

FEDERAL RESERVE ACT AMENDMENTS

(Sections 10 and 3)

HEARING

BEFORE

SUBCOMMITTEE NO. 1

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 1005

AN ACT TO AMEND SECTION 10 AND SECTION 3 OF THE
FEDERAL RESERVE ACT AND FOR OTHER PURPOSES

MAY 11, 1962

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FEDERAL RESERVE ACT AMENDMENTS (SECS. 10 AND 3)

FRIDAY, MAY 11, 1962

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE No. 1 OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to adjournment, at 10 a.m., in room 1301, New House Office Building, Hon. Brent Spence (chairman of the subcommittee) presiding.

Present: Representatives Spence, Reuss, Moorhead of Pennsylvania, and Mrs. Dwyer.

Chairman SPENCE. The committee will be in order.

We have met here this morning to consider S. 1005, to amend sections 10 and 3 of the Federal Reserve Act.

(The act referred to is as follows:)

[S. 1005, 87th Cong., 1st sess.]

AN ACT To amend section 10 and section 3 of the Federal Reserve Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 10 of the Federal Reserve Act, as amended, is hereby further amended by striking paragraph nine thereof (U.S.C., title 12, sec. 522).

SEC. 2. Section 3 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 521), is hereby further amended by adding at the end thereof the following paragraph:

"No Federal Reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character or to authorize the erection of any such building, except with the approval of the Board of Governors of the Federal Reserve System."

Passed the Senate August 23, 1961.

Attest:

FELTON M. JOHNSTON, *Secretary.*

[Rept. No. 737, 87th Cong., 1st sess.]

FEDERAL RESERVE BRANCH BANK BUILDINGS

The Committee on Banking and Currency to whom was referred the bill (S. 1005) to amend section 10 and section 3 of the Federal Reserve Act, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

S. 1005 would repeal the ninth paragraph of section 10 of the Federal Reserve Act. This paragraph now prohibits Federal Reserve banks from erecting any branch bank building at a cost of more than \$250,000, subject to a proviso permitting branch bank building construction up to a total of \$30 million for all branch bank buildings approved after July 30, 1947. This amount is now almost exhausted. The Board of Governors of the Federal Reserve System reports that there is an urgent need for three additional branch buildings and that there will

be needs in the future for additional branch buildings. Instead of the present statutory ceiling, S. 1005 would require the approval of the Board of Governors for each additional branch building or addition.

Federal Reserve branches perform functions important to the banking system and to the public, including particularly handling cash and checks. Since 1953 the volume of cash handled by branches has increased by 47 percent, and the volume of checks handled has increased by 70 percent. The use of branches by the Federal Reserve banks saves time and money in transporting checks and cash in addition to speeding up the operations of the commercial banking system.

The Federal Reserve Act was amended in 1922 to prohibit the erection of Federal Reserve branch bank buildings at a cost in excess of \$250,000. This figure no longer provides sufficient authority for the construction of a new branch building. In 1947 the Federal Reserve Act was amended to permit the construction of branch buildings in excess of \$250,000, with the approval of the Board of Governors, up to an aggregate cost for the "buildings proper" of \$10 million. In 1953 the statute was again amended to increase the \$10 million authorization to \$30 million. This restrictive provision applies to the cost of purchasing existing buildings or making additions to existing buildings but not to the cost of vaults, permanent equipment, furnishings, or fixtures. Set forth below is a list of the new buildings and additions constructed under these authorizations.

Allocations of authorization for Federal Reserve branch "building proper" costs

Statutory authority as amended May 29, 1953 (Federal Reserve Act, sec. 10, par. 9; 12 U.S.C. 522) ----- \$30, 000, 000

New buildings:

| | | |
|---------------------|---------------|--------------|
| Seattle----- | \$1, 419, 661 | |
| Portland----- | 1, 371, 470 | |
| Jacksonville----- | 1, 277, 668 | |
| San Antonio----- | 1, 254, 414 | |
| El Paso----- | 618, 000 | |
| Houston----- | 1, 286, 755 | |
| Louisville----- | 2, 528, 536 | |
| Buffalo----- | 2, 251, 042 | |
| Nashville----- | 1, 323, 126 | |
| Salt Lake City----- | 1, 534, 215 | |
| | | 14, 864, 887 |

Additions:

| | | |
|--------------------|-------------|--------------|
| Detroit----- | 2, 160, 670 | |
| Los Angeles----- | 2, 487, 988 | |
| Charlotte----- | 789, 458 | |
| Baltimore----- | 840, 427 | |
| Omaha----- | 1, 036, 497 | |
| Pittsburgh----- | 2, 190, 134 | |
| Birmingham----- | 1, 339, 696 | |
| Oklahoma City----- | 1, 090, 691 | |
| | | 11, 935, 561 |

Purchased buildings:

| | | |
|--------------------------------|-------------|-------------|
| Cincinnati----- | 1, 294, 575 | |
| Little Rock ¹ ----- | 126, 850 | |
| | | 1, 421, 425 |

Total allocations----- 28, 221, 873

Remainder of authorization----- 1, 778, 127

¹ Building on site for future addition.

Source: Board of Governors of the Federal Reserve System, Division of Bank Operations, Feb. 21, 1962.

The Board of Governors submitted the following list of new buildings and additions which are expected to be needed in the future :

Estimated "building proper" costs of Federal Reserve branch building construction contemplated in 5 to 15 years

| | |
|--|---------------|
| Urgently needed : | |
| New Orleans----- | \$2, 700, 000 |
| Denver----- | 2, 000, 000 |
| Little Rock----- | 1, 300, 000 |
| Needed in 5 years : | |
| Jacksonville----- | 2, 500, 000 |
| Memphis----- | 1, 400, 000 |
| Los Angeles----- | 1, 400, 000 |
| Needed in 5 to 15 years : ¹ | |
| Helena----- | 500, 000 |
| Omaha----- | 800, 000 |
| Total----- | 12, 600, 000 |

¹ There may be other needs not foreseen at this time.

Source : Board of Governors of the Federal Reserve System, Division of Bank Operations, Feb. 21, 1961.

Under the amendment, the approval of the Board of Governors would be required before a Federal Reserve bank could undertake the erection or purchase of any branch bank building or the construction of any addition to a branch bank building. The committee expects that the Board of Governors will exercise sound judgment and prudent economy in acting under this amendment. The committee expects that the Board will only approve proposed new construction or additions under the amendment where such expenditures are shown to be demonstrably necessary, and then only to the extent necessary. The committee expects that the Board of Governors in the exercise of good judgment and sound discretion will act only after fully obtaining the views of local persons and organizations, and only after giving full weight to local needs and practices, so that the location of branch bank buildings will be as convenient and as advantageous as possible. The committee expects that the Board of Governors will not approve extravagant or unnecessary construction. The committee expects that the actions of the Board of Governors in approving proposals for branch bank buildings will be included in the annual reports of the Board of Governors.

No appropriation by the Congress would be required ; the cost of the projects would be amortized out of the earnings of the Federal Reserve System over a period of years.

The following amounts have been paid to the U.S. Treasury since 1955, as interest on Federal Reserve notes under paragraph 4 of section 16 of the Federal Reserve Act, representing net earnings after payment of statutory dividends to the member banks and after providing for the maintenance of the surpluses of the Federal Reserve banks at the level of their subscribed capital :

| | | | |
|-----------|-----------------|-----------|-----------------|
| 1960----- | \$896, 816, 359 | 1957----- | \$542, 708, 405 |
| 1959----- | 910, 649, 768 | 1956----- | 401, 555, 581 |
| 1958----- | 524, 058, 650 | | |

S. 1005 was recommended by the Board of Governors of the Federal Reserve System in its letter of January 30, 1961. Comments were obtained from the Bureau of the Budget, which expressed its concurrence with the views of the Federal Reserve Board, and the Treasury Department, which stated that it would not object to enactment of the bill. Hearings were held on the bill on July 10, 1961, and testimony and letters in support of the bill were received by the committee.

The same amendment as that contained in S. 1005 was provided in section 4 of title II of the Financial Institutions Act of 1957 (S. 1451, 85th Cong.), which was passed by the Senate on March 20, 1957.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman) :

FEDERAL RESERVE ACT, SECTION 3 (12 U.S.C. 521)

SEC. 3. The Board of Governors of the Federal Reserve System may permit or require any Federal Reserve bank to establish branch banks within the Federal Reserve district in which it is located or within the district of any Federal Reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal Reserve bank of the district, and the remaining directors by the Board of Governors of the Federal Reserve System. Directors of branch banks shall hold office during the pleasure of the Board of Governors of the Federal Reserve System.

The Board of Governors of the Federal Reserve System may at any time require any Federal Reserve bank to discontinue any branch of such Federal Reserve bank established under this section. The Federal Reserve bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe.

No Federal Reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character or to authorize the erection of any such building, except with the approval of the Board of Governors of the Federal Reserve System.

FEDERAL RESERVE ACT, SECTION 10, PARAGRAPH 9 (12 U.S.C. 522)

[No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: *Provided*, That nothing herein shall apply to any building under construction prior to June 3, 1922: *Provided further*, That the cost as above specified shall not be so limited as long as the aggregate of such costs which are incurred by all Federal Reserve banks for branch bank buildings with the approval of the Board of Governors after the date of enactment of this proviso does not exceed \$30,000,000.]

Chairman SPENCE. Mr. Reuss.

Mr. REUSS. Mr. Chairman, if I may be recognized for just a moment.

Chairman SPENCE. The gentleman is recognized.

Mr. REUSS. Before the formal hearing starts, I want to convey to the chairman something that alarms me very much, which is related to the Federal Reserve, and indeed, to matters of interest to our friend, Mr. Balderston, whom I am delighted to see here this morning.

On April 17, President Kennedy sent up to the Congress a message, which was referred to this committee, asking for what seemed to me a relatively minor change in the Federal Reserve law, making the terms of the Chairman and the Vice Chairman coterminous with the 4-year term of the President. That proposal had the most impeccable conservative endorsement.

The Commission on Money and Credit had come out very strongly. That Commission, as you know, is an offshoot of the excellent businessmen's organization, the Committee for Economic Development.

You, Mr. Chairman, introduced on May 3, 1962, H.R. 11602, which would give effect to that request of the President, and I may say that I heartily support that bill. Thus, I was very distressed yesterday to find former President Eisenhower coming down to the Nation's Capitol and holding a press conference here in the Capitol, in which, after saying—and I am reading from this morning's Washington Post—he had no personal animus against President Kennedy, but nevertheless he termed certain measures—and here I quote again, “a real threat to liberty in this Republic.” And one of the measures which he terms a real threat to liberty in this Republic is this very bill of yours, which he mentioned as authority to dilute the independence of the Federal Reserve Board by Presidential appointment of its Chairman.

I am distressed at this press conference, not simply because it indicates a lamentable lack of understanding of the Federal Reserve System by former President Eisenhower, but for this reason, Mr. Chairman:

In talking to central bankers in all of the leading countries of Europe in the last couple of years, I well know how sensitive they are to political debate in this country which has something to do with the independence of the Federal Reserve System. Now, I think that your bill in no way impairs that independence, but I am disturbed that former President Eisenhower has sought to make a political issue of this.

I think it can do great harm to the dollar abroad, and I would just suggest, Mr. Chairman, that good as this bill is, H.R. 11602, perhaps we of the Banking and Currency Committee ought to think twice whether we should proceed with it in the light of this political opposition, not because that makes it any the less a good bill, but because it might conceivably do some harm to the integrity of the dollar abroad.

I just want to make this suggestion for the chairman's thought, and I appreciate his recognition.

Mrs. DWYER. Will the gentleman yield?

Mr. REUSS. I will be glad to yield.

Mrs. DWYER. I believe former President Eisenhower's concern about the independence of the Federal Reserve System is shared by many people in this country, sir.

Mr. REUSS. And by myself. I am deeply dedicated to the independence of the Federal Reserve, as is the Commission on Money and Credit, this nonpartisan group of outstanding public and private financial experts, but what disturbs me is the former President's listing of this bill as a real threat to liberty in this Republic.

I think this is an inflated view of it, and I regret it very much.

Mrs. DWYER. Should that not be discussed when the bill comes up for consideration by the subcommittee, rather than this morning, sir?

Mr. REUSS. Yes; it is only because the former President used the Capitol as his forum for this, but I thought it should be mentioned this morning.

Chairman SPENCE. I may say, when the chairman introduced the bill, he didn't think it would have the effect of spoiling the liberties of the people. I don't think so yet. It seems to me it is a very unimportant bill. I am surprised that ex-President Eisenhower made the statement attributed to him.

I do not think that ought to have any effect, though, whether we have a hearing on the bill. If the bill is a good bill, if we think it will serve a good purpose, we are going to have hearings on it.

We have with us Gov. C. Canby Balderston, Vice Chairman, Board of Governors of the Federal Reserve System.

Governor Balderston has long been a member of the Federal Reserve Board, and he has a reputation which distinguishes him. We are very glad to have you here, Mr. Balderston, and I know the committee will give great consideration to your views on the subject.

If you have a written statement you may proceed without interruption.

Mr. BALDERSTON. Thank you, Mr. Chairman.

I have with me Mr. John R. Farrell, who is Director of the Division of Bank Operations.

STATEMENT OF C. CANBY BALDERSTON, VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; ACCOMPANIED BY JOHN R. FARRELL, DIRECTOR, DIVISION OF BANK OPERATIONS

Mr. BALDERSTON. I appreciate the opportunity to appear in support of S. 1005. This bill would authorize an expansion of working space urgently needed at certain Federal Reserve branches. It would repeal the provision of section 10 of the Federal Reserve Act that now blocks this required expansion. The provision to which I refer in effect imposes a \$30 million limit on construction of branch buildings. It reaches this result in two stages: First, it restricts the cost of any single branch building to \$250,000—a figure adopted in 1922 and now unrealistic; second, it waives this restriction for construction approved after July 30, 1947, up to a total of \$30 million for all branches—a limit that has virtually been reached.

In addition to repealing these restrictions, S. 1005 provides that branch buildings may be erected only with the approval of the Board of Governors. Thus the bill would write into the statute the long-standing practice of the Board in supervising such expenditures.

The need for this legislation stems from the Nation's growth that has resulted in certain Federal Reserve offices being called upon to process more checks and to handle more currency than can be done efficiently in their present quarters. These two activities—handling checks and handling currency and coin—require most of the space in Federal Reserve offices, and they are the ones that are growing the fastest. Since 1953 (the year the present \$30 million authorization was enacted) the volume of cash handled by Federal Reserve branch offices has increased by about 50 percent, and the volume of checks handled has increased by about 80 percent.

To meet this growing volume of work, the Board over the past 15 years has authorized construction or purchase of branch buildings in 20 Federal Reserve cities throughout the country. The cost of these

authorizations has totaled slightly over \$28 million, and it is expected that the remainder of the \$30 million authorized under present law will be utilized for a larger office that is much needed at Little Rock.

There remains, however, an immediate need for new buildings, or substantial improvements, at New Orleans and Denver. Moreover, growth trends indicate that there will be a need for expanded facilities at Jacksonville, Memphis, Helena, Omaha, and Los Angeles.

The present office at New Orleans was erected in 1923 at a cost of about \$650,000. In 1924, 81 employees at this office processed 4 million checks; in 1961 the office had 226 employees and processed 49 million checks. Over the past 10 years alone, the number of checks processed annually increased by 23 million, and 49 employees were added.

The present Denver office was built in 1925 at a cost of about \$230,000. The number of checks processed annually at this office rose from 9 million in 1925 to 27 million in 1951 and reached 49 million in 1961. Employees increased from 75 in 1925 to 149 in 1951 and 160 in 1961.

Both of these offices are badly overcrowded and their working conditions are unsatisfactory.

After the new construction has been authorized at Little Rock, the \$30 million limit will have been reached. Consequently, no action may be taken to start construction in New Orleans, Denver, and other cities where additional space is needed until Congress approves this bill. Unless these additional quarters are provided, the System's ability to render efficient service in these areas will be impaired. For these reasons, the Board urges favorable consideration of S. 1005.

Thank you very much.

Chairman SPENCE. Governor Balderston, have you any statement of how much rent is now paid for branch offices?

Mr. BALDERSTON. As to the rental?

Chairman SPENCE. Yes, the rentals for the various branch offices.

Mr. BALDERSTON. May I ask Mr. Farrell to reply?

Chairman SPENCE. Yes.

Mr. FARRELL. At the present time, Mr. Chairman, we are not renting any significant amount of outside space. The only rental expense that we have is for some storage space for records, and that sort of thing.

The reason that it has been found impracticable to use rented space for working areas is that the Federal Reserve offices have a very special security requirement. They need protection, and guarded areas, and it is just not feasible to condition outside space in a way that would be suitable for Federal Reserve operations.

Chairman SPENCE. You feel it is essential for the Government to own them?

Mr. FARRELL. It is much more efficient, sir; yes, sir.

Chairman SPENCE. Mr. Reuss, do you have any questions?

Mr. REUSS. Thank you, Mr. Chairman.

I want to commend you, Governor Balderston, for a very able statement which, plus the research I have been able to do on this bill, leads me very close to the conclusion that it is a bill that Congress ought to pass.

Of the 24 branches of the Federal Reserve System, are they all owned by the Government?

Mr. BALDERSTON. Yes.

Mr. REUSS. No rental?

Mr. BALDERSTON. No.

Mr. REUSS. I see. The 24 existing branches of the Federal Reserve System were set up, as I understand it, in the years immediately following the adoption of the Federal Reserve System, and the allocation of the 12 Federal Reserve districts, a half century ago, were they not?

Mr. BALDERSTON. The last two were set up in 1927.

Mr. REUSS. Which were they?

Mr. BALDERSTON. The two were Charlotte and San Antonio.

Mr. REUSS. Prior to that, the branches were all in the first go-around, were they?

Mr. BALDERSTON. A number were added subsequent to the first go-around, as the need developed.

Mr. REUSS. So it is true to say that the branch setup of the Federal Reserve System is in large part the result of studies taken a half century ago, and even in the case of the two most recent branches they are more than a quarter of a century old; is that correct?

Mr. BALDERSTON. Yes. The most recent study, Congressman Reuss, was made in 1954. It was a study in which Governor Szymczak and I participated. It had to do with the problem of branches in the Chicago Federal Reserve District, especially in Iowa. And so the Chicago Federal Reserve Bank, together with the Board's staff, looked rather thoroughly into the pros and cons of establishing additional branches, not only in Iowa, but in Milwaukee and in Indianapolis.

It is a problem that is complex; one that is important, on the one hand, because the Congress in its wisdom set up a Federal System rather than a single central bank in this country. Decentralization is the essential philosophy embodied in the structure of that System, and our branches help to carry out that philosophy of decentralization.

On the other hand, in the half century of the life of the System, communications have altered radically. Space has been demolished. Time has been contracted by new means of communication. Consequently, the problem is a complex one, requiring that we balance the imponderable gains as well as the more tangible ones against the additional costs of operating a branch.

That was the sort of thing that the staff, together with Governor Szymczak and myself, was considering 8 years ago.

Mr. REUSS. I am glad to hear you mention Governor Szymczak, who is a friend of mine, a devoted former member of the Board, and a loyal son of Chicago, his native city.

I would like to ask this question. In the event Congress enacts the bill, S. 1005, do I understand that the Federal Reserve Board of Governors will adopt an openminded attitude as to the location of one or more new branches where such is clearly indicated in the public interest?

Mr. BALDERSTON. Yes, indeed.

One of the reasons that I personally would like more flexibility than has been the case heretofore is so that the Board may give study to the problem that you mention.

The enormous growth in check money in this country has brought a volume of checks to be cleared that is almost beyond the understanding of a layman like myself, and even the electronic devices that we now are developing and testing merely suffice to take care of the

current overload. It is not certain as to whether they can keep pace with the additional loads of the future. So the problem you mentioned is well worthy of study.

Mr. REUSS. As I read the literature of the Federal Reserve System, including that remarkable brochure which you and your colleagues put out in 1954, entitled "The Federal Reserve System," I find two philosophical bases for having not just one central bank in Washington, but a system of 12 Federal Reserve banks around the country and 24 branches. In other words, a total of 36 financial establishments, rather than just 1 or 12 or some smaller number.

Reason No. 1 seems to be the convenience and efficiency of the Nation's banking community, that they may have a physical unit not too remote by armored truck or mail transportation for the transport of checks and currency.

Secondly, I find implicit in the Federal Reserve literature on the subject the notion of decentralization, that in this great country of ours it is well not to have everything in one central place or 12 central places, but placed strategically around the Nation.

Would you agree that those two things, administrative decentralization, and the convenience of the banking community, are the two central reasons why we have a system of branches in the Federal Reserve System?

Mr. BALDERSTON. I agree that the Congress was very wise in taking into account the size and complexity of our country and the variations within it. It seems to me that the country has benefited from the fact that a Federal System was created rather than a central bank in the financial center of New York or in the political center of Washington.

The decentralization to which you refer brings with it problems of coordination with the System so that policy may be made promptly—decisions taken promptly—but on balance I think our country has been well served by the congressional wisdom that created the structure that we have.

Mr. REUSS. Just one final question on this fractioning of the power you just mentioned. I would surely agree that has to be to the largest extent centralized. However, when you take into account the enormous non-decision-making function of the Federal Reserve System, namely, the workaday task of servicing the banking institutions of this Nation, seeing that they have readily available cash to meet the demands of their customers, seeing that their checks are promptly cleared and sped on their way—in these fields certainly the case is a very strong one for decentralization rather than a concentration, is it not?

Mr. BALDERSTON. It certainly is. It is a matter there, it seems to me, of balancing cost against service, reaching a commonsense solution to that problem, and then taking into account also the imponderable considerations, such as having a part of the Federal Reserve System within reasonable access of the commercial bankers in case they wish to talk or to borrow.

Mr. REUSS. Would you also include—and I am sure you do in the basic Federal Reserve System—in a philosophy on the location of the Federal Reserve districts, and its branches, the notion of the esthetic, cultural, and economic planning of this Nation? By that I simply mean the idea that the National Government, of which the Federal Reserve is a part, should be brought close to the people.

This seems to me a good thing, rather than to have it remote in a city like Washington or New York or Chicago or San Francisco, or the other primary financial centers of the country.

Mr. BALDERSTON. That is brought home to us who serve on the Federal Reserve Board constantly, because of the service rendered by the directors and officers of the 12 banks and 24 branches.

They bring to us a wealth of information as to the tendencies that they observe in their own and related businesses. That helps not only to supplement the data that come to us in published form, but to give us information somewhat ahead of anything that is published.

Mr. REUSS. And you would get that information, I take it, on your System, not only from the 12 Federal Reserve district banks, but also from the 24 Federal Reserve branch banks?

Mr. BALDERSTON. That is correct. Only yesterday in St. Louis there was a joint meeting of the boards of the St. Louis Federal Reserve Bank and those of the three branches, Little Rock, Louisville, and Memphis, all meeting at one time in one city to review the situation in the St. Louis district.

Mr. REUSS. Thank you very much, Governor Balderston.

Chairman SPENCE. Mrs. Dwyer.

Mrs. DWYER. Thank you, Mr. Chairman.

I, too, wish to commend Mr. Balderston for his very fine, factual and concise statement, and to state further than I hope that the Congress will never pass legislation which would undermine or impair the confidence of the financial world and the people in the Federal Reserve System.

Mr. BALDERSTON. Thank you, Mrs. Dwyer.

Chairman SPENCE. Mr. Moorhead.

Mr. MOORHEAD. Thank you, Mr. Chairman.

I think that the Congress should bring out the record of efficiency, or emphasize the record of efficiency of the Federal Reserve that is apparent in your testimony.

I note that in the New Orleans office, you used 81 employees to process 4 million checks in 1924, and in 1961, 226 employees processed 49 million checks. The number of checks increased by 12 times, or more, and if the number of employees had gone up correspondingly you would have almost 1,000 employees there. I think that is a commendable record of efficiency.

When there is talk of excessive employment in the Federal Government, this is a record I think the Congress would like to have to point to.

Mr. BALDERSTON. The primary credit should be given to mechanization for the efficiency that you have noted. From now on we will have to rely upon electronic devices to give us even greater speed and efficiency.

Mr. MOORHEAD. Governor Balderston, I agree with your statement that you need more space, and I agree with the sentiments expressed by my colleagues here of the importance of the independence of the Federal Reserve System.

I wonder, however, if, in the question of buildings in this bill, we aren't going too far in removing all limitations. Other agencies of government have to go to an authorizing committee and then to the Committee on Appropriations before they can spend money to erect buildings.

I don't think that the same rule should be applied in the case of the Federal Reserve System, but would the System object to, say, giving a 30-day notice to the Banking and Currency Committee of the House before granting the approval to erect a new building or an expensive addition, a \$1 million addition to an existing branch bank?

Mr. BALDERSTON. You are raising a very fundamental question, Congressman Moorhead.

The Federal Reserve Board feels that it should report fully to the Congress, and especially to the House and Senate Banking and Currency Committees, as to what it has done or has spent.

However, it has seemed fundamental to the preservation of the independence of central banks, not only in this country but in other leading countries of the world—such as Canada, Great Britain, Holland, France, Italy, Switzerland, and Germany—that the central banks should be able to control their expenditures without having to seek explicit authority from their respective governments.

Now, the reason for that is not hard to see. Because if a certain district needs additional space in a branch office for reasons of service—or if the Federal Reserve needs to conduct a research program in the interest of sounder monetary policy, or of improved banking supervision—it is important that those projects move forward without the delays and possible interruptions that might be caused by advance notice and consent.

Mr. MOORHEAD. My thought was not to provide anything that would say that we would have to approve; that actually you would go ahead without our approval if we did not act, but just a form of check if we thought really you were getting extravagant, this would be a way of saying, "Wait a minute, do you need to spend all of this money for a particular building."

It would be a cautionary thing. And I certainly would agree with you on things like research programs, and obviously on any actions relating to your primary job of dealing with amounts of money and tightness, and so forth, we absolutely want you to be completely free, but I do not see how a slightly loose checkrein on buildings would affect your fundamental activities.

Apparently you do feel that it would; is that correct, Governor Balderston?

Mr. BALDERSTON. Reporting after the event, I think, should be complete, and in as great detail as the Congress desires.

Mr. MOORHEAD. So that you would feel it would be consistent to say, upon granting approval for a construction contract, the Federal Reserve Board shall notify the Congress, giving the details of the new building or addition; that would be appropriate, would it?

Mr. BALDERSTON. I think that is a very reasonable request if the Congress felt it was desirable.

Mr. MOORHEAD. Thank you very much, Governor Balderston.

I have no further questions, Mr. Chairman.

Chairman SPENCE. Governor Balderston, I wonder if you would care to comment on H.R. 11602, the bill that I introduced to increase the salaries of the members of the Federal Reserve Board, and also the salaries of the Chairman and Vice Chairman of the Board, and make the Chairman's term contemporaneous with that of the President; would it have a tendency of placing such a centralization of

power in the President as would have any effect on conveying to our posterity the priceless blessings of liberty?

Mr. BALDERSTON. Mr. Chairman, as to the second part of the bill, which relates to the salaries of the members of the Board, I can only comment appropriately upon that of the Chairman.

I do feel that the salary proposed for the Chairman, making his salary the same as that of a Cabinet officer, would be a great step forward in recognizing officially and in language that the world understands the status of the central bank of this country and of the role that it should play in our domestic affairs, in the strengthening of the economy, the fostering of economic growth and a satisfactory level of employment, the stabilization of prices, and the protection of the dollar at home and abroad.

As to the problem of the terms—of making the term of the Chairman and of the Vice Chairman coterminous with that of the President of the United States, I believe the essence of the matter turns on the quality of the man selected to be Chairman of the Federal Reserve Board.

It is a matter of his competence, his intellectual integrity, his willingness to fight for the dollar, which affects the whole economy, his understanding of financial affairs, both here and in other countries—all of those things mean to me that the essence of the matter is the quality of the man selected to be Chairman of the Federal Reserve Board.

I can understand the reasoning that prompted Chairman Martin 10 years ago to state to the Joint Economic Committee that effective liaison between the Federal Reserve Board and the President of the United States might be accomplished best if the Chairman of the Board were someone to whom the President felt that he could talk.

I, myself, have felt at times that it was important for the appointment to come at a time when there were not a great many other appointments being made simultaneously. Perhaps, as circumstances have developed, the appointment or reappointment of the Chairman would get more attention if it came at a time other than the beginning of a new administration.

However, I feel that is not a matter of substance, and it is very easy in the discussion of this question to confuse form with substance. Certainly, at the beginning of an administration the President must appoint a great many individuals to a great many positions vital to this country. It seems to me reasonable to believe and to argue that he can appoint a Chairman of the Federal Reserve Board with sufficient care at that time so that the leadership of the System will be in good hands.

Mrs. DWYER. Mr. Chairman——

Chairman SPENCE. Mr. Martin is in favor of that bill?

Mr. BALDERSTON. Yes.

Mrs. DWYER. Mr. Chairman, I believe this hearing was called for the purpose of discussing only S. 1005, rather than any other legislation.

Chairman SPENCE. That is true, Mrs. Dwyer. But we sometimes stray away from the main issue. It has been customary to do that. Since this matter was brought up, I thought it would be proper to ask Governor Balderston how he felt about it.

Mr. Balderston, it would be very difficult to anticipate the cost of these buildings in the future. I don't suppose you could make at this time any reasonably accurate computation as to what they might cost.

Mr. BALDERSTON. It is easier, Mr. Chairman, to estimate the probable needs of existing branches than it is to estimate the possible requirements of branches that might be needed in new locations at some future time.

You will notice that our branches have been costing \$2 to \$3 million each, as to the building proper.

The difficulty that we foresee, and that we would like to avoid through the flexibility this bill provides, is the delay and possible trouble that might arise if additional branch space were badly needed in cities like New Orleans and Denver, which is the case right now, and Congress were too busy with other important matters to give us the required authorization.

We knew over a year ago that New Orleans needed help quickly. We took steps to get the necessary permission early in 1961, and as the calendar tells us, many months have now gone by. It is that sort of problem that leads us to seek the flexibility that is written into this bill.

Chairman SPENCE. Are there any further questions?

Mr. MOORHEAD. Mr. Chairman.

Chairman SPENCE. Mr. Moorhead.

Mr. MOORHEAD. Mr. Chairman, I would merely like to make a comment on the record.

I spoke earlier of the fine job that the Federal Reserve employees were doing generally. I would like to point out in the Pittsburgh Federal Reserve branch some 419 employees handled 88 million items of currency and 100 million checks. That Federal Reserve bank is located in my congressional district.

Mr. REUSS. Would the gentleman yield?

Mr. MOORHEAD. I would be glad to yield.

Mr. REUSS. Was that during a particular period?

Mr. MOORHEAD. That was during the year 1961.

Mr. REUSS. That is a remarkable thing. The gentleman should be proud.

Chairman SPENCE. Mr. Balderston, if there are any additions you desire to make to your statement, you have the privilege.

We are very glad to have had the benefit of your views. I do not think there are any witnesses that can add anything to what Mr. Balderston said, so we will adjourn to the call of the Chair.

Mr. BALDERSTON. Thank you very much.

(Whereupon, at 10:55 a.m., the subcommittee adjourned, to reconvene at the call of the Chair.)

