

nomic policies difficult, if not impossible. A dramatic example of this predicament occurred in December 1965, when the Federal Reserve ignored the pleas of the President and raised interest rates without waiting just a few weeks until the Government's budget and fiscal plans could be completed. In effect, the Federal Reserve openly defied the President, the Secretary of the Treasury, the Budget Director, and the Council of Economic Advisers, and forced the President to adopt budgetary and fiscal policies in light of the Federal Reserve's action. I think it is intolerable to allow the Federal Reserve to dictate economic policy decisions to the President.

The other point I would like to emphasize is the Federal Reserve's interest rate policies. As the Report states, our interest rates are now at their highest level for a century. Rates have been rising consistently since World War II, and are now at a dangerous level.

I think there can be little doubt that we can thank the bankers who control the Federal Reserve for this situation. Interest rates are the bankers' income, and, of course, the higher the rates, the greater bank profits.

I think it is clear that we have reached a point where banker domination of our monetary system has imperiled the welfare of our citizens. In my view, the most important economic and governmental problem facing the Nation today is the need for immediate rehabilitation of the Federal Reserve System, so that it is again subject to the will of the people, acting through their elected representatives. The Constitution clearly vests the monetary power in the Congress. It is high time that the Congress reassert its proper control.

Another aspect of the Federal Reserve that is absolutely wrong is the \$50 billion portfolio of bonds kept in the Federal Reserve bank vaults. The Federal Reserve is collecting \$2 billion of interest each year as if it were a private citizen investing in U.S. bonds. Yet the fact is that these bonds have already been paid for by the U.S. Government, an event that occurs when the Federal Reserve, acting as the Government's agent, *repurchases* these bonds. It is absolutely absurd to permit the Fed, as the Government's agent, to collect this massive amount of interest; moreover, it permits the Fed to operate completely free of the whole appropriation process. They spend as much as they want of this huge flow of interest without any outside controls whatsoever. As I have often observed, this situation can be compared to that of a private individual who pays off his mortgage but then has to continue to pay interest to the mortgage company that acts as his agent. This would be absurd and illegal in the case of a private individual, but we permit the Federal Reserve to get away with it.

The Joint Economic Committee made an extensive study of this situation, under my direction, 2 years ago. We solicited the views of a large number of economists and monetary experts and a great many of them suggested that this practice be stopped because there is no need for it and no point to it. I urge Members of Congress to consider this situation and correct it.