

greater extent, they are interfering with the free forces of supply and demand in the market and they want very much to avoid that. They feel it is inadvisable and improper.

Mr. CULBERTSON. Senator, this episode has to me the quality of a "nightmare," I can't make any sense out of it. So much stress is put on the fact that the Federal Reserve has bought a couple of billion dollars of intermediates, but no one seems to pay any attention to the fact that the Treasury has been selling them in a very large volume.

As I gather the facts, Chairman Martin indicated that during 1961 the Federal Reserve bought something like \$2.3 billion in maturities outside of 2 years.

Senator PROXMIRE. Almost all under 5.

Mr. CULBERTSON. Mostly relatively short, yes. As I added up the figures, the volume of notes and bonds of 2-year or longer maturity that the Treasury sold in 1961, was about \$20 billion (total bonds and notes about \$40 billion). Wouldn't we have come to essentially the same point if the Treasury had sold only \$18 billion and the Federal Reserve had tended to its own knitting, rather than having the Treasury sell \$20 billion, and the Federal Reserve go to such fuss and bother to buy back \$2 billion of them?

It seems to me that if you want to alter substantially the maturity distribution of securities in the hands of the public, you ought to have the Treasury do it in its regular refunding operations and cash offerings. I don't really see the point in selling bonds with one hand and buying back a few of them with the other hand.

There is a school of thought that the Federal Reserve can control debt markets through psychological warfare, or as they put it in England, by making faces at the market, but I have not been persuaded of that and recent experience does not seem to support the view.

I think the behavior of the debt markets and the structure of debt yields depend upon the structure of outstanding securities. If the Government wants to do something about this, it should do it in a straightforward way, rather than doing something with one hand and undoing it with the other.

Mr. RITTER. I would like to add to what John has said. To return to your original question: Would the Federal Reserve by buying strongly in the long-term market return to a peg, and also wouldn't it be interfering with free market forces?

I think it is important to reiterate that the Federal Reserve, no matter what it does, is interfering with free market forces. The Federal Reserve's function is to interfere with free market forces in the monetary area. That is why we have a Federal Reserve. We don't want a commodity standard. We want monetary management, and monetary management has to be management, and therefore interference with free market forces.

Furthermore, this is not returning to a peg, because by definition, at least in my book, a peg means maintaining a structure of interest rates through thick and thin, regardless of economic conditions. It is not a peg to deliberately try to lower rates in a recession and raise them in a boom.

Senator PROXMIRE. Thank you very much. My time is up. I have some more questions.

Chairman PATMAN. Senator Pell?