preponderance of opinion among professional economists at the present time is that market factors are the prime determinants of interest rates, not whether the Federal Reserve tends to set a given discount rate level. The Federal Reserve obviously has an important direct effect with respect to the handling of open market operations, discount policy, and reserve requirements, but recent experience has contributed to the building up of opinions, to the effect that if the Fed attempts to use these instruments to get interest rates down below what the market forces would dictate in an overheated economy—and this has happened once or twice in the last few years—that the resulting upsurge in business activity and inflationary expectations actually results in higher rates than you would have had if they had not tried to bring the interest rates down by inflating the economy.

Chairman PATMAN. Now, may I answer that, Dr. Walker?

Mr. WALKER. Certainly.

Chairman PATMAN. I take issue with you that the market practice determines interest rates. I take issue with you that interest rates are determined by competitive market. When the national debt is huge and high, like it has been for a number of years, it gives a wonderful opportunity for the Federal Reserve, with the support and with the direction of the Secretary of the Treasury, to keep interest rates low on Government securities with the knowledge that the Government rate that is fixed on long-term Government securities will go clear across the board, because they dominate the market.

I have interrogated a lot of great men, in addition to yourself, on this subject——

Mr. WALKER. Thank you.

Chairman PATMAN. Like Mr. Eccles, who was Chairman of the Board for a long time, and also like many presidents of the bank, and also Mr. Martin, and I have never known any of them say that there is actually a competitive market in interest rates that fixes the interest rates when the national debt is large.

Now, they will almost say it, when you call their hand and ask: "Do you think that the competitive market fixes the rate on Government bonds?" They cannot honestly and truthfully say it, because the Federal Reserve has got a lot of special dealers around that have to do with this, and, of course, they control the dealers. And the open-market committee only deals with these dealers. That is correct, is it not?

Mr. WALKER. That is true, but the dealers are intermediaries for many thousands of holders of Government securities.

Chairman PATMAN. So, they fix the interest rates. They could have the interest rate on housing today at 4 percent or 4¼ if they wanted to.

Mr. WALKER. The dealers or the Federal Reserve sets them?

Chairman PATMAN. No, the Federal Reserve would fix those rates if they wanted to work in the public interest, like the Federal Reserve Board did for 14 years, from 1939 to 1953, when the Federal interest rate on Government bonds was fixed at not more than 2½ percent when the national debt was high. All during those 14 years, when we were in danger of depression, deflation, and inflation all the time, their rates were kept, always, under 2½ percent. Even after the Eisenhower administration came in, the first issue of bonds was 2⅜ percent long term; the next issue was at 2½, and then the Secretary of the Treas-