sent word to the committee that, as stated by Senator Keating, he is held up at the airport, but his administrative assistant, Theodore F. T. Crolius, is present and desires to submit a statement.

Mr. CROLIUS. Mr. Chairman, the Senator simply asked me, on behalf of Senator Javits to join in Senator Keating's remarks, and to thank you very much for the opportunity to let me do so.

(The biographical sketch of Mr. Roosa follows:)

ROBERT V. ROOSA

Born June 21, 1918, Marquette, Mich.

Parents: Harvey M. and Ruth Lagerquist Rosa. Mr. Rosa was principal of River Rouge (Mich.) High School for 25 years until his retirement in 1947.

Education and experience:

River Rouge High School.

University of Michigan, A.B., 1939; M.A., 1940; Ph. D., 1942, in economics.

Taught various subjects in economics briefly at Michigan, Harvard, and Massachusetts Institute of Technology, 1939-43.

U.S. Army, 1943-46, private to captain.

Economist, Federal Reserve Bank of New York, 1946.

Promoted manager of the research department, 1951.

Promoted assistant vice president, research department, 1953.

Assigned assistant vice president, securities department, 1954-56.

Promoted vice president, research department, November 1956.

Principal publications:

"Interest Rates and the Central Bank", Essays in Honor of J. H. Williams (Macmillan 1951).

Federal Reserve Operations in the Money and Government Securities Markets (Federal Reserve Bank of New York, July 1956).

"Use of the Consumption Function in Short-Run Forecasting," Review of Economics and Statistics, May 1948.

"Integrating Debt Management and Open Market Operations," American Economic Review, May 1952.

"The Problem of French Recovery," the Economic Journal, June 1949.

"Postwar Credit Controls in France," Federal Reserve Bulletin, April 1949.

"Small Business and Depression," Harvard Business Review, January 1948.

"The Revival of Monetary Policy," Review of Economics and Statistics, February 1951.

"The Central Bank in a Market Economy," Bulletin d'Information et de Documentation, Banque Nationale de Belgique, September 1959.

Married Ruth Amende, Providence, R.I., March 1946. Two daughters, Meredith Ann, born August 16, 1949, and Allison Ruth, born September 3, 1952.

Mrs. Roosa taught Russian history and government at Barnard College for 10 years. She is currently engaged in preparing her doctoral dissertation at Columbia University.

Resides in Mount Vernon, N.Y.

The CHAIRMAN. You may proceed, sir.

Mr. Roosa, do you have any statement you would care to make?

STATEMENT OF ROBERT V. ROOSA, NOMINEE TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. ROOSA. Thank you very much, Senator Keating.

As the chairman knows, I have briefly reviewed with him my problems in the area of conflict of interests. So far as I can see there are none.

I own nothing to dispose of other than an equity in a home, bank deposits.

I have, as a member of the staff of the Federal Reserve Bank of New York, always felt it was quite desirable that I should avoid involvement in any of the financial markets or committing myself in a way that would involve the risk of a conflict of interest there.

I think there is one further point I should mention, sir, that I have, as an employee of the Federal Reserve Bank of New York, acquired pension rights in that System and would expect that they would go into suspension while in the Treasury, but they would not be lost for the future.

The further possibilities of conflict of interest would only rest in the fact that I do have a genuine and abiding affection for the Federal Reserve System. I trust that there will be, in fact, harmonious relations between the Treasury and the Federal Reserve that would be to the advantage of all, and that rather than a conflict it will be a joining of interests that all of us wish to achieve.

I will be very glad to answer any questions if I can.

The CHAIRMAN. Are there any questions of the Secretary?

Senator WILLIAMS. Mr. Roosa, in your capacity, you will be charged primarily with the management of the public debt; is that correct?

Mr. ROOSA. That is right.

Senator WILLIAMS. In that connection do you believe in the continued complete independence of the Federal Reserve System, or do you think the Treasury Department should exercise some degree of control over its policies?

Mr. ROOSA. Well, I think Mr. Sproul might be willing to share with me the invention of the phrase which we like to think we had a hand in, which describes the relation as we have seen it through the years, referring to the Federal Reserve as independent within the Government, not independent from, and that concept is one that I have always held.

I feel that the Federal Reserve people themselves continue to recognize a unique and special role which will have particular features in this country different from others but, in general, fit the pattern of central banking anywhere in the world.

In that regard, I have done quite a lot of writing and spelling out views on matters that are difficult to handle briefly, and I would be glad to submit any of those for the record if it would be of any assistance.

In principle, I believe the Federal Reserve independence as an instrument of the Congress must be preserved in distinction from the responsibility I will now have to the executive branch, and in the same way that there is continual joining of interests between independent branches of the Government, I think there should be in the relations between the Federal Reserve and the Treasury.

Many of us know each other well, and human relations are often as important as legal relationships, and I look forward to a great opportunity of expanding what has already been, I think, a fine record of mutual recognition by the Treasury and the Federal Reserve of the common goals of national economic policy.

Senator WILLIAMS. Then I gather that you foresee no change in the policies as regards the relationship between the Treasury and the Federal Reserve System?

Mr. ROOSA. I foresee none, sir. But time, as events develop, will certainly produce, I trust, improvements even over the present level of fine relations.

Senator WILLIAMS. Now, in your capacity of managing the public debt, do you think it is important that we continue the ceiling on the present—the present ceiling on long-term bonds or do you think it is important that that ceiling be removed?

Mr. ROOSA. Well, sir, I hope you will not think I am evasive if I say I would like to give a longer rather than a shorter answer to that question, too.

I think probably everyone, everyone who has studied the matter in this country, feels that it is unfortunate to have to work with the rules of the kind implied by the ceiling.

We know, we all want and we want to carry through, the implications of a market mechanism. We have a free and an enterprise kind of economy which requires reliance on the market price.

In order to make any of these markets work there has to be some intrusion by Government. I think those who have been identified with the perpetuation of this ceiling have felt that it was important that the Treasury in its debt management experiment further with additional means of assuring in every way that the best possible rate available in the free existing market would be achieved, and they felt that maintaining the ceiling was a way of inducing Treasury to do that.

I have been heartened myself at the great readiness to experiment and explore that our immediate predecessors have introduced in the Treasury.

I think Mr. Baird, particularly, has been receptive to a wide range of possibilities for seeking out the very best that the market can produce in the way of the lowest rate consistent with respecting the force of the market itself.

I would certainly hope to continue in that tradition, if confirmed, and would also hope that we would find in time that we were so utilizing every possible means, consistent with market freedom, to assure that we were getting the best rate for the Treasury, consistent with all of the supply and demand factors in the market that no one would feel there was any longer a need for a ceiling.

In that respect, of course, I have expressed personal views in the past that I was hopeful that we could reach a stage where the ceiling would not be needed.

I am still so hopeful as a person, a private person. But, as becoming a member of the administration, I would not at this moment wish to make any specific statement or recommendation on the point. This is an area where we are going to have to, as in all others, work with humility and a desire to find the right answer.

Senator WILLIAMS. I appreciate very much your statement, and I noticed you said you are hopeful that we can reach the point where we would not need the ceiling.

Now, am I to interpret your statement, by feeling that at this point we do need the ceiling and that you would be opposed to it?

Mr. ROOSA. No, sir. I would put it this way: That there are many people whose views I respect who feel that the existence of the ceiling is a way in which they can assure themselves through the interposition of a mechanism that the Treasury officials will be doing all that should be done to assure that the Treasury borrows at the lowest possible cost; and I would hope that they would feel reassured that that is being done, and would feel that the need, as they see it, for the ceiling would be removed.

Senator WILLIAMS. We are in complete agreement on that, and I hesitate to press the point, but in your capacity—

Mr. ROOSA. Yes.

Senator WILLIAMS (continuing). As the man in charge of managing the debt, it will be your responsibility.

Mr. ROOSA. Yes, sir.

Senator WILLIAMS. And I will put the question first this way: Do you think it is important that we transfer a larger percentage of our debt to long-term securities rather than to continue with such a large percentage in short?

Mr. ROOSA. This is an area in which there are apparently no quick and easy answers. On balance, of course, from the point of view of efficient debt management for the Government, as well as the corporation, the funding of as large a part of the total debt as could possibly be done is desirable.

I think it must remain one of our objectives in debt management always to take advantage of reasonable opportunities to extend the maturity of the debt in order, if only in order, to stand still, because the passage of time is continually bringing the whole debt forward.

I also feel that there must be recognition here too, of the state of the market at any given time.

I would not want to feel committed to considering on every financing that I had in some sense failed in my recommendations if I had not included a long-term issue. That has to be appraised each time.

I would certainly feel, too, that the state of the economy has to be kept in view, and there is a risk always of finding the state of the economy unreceptive to long-term financing.

So that you have to give yourself a little extra impetus always to make sure that you have seen through the full range of possibilities, that you do not always find the market telling you that long-term financing is impossible.

So I hope I have said only enough to indicate that it is impossible to be doctrinaire except in spirit, and in spirit I will certainly, if given the opportunity, do my best to keep as large a portion as possible of the debt in the long-term area; at any rate, out of the area of requiring immediate refinancing.

Senator WILLIAMS. I appreciate that statement and agree with your objective. But I get back now to my original question: Do you think that in order to achieve that objective it would be better to remove the ceiling on the long-term bonds or not? And I would appreciate an answer rather as to your own opinion on that point.

Mr. ROOSA. All right, sir. But as to my own opinion I would say "Yes," on the assumption that we will also in Treasury debt management be taking advantage of all the other opportunities we have for making certain that whatever rate emerges out of the market is the lowest possible rate in the conditions at the time.

I think in that framework, and if that were understood by everyone, there would be no room for real controversy.

Senator WILLIAMS. Well, I agree with you as to the financing, but I appreciate your frankness in stating it because I do think, personally, I personally feel, that it is very important this ceiling should be removed, and I feel we made a serious mistake in not removing it before.

I will conclude with just one further question: Do you think that had this ceiling been removed a couple of years ago we would be paying more or less interest; that is, do you not feel that had this ceiling been removed we could have sold at one point long-term bonds at a cheaper rate of interest than we did some of the short-term 5 percent issues?

Mr. ROOSA. This is extremely difficult to answer for the reasons that you would know much better than I. We cannot tell what would have gone in any past market.

Senator WILLIAMS. I agree.

Mr. ROOSA. I think it is quite likely that the total burden of debt service at this moment could have been lower now than it is if the past Treasury administration had not been required to improvise methods to meet the restraints imposed by the interest rate ceiling.

My own hope is, however, that the very techniques which they were beginning then to develop, which had not yet thoroughly been explored but which we, among others, are indebted to Senator Douglas for having explored, offer real possibilities. I think time always offers new possibilities.

We do not know all the answers at any one moment. I think, if the Treasury had at that stage been able to make full use of these other alternatives, the answer I am giving you now might be quite different, and I am most hopeful that, learning from the experience of our predecessors and the inquiry of other committees of the Congress, as well as this one, we are going to be able to find the solution which is going to be satisfactory to all.

Now, I realize that it sounds a little optimistic, but this is the central interest of my career. I have devoted all the time and capacity I have to try to analyze these things, and all I can assure you is that I am most hopeful.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Roosa, is it generally known what your position was in the last presidential election, whether you were for President Kennedy or for Vice President Nixon?

Mr. ROOSA. No, sir; it is not known; and if you don't mind, I prefer not to introduce that as a factor, and perhaps I should explain why.

Each of us in the career service in the Federal Reserve faces this issue. Perhaps Senator Douglas will remember many years ago when he visited the New York bank we chatted briefly about this; I think at that time he may have had some question about the wisdom of my own personal choice, which was to stay away from party affiliation.

I think it must be a personal decision. I have felt in that kind of position of trust, where I am relied upon as a close adviser, but as a technician, by succeeding administrations, I'd like to think that Mr. Snyder would look upon me with exactly the same eyes as Mr. Anderson or Mr. Baird would have done.

I think it would have been difficult for either of them to do that if they had felt that I had been active in political affairs in any way that they might regard as partisan.

This has not in any way kept me from developing my own views or from exercising the voting prerogatives, which I certainly cherish as much as any of us.

But I have felt that in this position I was in the best tradition of a career public servant, the kind of which I know we have many in this country, and I have known others in central banks in other countries who have developed the same view.

It is for that reason that I have avoided, since I became an officer of the Federal Reserve Bank of New York 10 years ago, any direct affiliation with a political party, and in the same way any clear identification of my choice in the national election.

My friends, of course, do know, but I would prefer to leave it on that basis.

Senator LONG. Well, you were not an advocate, certainly I take it from your statement that you were not an advocate, of the view of one side or the other the last controversy as far as fiscal and monetary policy was concerned?

Mr. ROOSA. Well, during the election, if I may, without violating the proposition I have just suggested, I was most impressed by two statements which the then Senator Kennedy made, the statement of October 13, and the statement of October 30.

Without wanting to imply any overall partisan judgment here, I thought those were the two best statements on fiscal and monetary affairs that emerged during the whole election. And I felt keenly then, with no glimmering of the prospect that I would be associated with the administration but, again, as a permanent civil servant, I was most grateful for them, because I knew there was considerable unrest abroad as to the possibility, the way in which rumors grow, that there might be a reckless spending surge if one party came in, and a disciplined sober approach with the other. There is this tendency always to exaggerate and polarize in the view taken abroad of an election; and I found it most helpful and useful in calming the fears of financial officials in countries around the world to have those statements and to know, in conversations with the people who have been associated with President Kennedy, that these were a clear reflection of the views he held.

I must say that it was in the same way that I was myself clearly convinced of the great opportunity that I might have in joining the administration to carry those forward.

Senator LONG. Would you summarize those two statements to which you are making reference?

Mr. ROOSA. They included a number of points but, I would say, that those which I found most significant were these:

First, that in the area of international affairs and the balance of payments, where we had the most dramatic center of attention at that

time, that it was clearly recognized that we could not solve the problem by changing the price of gold; we could not solve it by imposing any kind of exchange controls—the autarchic techniques of governments that have failed in earlier decades and centuries; that we must solve the problem by improving the strength of our own economy within a framework of price stability, reasonable price stability; that we had to maintain and sustain a position of effective competition in the markets of the world; that reliance would be placed on the competitive market mechanism to achieve this, with the assistance but not the control of Government.

And, as a corollary to all this, there should be fiscal control. There would have to be from time to time deficits. As an economist, I have always felt that this must be so. But I found the way in which this point was expressed completely convincing to me, and I also found that it conveyed the same conviction to my fellow central banking technicians around the world, people in finance ministries as well.

And then, as another corollary, and an important one, I found the clear statement that there must be no corruption or impairment of the integrity of the central bank itself; that the Federal Reserve system must remain as the controller of the money supply and that this was an essential part of solving the balance of the payments problem.

I do not want to run on too long, but I would add that this is, of course, one side of the mirror.

The other side is the state of the domestic economy, and it was because we were sliding into a recession that there was a tendency abroad to feel there was a great risk that there would be an abuse of the powers of the Federal Reserve in creating additional money.

Now, please do not misunderstand me, this is only the distortion that grows with great distance. People in this country should have realized that that would not have been possible with either administration. We must deal with states of mind as well as with facts, and it is with these states of mind that I was concerned. I was also greatly reassured by the recognition expressed in these statements that, while there would, indeed, be deficits at times, there was recognition of the special problems which characterized this recession such as the depressed areas and the spotted extreme unemployment, rather than the general complete sag of the entire economy, which has at other times been more pronounced. In all these respects I found the statement reassuring to me and to many others.

Senator LONG. What is your reaction to the statements of the Democratic platform insofar as they relate to monetary and fiscal policy?

Mr. ROOSA. There was only one that I was concerned about, one I felt needed further elaboration. I felt these statements provided such elaboration. In the interests of economy of words, I am sure, certain statements were made that seemed to be both cryptic and, in a sense, harsh with respect to the role of financial discipline as part of the overall governmental program in economic life. There was a sentence that disturbed me, frankly, about the need to get rid of the Federal Reserve tight-money policy, or something to that effect.

I think that is putting it too simply. I think all of us understand that we want to avoid the extremes in interest rate development which we had in 1959.

No one would wish to do that more than I, but I felt the sentence in the platform required elaboration as to what was meant, and I felt that Senator Kennedy's statements resolved something which was capable of misunderstanding and misinterpretation in the abbreviated treatment it necessarily had to receive in the platform.

Otherwise, in general form, I personally found much in the platform—and I should stress again I am speaking quite personally and not for the administration—to reassure, both in Senator Kennedy's statements and in other comments and from every contact I have had with all members designated for this new administration.

Senator LONG. You recognize that there is more than just some slight temporary effect on the issuing of bonds, particularly relatively long-term bonds, at an interest rate double that which they have been issued at previous times, do you not?

Mr. ROOSA. Yes, sir.

It is always interesting though to remember that it is only a year and a half ago that Treasury bills were selling at 5, and this week they went at $2\frac{1}{4}$, so that it is one of the aspects of living with the market that they will go up and they will come down, and what we want to be sure of, it seems to me, is that we always get the best rate for the Treasury that the market will allow.

If we begin to judge that the Federal Reserve or anyone else can make that market, and make it stick, then we are beginning to violate, it seems to me, one of the premises of a market economy and, perhaps, unwittingly we are beginning to invade the necessary fundamental conditions for a lot of other things. The broader implications for the functioning of the rest of the economy may not be visible at first, as an effort is made to set interest rates artificially, but these effects do spread out and, in time, eventually undermine the entire structure of our kind of economic system.

No, I do not mean to argue, sir, that a level of rates at 5 percent is itself desirable. I hope we can find ways in the future of avoiding putting such pressures on the markets that rates such as these have to emerge. I hope you will not think I am disrespectful either of the Congress or the past administration if I say that the reason the rates reached this level was that we superimposed a \$12 billion Federal deficit on the top of a roaring economy, and I do not know myself any way in which we could have avoided a major rise in interest rates in those circumstances.

If we had had more wisdom—perhaps we do not have it yet, but we have to keep trying to find it—we could have avoided the extremes that occurred. But I do not think we could have avoided a major rise in rates if we wanted to keep a market economy, short of finding a way to reduce the Government's own deficit.

Senator LONG. You do not think that the declining interest rates had anything to do with the last election?

Mr. ROOSA. Well, I could imagine that there might have been two steps involved, sir, and I would not really want to try to—

Senator LONG. Well; you can answer that question yes or no, if you want to. That is one that can be answered categorically.

Mr. ROOSA. All right, sir, I will say, no.

Senator LONG. Well, let me say I could not disagree with you more. I wonder who you think you are kidding, because I found myself 100

percent totally in disagreement with that view. My view is, and my view being, that all the bankers and everybody else felt if the Democrats won those interest rates were coming down. If the Republicans won they could expect them to go up to the level they had been before that election. But you are entitled to have your view, and I am entitled to have mine on that one.

Senator McCARRHY. Will the Senator yield? It has been observed that the Federal Reserve not only follows the election, but sometimes precedes it with policy, just paraphrasing Mr. Dooley.

Senator LONG. Well, I felt so strongly about it that I put out a newsletter saying that, and the postmaster disagreed with me to the extent that he wanted me to pay the postage on the letter, but I suppose that is the difference between the Republican point of view, and the majority of Democrats at that point.

Senator GORE. Mr. Martin, in his exalted objectivity, might deny that he was aware that we ever had an election. [Laughter.]

Senator LONG. Did you, in general, approve of the tight-money policy that existed for the last 8 years?

Mr. ROOSA. Yes, sir; I was a part of it. I had a hand in formulating it, and I would not want to deny it.

Senator LONG. Well, now, do you believe that tight-money policy was related to, could be supported and based on the Employment Act of 1946?

Mr. ROOSA. Yes, sir. If I didn't I would not have had a hand in it.

Senator LONG. Well, now, if the tight-money policy was related to the Employment Act, and the theory was that money was being kept tight to level off a boom in times when there was a scarcity of productive facilities and a scarcity of employable labor, would not the corollary to that same theory be that money should be in expanded supply at times when there is a slack labor market and unused facilities?

Mr. ROOSA. Yes, sir.

Senator LONG. Well now, assuming that the policy was justified on the basis of a boom economy, and holding the rein on that, would it not seem that the reverse situation should require just the opposite monetary policy, that is—

Mr. ROOSA. Yes.

Senator LONG (continuing). A very much expanded monetary supply?

Mr. ROOSA. Yes, sir.

Senator LONG. If the President of the United States sees fit to pursue the Democratic platform insofar as it relates to monetary and fiscal affairs, do you find anything in your conscience that would interfere with your carrying out his judgment in that connection?

Mr. ROOSA. No, sir. I have reviewed that very carefully with Mr. Dillon, and with the entire group of people who have been associated in helping to fill me in on what was involved here, and I would not think there is any likelihood of any disagreement.

Senator LONG. Now, what is your judgment of how this Open Market Committee works? I think you undoubtedly have some familiarity with it.

Have you ever sat in the room when the Open Market Committee met?

Mr. ROOSA. In general, I do. I have not since my designation.

I have been one of several who were called associate economists of the Committee, which means that I should be there, and then prior to that time for 3 years I was one of the people who do the trading for the Committee in the market, and in that capacity I often had to attend and report on the state of the market, so that I have over the last 8 or 10 years attended, perhaps, half to two-thirds of the meetings.

Senator LONG. About how many people are in the room when that Open Market Committee meets?

Mr. ROOSA. I suspect, sir, that—I would love to answer these questions, but if we are going to get into the performance of the Federal Reserve System, I just wonder if it is not better for Chairman Martin to speak, because I am not here in that capacity, and while I certainly do not mind answering the question, I do not have the authority that he would have to give you clear and reasoned and considered answers.

There are a large number of people in that room, and that, I think, has been made a matter of record in the past.

Senator LONG. Well, if you care to put it in the record, that is all right. I do not regard it as being any particular secret, but I would like to know, and I would like for you to give me some idea.

Mr. ROOSA. No, it is no secret, and I just raised the question in beginning the discussion of the role of the Open Market Committee. The number of people who were there, I think, you could deduce in the list of officers the Committee publishes in the back of every Federal Reserve Bulletin.

It is the 12 members of the Committee, and then the additional Reserve bank presidents who are not currently serving, but who will serve as alternates, and who are there to learn and be ready in their capacity of rotation to serve later; and then each is permitted to have, if it is practical, 1 economist with him, each of the 12 presidents, and then there is, in addition, the small permanent staff of the Committee.

Now this, in my personal judgment, and I cannot speak for the Federal Reserve, I regard as the most effective, most uniquely effective, organization for bringing together all the requirements of formulating a sensible, usable monetary policy, that exists in any central bank in the world.

I think we have invented a system which can always be improved, but which, in its fundament is able to reflect the current development of conditions in each part of the country, and to come in to Washington where people are always more concerned with the Nation as a whole, and to get a welding of views which, to me—and I have sat at meetings of central banks around the world—is the most effective forum for the development of policy in an area where there cannot be wide open disclosure. It is a delicate and sensitive responsibility.

To allow it to be done entirely by one man or two or three, on the basis of the limited range of contacts that they can have alone, would be dangerous.

Now then, if you wish to bring in more people, the problem is how do you give them a sense of participation which will assure the maximum dedication, and maximum attainment of all the wide range of contracts, the flows of information that are needed, without having them participate in the key meetings where policy is considered.

Now, rarely, if ever, does a meeting end without the need for a more formalized presentation of instructions to the people on the trading desk, and it is the trading desk people who, from day to day, have what might be called privileged information, because the people who sit on the committee do not follow the day-to-day operations in minute detail.

But, as Senator Douglas knows from having visited the operation, you cannot operate without relying on some people, and then you must assure their integrity, and keep the number very small.

Senator LONG. Mr. Roosa, my thought is that this Federal Reserve Board has a very great impact on your responsibility and on ours. Congress set up this Federal Reserve Board and delegated certain powers to it.

Mr. ROOSA. Yes, sir.

Senator LONG. If those powers are abused or are not properly used, it is the duty and responsibility of Congress to do something about it, to instruct that Board on those powers that should be used, or changing the membership of the Board or how it was set up.

Mr. ROOSA. Yes, sir. I do not think anyone in the system would have any caveat on that statement.

Senator LONG. We have some responsibility on this committee. We have to advise about the management of the national debt, and I do not know anywhere that the right to turn and to fully expect to be supported in carrying out your responsibilities with respect to monetary matters other than the Federal Reserve Board. At least, if you issue bonds and they cannot sell at par, that is about the only place you have to turn where you have any right to feel that you can demand and expect that they actively support your position if you think you are right. Would that not be correct?

Mr. ROOSA. Yes, sir; except that I would feel that it is the responsibility of the people managing the Government debt to be able to judge their markets all the time so that they would never be put in the position of a serious failure.

I would regard it as, other than through an act of God intervening which could not be foreseen at all, evidence of incompetence or something bordering on that on the part of the group managing the Treasury debt if they reached a stage where they had to, having announced the terms of the particular offering, demand that the Federal Reserve bail them out.

Now, there can be conditions, of course, where this is all upset. But I feel that the greatest risk for the financial integrity of this country, which has to be the leader of the whole free world, is that we ever reach the point of thinking that we can subordinate the control of the money supply, the creation of the money that determines the level of prices in the economy or has a large role in determining it, we can never subordinate that to the exigencies of the Treasury day-to-day borrowing. I think we have got to be very careful to keep an arm's-length relationship in this respect between the Treasury and the Federal Reserve.

It does not mean that the Federal Reserve will not be doing a lot to be helpful, but I do not think we can make them completely subordinate.

Now, there is a wide range of possibility for exploring and reviewing operating relationships. But the premise that I would regard as essential is that there cannot be any decision by Government in the administration to impose on another branch of Government, the Federal Reserve, its absolute fiat with respect to how much it should take, at what rate. I think we both have to be influenced by the market.

Senator LONG. Then, if I understand that answer, you do not believe that the Treasury should expect the Federal Reserve to support its issues, and you do not think that the Federal Reserve Open Market Committee should buy Federal bonds except in some extreme, unforeseeable situation?

Mr. ROOSA. No, sir. I now have to demonstrate that this is an even longer story than I am afraid I have already made.

I do believe personally that the Federal Reserve should operate in the long-term market.

I would want to establish, first, however, that I would not wish that operation to be undertaken if there were any risk that it would become a support peg for a predetermined judgment as to what the market should do.

Senator DOUGLAS. Would the Senator yield?

Mr. ROOSA. That is why I spoke at such length.

Senator DOUGLAS. Would the Senator yield?

Senator LONG. Yes.

Senator DOUGLAS. Mr. Roosa is well known as the foremost intellectual exponent of the doctrine that the Federal Reserve should not confine itself to bills only and the New York Federal Reserve Bank and steadily advocated for a period of years the fact that if the Federal Reserve buys Government securities, deals in Government securities, it should deal in long-time securities as well as in bills; and, as one who holds similar views, I may say that I found the writings of and statements of the New York Federal Reserve Bank, and I think Mr. Roosa was, in part, responsible for them, very important and very cogent.

I hope the Senator from Louisiana will permit me to interrupt on that point.

Senator LONG. Permit me to say, Mr. Roosa, that any time something gets so complicated that a man with a college education cannot understand it, it always seems to me that something must be wrong about it.

Mr. ROOSA. All I can say, sir, is there must be something wrong with me. It is not so complicated, and I ask you to forgive me for my lack of clarity.

Senator KERR. Mr. Roosa, the Federal Reserve Bank has just as much responsibility in maintaining an environment in which a public debt can be managed as the Treasury has to manage a public debt in the environment in which it finds itself. I thought your statement that the Federal Reserve System is independent within the Government not from the Government—

Mr. ROOSA. Yes.

Senator KERR (continuing). And its responsibilities were just as thoroughly defined and set out as are those of the Treasury Department and, as has been demonstrated in every administration I know anything about, there are times when it may move to improve this

environment, not as an adjunct of the Treasury, but in order that the environment in which the Treasury must operate may be one in which it can operate.

Mr. ROOSA. Yes, sir; and, Senator Long, I think probably Senator Kerr has made clear the basic point more effectively than any of my academic circumlocutions. I would agree completely.

Senator LONG. I take it you would be of the opinion that the Federal Reserve Board should be responsible to 160 million people in this country?

Mr. ROOSA. By all means.

Senator LONG. And not to eliminate any group?

Mr. ROOSA. And I think within the framework of their own thinking, they so feel, as well.

Senator LONG. I am corrected that it is 183 million now.

Mr. ROOSA. Yes.

Senator LONG. Thank you very much.

Senator KERR. And getting more so all the time. [Laughter.]

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Chairman, first, let me say that Mr. Roosa is known as probably the foremost authority on the technical operations of the money market in Government securities. He has had this experience, intimate experience with the New York money market, from the public point of view, and has been very influential inside the New York bank as a framer of policies, as well as an operating man.

As you know, the New York bank is the fiscal agent of the Treasury, so that he has been very much concerned not only in the day-to-day dealings in the public debt, but also in the flotation of securities; and I want to say that I think—I do not think the President could have selected a better man.

Now, I want to ask a question, if I may, Mr. Roosa. As you know, in issuing its securities now the Treasury consults with committees from the American Bankers Association, the Investment Bankers Association, and other groups, and then, on its long-term securities, issues them for stated durations at given interest rates and they are sold at par, and this differs from the practice which they follow in the case of bills, where they are put up for auction and bid upon them.

Now, in the investigations which we carried out on this subject, we find that approximately five-sixths of the cases since 1953 were cases where the Treasury had taken over, either in whole or virtually entirely, the recommendations of the American Bankers Association. We did not have the records of the IBA, but we had the records of the ABA.

Now, I proposed and some of my colleagues proposed, that instead of this issuance at par, that the Treasury put its long-time securities up for auction, and that there be competitive bidding in a widely developed market so that a competitive price could be obtained rather than a collectively bargained price, and when I say a collectively bargained price, that is a most charitable description of what happens.

I had a number of conversations with Secretary Anderson about this. He was most courteous, as he always is, and I know that I should neither ask you whether you favor this or not nor should you reply to it because you are just assuming your duties.

But I would like to ask you, are you willing to approach this with an open mind, and study it carefully, and if it seems that the auction method is a better way of getting a more competitively bargained interest rate than, possibly a lower interest rate, whether, if this appears upon investigation to be the better course, you would be restrained from enforcing it.

Mr. ROOSA. Not at all, sir. I regard those as one of those areas of further experimentation to which I was referring earlier. I quite agree also that it is not appropriate for me to take a clear, unequivocal position one way or the other, but my mind is completely open.

Senator DOUGLAS. That is all.

The CHAIRMAN. Senator Gore?

Senator GORE. One of your college classmates is a very warm friend of mine, Bailey Brown of Memphis, Tenn.

Mr. ROOSA. Yes.

Senator GORE. He recommends you in the highest terms.

I will not engage in questions. I take some consolation out of the fact that upon a promulgation of a Democratic monetary policy, you will have the technical knowledge to put it into effect; that Secretary Dillon, with his far-flung proclivities will give it big money respectability. [Laughter.]

Thank you, Mr. Chairman.

The CHAIRMAN. Senator McCarthy?

Senator DOUGLAS. It is a consummation devoutly to be desired.

Senator GORE. But, to begin with, I hope we will have a Democratic monetary policy.

Mr. ROOSA. Yes, sir; I think there is no doubt of that.

The CHAIRMAN. Senator McCarthy?

Senator McCARTHY. No questions.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. Well, Mr. Chairman, being a new member of this committee, I hesitate to ask any questions, but on the other hand, I suppose it is my duty to begin my education, and one way, perhaps, would be to ask Mr. Roosa a few questions.

I note that your father was a schoolteacher all his life.

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. And you were a schoolteacher?

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. Why did you leave teaching school?

Mr. ROOSA. Well, it was a transitional arrangement influenced by luck and accident. The field that most attracted me was the one we are describing here today.

I felt that the academic literature in this field was sterile, because it had not been enriched by experience, and I continued to cherish the hope that I may go back. As a matter of fact, I had under active consideration a year's leave of absence to resuming teaching and try it again at the time when this other opportunity developed.

Senator FULBRIGHT. You did not leave because you could make a better living in the Federal Reserve?

Mr. ROOSA. No, sir; and I would not be considering this position in that light either. [Laughter.]

Senator FULBRIGHT. Mr. Roosa, in this balance-of-payments problem, do you see any possibility or maybe probability that there will arise in the near future a very strong pressure for increasing the tariffs of this country?

Mr. ROOSA. Yes, sir. It concerns me, and I am sure that in this area, while it is not one of my immediate responsibilities, because I am going to be concerned with the balance of payments, I would assume I would continue to get involved in it, and I realize that every special issue in the tariff field has a long story connected with it.

But my bias, and I would put it frankly before you, is to avoid any move in the direction of increasing tariffs, and I think I would want that bias known.

Senator FULBRIGHT. To put it another way: Do you think it would be deleterious to our economy if we did return to increasing tariff?

Mr. ROOSA. Yes, sir; I do.

Senator FULBRIGHT. It would be very bad, very harmful for our overall economy?

Mr. ROOSA. As a general principle it would. I would not want to prejudge individual cases.

Senator FULBRIGHT. I do not mean specifically, but as a policy.

Mr. ROOSA. I do, sir, yes.

Senator FULBRIGHT. Already I have received considerable mail requesting protection against imports.

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. It so happens that these requests are in the very field which affects our exports, that is, the exports from my State, and that is, agricultural large purchases of our commodities produced in our State are also the very largest exporters to us, specifically Japan.

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. I think this is a matter on which the Treasury should speak up on because there is going to be great pressure on the Congress to move in this direction. It happened before and it is bound to happen now.

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. One other subject has interested me. Have you taken notice of the recent reports of the profits of our commercial banks?

Mr. ROOSA. Yes, sir; I have.

Senator FULBRIGHT. Have they been unusually large or medium or below normal?

Mr. ROOSA. No, they have been unusually large.

Senator FULBRIGHT. Why is it that this is taking place in a period of recession?

Mr. ROOSA. Part of it is time lag. So high a proportion of the loans the banks now have on their books are term loans, and they go on the books at high rates of interest in a period when the banks are able to place at long term a high proportion of their commercial portfolio in that form. So part of it is the effect today of rates contracted in a period of higher general average rates.

Part of it, too, is the influence of the tax laws with respect to the handling of portfolios, and the opportunities that arise to incur tax losses on the sale of obligations when interest rates rise, and the converse when they fall.

This is a most complex question on which I would not like to begin to intrude, even as a Treasury person because I am not a tax specialist. It does impinge on the functioning of the security markets though and, in that respect, I have always been aware of the great significance of "tax selling" as an influence in the overall pattern of market trading.

It is an area in which I am sure all of us have to take quite a long look. I do not know that there is anything to be done about it. There are many pros and cons, but it is a factor in these high bank earnings now. The way in which losses offset against gains influence the taxable income results from a given calendar year.

Senator FULBRIGHT. I am only exhibiting my ignorance and seeking information.

I noticed a day or two ago the largest bank in Washington reported a 30-percent increase in earnings the past year over the preceding year, when everyone knows the general economy suffered a very serious decline in earnings in—

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT (continuing). All manufacturing, practically every segment of the economy. This seems to me a rather strange thing.

Do you consider that there is any effective competition among commercial banks?

Mr. ROOSA. This, too, is a very complex question. I think there is effective competition with respect to the seeking of important business customers and that continues to be a factor which, oddly enough, produces a uniform rate for the most part.

Senator FULBRIGHT. That is rather unusual, is it not?

Mr. ROOSA. Well, competition, if it works well in a free market always produces a single price on a given day.

Senator FULBRIGHT. Oh, yes.

Mr. ROOSA. But it does not mean that the price should remain the same day after day and this, of course, is another—

Senator FULBRIGHT. You mentioned a moment ago the interest dropped from 5 percent to 2¼ within a year, I believe.

Mr. ROOSA. Yes, sir.

Senator FULBRIGHT. And yet the interest rate—there was an article in the paper a day or two ago, I think by Mr. Livingston, which indicated that although there was more, plentiful money, the banking authorities did not anticipate any decline in the interest rates of commercial banks in the foreseeable future; is that correct?

Mr. ROOSA. Yes.

Senator FULBRIGHT. I do not quite understand this. If there is any competition among the banks, I do not understand this.

Mr. ROOSA. Well, this, too, is something we ought to explore from many sides. But, first, the rate I referred to was the Treasury bill, that is the very shortest 90-day instrument.

Senator FULBRIGHT. Yes.

Mr. ROOSA. As far as bank lending rates are concerned, they have come down in their prime rate by a half of 1 percent.

Senator FULBRIGHT. A half of 1 percent?

Mr. ROOSA. It is not expected, as a general rule, that they would vary as wide a range as Treasury bills, but undoubtedly they ought, over the course of the business cycle, to fluctuate more than that if competition is full.

Now, I think the competition that we have to consider is not only among commercial banks but with all other kinds of lending institutions. On the mortgage side the competition comes from the savings and loans and insurance companies primarily; on the business lending side, from insurance companies, savings banks, and pension funds; then follows the whole range of competitive forces in the marketable issues, energized by the investment banking houses.

So that there is an active and, in most ways, an aggressive spirit of competition.

But I quite agree that the flexibility in rates in response to swings in business conditions is disturbingly sluggish within a competitive environment.

This is something that I cannot adequately explain. It has been a source of—

Senator FULBRIGHT. Well, if you cannot, who can explain it?

Mr. ROOSA. I do not think anyone can, sir; and I think we must devote even more effort to finding out.

I think that part of the answer is in what I call frictions and time lags. But I think part of it, too, is just in established institutional practices and habits of thought which may have great usefulness.

I do not mean to be putting myself in the position of an informed critic, only a questioning observer, but I think certainly the flexibility of long-term market rates of interest in this recession has been surprisingly slight, and I certainly do not mean to foreshadow any particular means of dealing with that apparent lack of flexibility.

I do indeed indicate a personal concern over this, and I hope we can learn more about it as we go along.

Senator FULBRIGHT. Well, about a year ago the prime long-term loans by insurance companies, they were offering money at 6 percent. That was a year ago. Presently it is exactly the same. There has been no change in these, some specific cases that I know about. They merely say there has been no change; that it is just the same.

Mr. ROOSA. Yes.

Senator FULBRIGHT. This seems very strange.

We mouth a great deal about our competitive economy. If capital itself, that is the very basis of it, is not competitive, it seems to me this is a lot of superficial talk which means nothing.

Mr. ROOSA. Yes.

Senator FULBRIGHT. I mean it is not competitive. It is in some manner administered, I suppose, what they call administered prices.

Mr. ROOSA. I suppose if you were to ask each one of these people who has maintained this rate, he would say that the volume of demand for the funds he has available is sufficiently great that he can lend all he has at this rate, and that is one test of the existence of a competitive market.

Then the borrower does not have the means of going to others who will lend at a lower rate. This becomes one of those frictions in the availability of alternative sources of funds that we must be concerned about.

Senator FULBRIGHT. Is this very different, say, from steel? And now, steel has been operating at 50 percent. Has there been any marked decline in the price of steel in the last year?

Mr. ROOSA. No, sir; not so far as I know.

Senator FULBRIGHT. Do you consider there is any competition in the steel business?

Mr. ROOSA. Well, I would have to trespass a long way from any competence I have in my present position to try to pass a judgment there.

In an industry of the kind that steel represents, where there must be only a few large concerns because of the heavy capital required for the individual enterprise, I think it is inevitable that there will be somewhat different pricing mechanisms than in a free market for an agricultural product.

From what I have learned from the writings of other economists and other people it appears that there is a need for a kind of price leadership in an industry such as steel.

Senator FULBRIGHT. If you do not like steel, we will take farm implements. Do you think there is any competition among farm implement manufacturers?

Mr. ROOSA. Again, sir, I think I am learning from your questions and cannot really contribute anything.

I am concerned about the state of competition and the reflecting of it in price in steel, in agricultural implements, and all across the board.

Senator FULBRIGHT. What about automobiles, do you think there is any competition among automobile manufacturers? I am just curious. You talk about free enterprise in our competitive system. I really do not know, I am trying to find out.

Mr. ROOSA. Yes, sir; and I think these are matters of degree, of course, and I do not think there is as much competition as any of us would like to see in terms of price flexibility. I think this is a major problem for the industries themselves.

Senator FULBRIGHT. What does competition mean if it is not reflected in prices, if it is only reflected in the volume of advertising in the Saturday Evening Post or the local paper, but they never cut prices? Why are you justified in saying there is a competitive system when it does not cut prices?

Mr. ROOSA. It is partly, I think, because there is so much variation in the quality of the product that you never see in the finished price.

I think every firm maintaining a relatively fixed price for an automobile is continually trying to, in effect, change price by changing the composition and quality of the product which he is offering. But he keeps the price fixed and changes the product instead of keeping the product fixed and changing the price. The effect, to some extent, is the same. So it is an optical illusion, in part, the quoted price remains the same.

I am not sure that this is wise, and I think the major adjustment that the automobile industry has made recently in the smaller car and moving into another area was induced by competition in part from abroad.

This is another reason not to have the tariffs we were talking about before, to help keep a competitive economy energized.

Now, I do not mean to cast sand in another direction, but in the area of the financial institutions where we were worried about rates being sticky, we are just beginning to get a little more competition from financial institutions in leading countries abroad now that there is more widespread currency convertibility. Our rates here at the

moment, of course, are generally lower than you will find in the strong countries abroad and that, of course, has given us some trouble in the balance-of-payments side.

But I think what is more interesting for the long run is that the financial institutions here are having to develop an awareness also, just as automobiles and steel, of the influence of competition from abroad.

So that as long as we maintain the framework of a market economy, and we keep it open through our tariff policies, reciprocal and low, I think we can be sure that, in a stumbling but eventually effective way, we will have a much more satisfactory result than if we tried to plan it in any other manner.

Senator FULBRIGHT. One last question. How much did the Federal Reserve System make last year?

Mr. ROOSA. I have been in limbo just long enough so that I do not know, sir. I am sure that the Federal Reserve earnings were large, but, as you know, virtually all of those earnings under present arrangements are now paid directly to the Treasury.

Senator FULBRIGHT. Yes, I know they are. I think I saw \$800 million.

Mr. ROOSA. It would be that magnitude, \$800 or \$900 million.

Senator FULBRIGHT. Returned to the Treasury.

Mr. ROOSA. Yes.

Senator FULBRIGHT. Which is much larger than usual, is it not?

Mr. ROOSA. It is something which has been going up over the years, and I think it has been in the magnitude of around three-quarters of a billion dollars over the years.

Senator FULBRIGHT. Would this have any bearing upon the member banks maintaining their earnings and interest rates higher?

Mr. ROOSA. No, sir.

Senator FULBRIGHT. It would not?

Mr. ROOSA. You will find that all member banks allege that they are being, in a way, penalized by the Federal Reserve because they do not receive interest on their reserve balances. This is a very old argument.

But basically my view is that the central bank creates the reserves which they receive, and they receive from Congress, in effect, the right to issue and create money—the deposits that circulate—and I do not see any reason why they should be paid interest on their reserve balances. If the Federal Reserve is, in turn, enabled through its creating of those reserves to earn income, I think the income belongs in the Treasury of the United States.

Senator FULBRIGHT. Mr. Chairman, I apologize for delaying the committee, but he was such a good teacher I hated to pass up this opportunity.

The CHAIRMAN. Senator Fulbright, we thank you.

Senator McCARTHY. Senator, may I ask just one question? I passed before.

There have been some economists who have been thinking about this, which was revived when the discussion of the flight of gold occurred.

Suppose there is no real justification for continuing the present gold reserves at the same rate at the present time, what is your opinion of that, Mr. Roosa, in relation to the flight-of-gold problem?

Mr. ROOSA. Yes, sir. I think it is best, sir, if you do not mind, to leave an expression of view on that to an administration view which, as you know, is being developed at the moment, I would rather not be the person who comes out with a comment on one part of the overall program which is in process of development, and on which we will have much more to say very soon.

Senator McCARTHY. At least you have considered a reduction of that reserve?

Mr. ROOSA. By all means. This question, and at least 25 or 30 more questions of this kind—all of them within the framework that I mentioned earlier; that we do not touch the gold price, we keep the exchanges open; we avoid a return to protectionism; we rely on the international forces of market adjustment; and we strengthen the U.S. dollar by strengthening the economy.

In that framework, I think there are a lot of things we can do, and I would rather that the administration program would appear as a whole than my trying to make a comment on any one particular part.

Senator McCARTHY. You would be advising them, would you not?

Mr. ROOSA. I hope to have a share in that; yes, sir.

Senator McCARTHY. You do not want to tell us yet what your advice would be?

Mr. ROOSA. I would rather not, if you don't mind.

Senator McCARTHY. Thank you.

The Chairman. Any further questions?

I think you have made a very frank and a very impressive presentation, and one that should be studied by those who are interested in these vital questions.

Now, all of us are much concerned, as you know, with respect to the continued drain on our gold. We now have less than \$6 billion of free gold.

We are also concerned about the deficit balance. I had an interview, I had a conference, with Secretary Dillon, and he said the first problem of his Department under his administration, which he regarded as a very serious one, would be some plan to stop the drainage of gold and to correct this imbalance of payments, and that he would be prepared to come before the Finance Committee within the next several weeks, and for that reason I will not ask you any questions at this time, because I think the new administration should have an ample opportunity to go into this question which, in my personal judgment, is one of the most serious that has confronted the international money situation in the 28 years that I have been in the Senate, and I assume that you agree as to the seriousness of it?

Mr. ROOSA. Yes, sir; I agree, and I must confess that I have spent a disproportionate amount of my time on that side of the responsibility I will have, and, up to now, too little on debt management, in trying to prepare for the position ahead. But the balance of payments is an overpowering consideration now.

The CHAIRMAN. So I think it is better to give adequate time——

Mr. ROOSA. Yes, sir; fine.

The CHAIRMAN (continuing). To Secretary Dillon and you and the others responsible to present this plan, and for that reason I will not ask any questions along that line.

I want to thank you again for the excellent presentation you have made.

Mr. ROOSA. Thank you.

The CHAIRMAN. Senator Javits has now arrived and desires to be recognized to make a statement endorsing Mr. Roosa.

Senator JAVITS. Thank you, Mr. Chairman.

I just want to say that I know Bob Roosa. He has a high reputation in New York. I know his chiefs think the world of him; and I join with Senator Keating in saying to this committee that I believe Mr. Roosa will be a fine public servant. We are proud of him.

Thank you very much, Mr. Chairman, for allowing me to make this brief statement.

The CHAIRMAN. Thank you, Senator Javits.

The CHAIRMAN. The Chair recognizes Senator Douglas to present John S. Gleason, Jr., of Illinois, to be Administrator of Veterans' Affairs.

NOMINATION OF JOHN S. GLEASON, JR., TO BE ADMINISTRATOR OF VETERANS' AFFAIRS

Senator DOUGLAS. Mr. Chairman, it is a real privilege for me to introduce Mr. John S. Gleason. My draft of a statement is before you. As you will see from that statement, Mr. Gleason has had both distinguished military and distinguished civilian records.

He enlisted as a private in the Army in 1941. He received a number of decorations for heroism in action, receiving not only the Bronze Star but also the Silver Star and the Legion of Merit.

When he returned to Illinois after the war he was active in the National Guard for a period of 10 years. He is now a major general in the 85th Infantry Division of the Army Reserve.

His business career has been with the First National Bank of Chicago. He is now vice president of that bank and, as we all know, was national commander of the American Legion for the year 1957-58.

We are proud of him in Chicago as a distinguished citizen, and I think the Nation is very fortunate in obtaining his services as Administrator of Veterans' Affairs.

The CHAIRMAN. The Chair recognizes the minority leader of the Senate, Senator Everett Dirksen, who desires to make a statement endorsing Mr. Gleason.

Senator DIRKSEN. Thank you, Mr. Chairman, I take very special pleasure in appearing before the committee this morning to recommend the approval of the nomination of John Gleason of Chicago to be Administrator of the Veterans' Administration.

I believe he qualifies in an extraordinary way on a number of counts. First, he is a very successful businessman and knows business administration. Second, he might be deemed successful in the banking business and has given a good account of himself in this field. Third, as national commander of the American Legion he did have administrative responsibility for the operation and well-being of a widely diffused national patriotic organization which requires administrative talent in itself.

And, finally, there is about him that spirit of dedication to the welfare of those who have borne the brunt of battle and their widows and their orphans, and I believe the country is fortunate indeed that he should be nominated by President Kennedy for this high post. I can

endorse him without reservation, and at the same time wish to congratulate him and wish him well in this new endeavor.

The CHAIRMAN. Thank you, Senator Dirksen.

(The Veterans' Administration press release giving the background information on Mr. Gleason follows:)

VETERANS' ADMINISTRATION,
INFORMATION SERVICE,
Washington, D.C., January 14, 1961.

JOHN S. GLEASON, JR.

John S. Gleason, Jr., designated by President-elect John F. Kennedy on January 13, 1961, to become head of the Veterans' Administration, combines an extensive background in business with a longtime interest in veterans and military affairs.

Mr. Gleason, Chicago banking executive and a combat veteran of World War II, is scheduled to become the sixth Veterans' Administration chief since that independent agency was established by law in 1930. At age 45 he will be the youngest man ever to hold the title of Administrator of Veterans' Affairs.

In his new position, Mr. Gleason will be in charge of about 172,000 employees in an agency that has annual expenditures of about \$5 billion, and the responsibility for administering laws applying to eligible beneficiaries among the Nation's 22 million veterans and their dependents.

As Administrator of Veterans' Affairs his responsibilities will include administration of the GI insurance program serving more than 6 million veterans holding policies with a face value of over \$42 billion; operation of the largest medical program in the United States consisting of 170 Veterans' Administration hospitals and more than 80 clinics; conduct of a GI loan program which has provided home loans for more than 5 million veterans, and a GI bill educational program which so far has given training to some 10 million veterans, and administration of a compensation and pension program providing payments on behalf of more than 4 million veterans.

Mr. Gleason was born in Chicago on February 11, 1915, attended Georgetown Preparatory School in Washington, D.C., and was graduated from the University of Notre Dame in 1936. He engaged in postgraduate study at the Harvard University School of Business Administration, and the University of Wisconsin School of Banking.

In 1941 he interrupted his business career with the First National Bank of Chicago to enlist in the Army as a private. By the end of World War II he was a lieutenant colonel and a veteran of combat campaigns in New Guinea, the Marshall Islands, and the Philippines. His military decorations and awards include the Silver Star, Soldiers Medal, Legion of Merit, Bronze Star with two oak leaf clusters, and the Philippines Legion of Honor.

After World War II he helped reorganize the Illinois National Guard, and became a colonel in 1950. He was promoted to the rank of brigadier general in the Army Reserve in 1956, and to major general in 1958 as commanding officer of the 85th Infantry Division, Army Reserve.

Resuming his career in the First National Bank of Chicago in 1946, he was elected an officer of the bank and is presently serving as a vice president. He also is president of the Chicago Helicopter Airways.

Mr. Gleason has long been active in veteran organization work. Starting as a post commander in 1946, he held increasingly important posts in the American Legion culminating in his election as national commander of that organization on September 19, 1957. He is a member of the State of Illinois Veterans Commission, and a member of the Veterans of Foreign Wars and the American Veterans of World War II (AMVETS).

He has engaged in many civic and charitable activities in the Chicago area including chairmanship or committee membership for the Red Cross, Chicago Youth Foundation, Girl Scouts of Chicago, United Cerebral Palsy, and the National Conference of Christians and Jews. He also serves on the president's committee of the University of Notre Dame, and the advisory committee for Loyola University of Chicago.

The new Administrator and his wife, Mary Jane, live at 735 Sheridan Road, Winnetka, Ill. They have six sons—Jack, 17; Dan, 13; Dick, 11; Tom, 9; Dave, 7; and Marty, 4.

The CHAIRMAN. Are there any further questions?

Senator LONG. If there are no further questions I would like to ask some.

The CHAIRMAN. Senator Long.

Senator LONG. I will withhold my questions. I see Mr. Gleason is well qualified. I will not try to pin you down on policy at this time, Mr. Gleason.

I will vote for you in any event, so I will talk with you later on it.

The CHAIRMAN. Mr. Gleason, you should feel complimented that no questions have been propounded.

Mr. GLEASON. Thank you; I do.

The CHAIRMAN. It shows the confidence of the committee in you.

Senator MORTON. Mr. Chairman, I would like to make only one good observation. If my good friend, Senator Fulbright, does not think there is any competition in the automobile industry, I will bet that if he lets it be known about a quarter of twelve here today that he wants to buy an automobile, he will have 20 salesmen on his doorstep by sundown.

Senator FULBRIGHT. Mr. Chairman, I do not want to let that pass. There is plenty of competition at the retail level. I was talking about the manufacturers. All of this competition comes out of the skin of the retail dealer.

I see no indication that Ford Motor Co. has been reducing its prices to the dealers or General Motors or any of the manufacturers. I agree about the local ones. They give away all their profit in the effort to get rid of these automobiles.

I did not say I did not believe there was not any competition. I did not see Mr. Roosa agreeing that he thought there was much. I was asking his opinion about it. I was not trying to assert mine.

The CHAIRMAN. Are there any further questions?

Senator McCARTHY. Mr. Chairman, I think we ought to let Mr. Gleason go on record as being in favor of an efficient and effective administration of the Veterans' Administration, if I could ask him if he was in favor of that so that the record would be quite clear.

Mr. GLEASON. The answer is "Yes." [Laughter.]

Senator GORE. Are you quite sure? [Laughter.]

Mr. GLEASON. Yes, sir.

The CHAIRMAN. The committee will go into executive session.

(Whereupon, at 11:45 p.m., the committee adjourned to reconvene in executive session.)

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