

Mr. SCHULTZE. I disagree. There is no definition of maintenance of orderly market condition which says the Federal has got to support the Treasury interest rate or whatever rate the Treasury expects.

Representative CURTIS. That was the basis of the Federal Reserve-Treasury accord.

Mr. SCHULTZE. I fully agree—the problem before 1951 related to pegging long term Treasuries at a fixed rate.

Representative CURTIS. And then the Federal Reserve said that they were no longer going to provide a market for Treasury at the interest rates the Treasury was seeking to put on the debt securities.

Mr. SCHULTZE. I full agree. But that isn't the maintenance of orderly markets.

Representative CURTIS. I think we are going to bog down in semantics here.

Mr. SCHULTZE. I didn't introduce the question. My point is that the maintenance of orderly markets, Mr. Curtis, essentially refers to the maintenance of liquidity of Treasury securities and the assurance that the market will function smoothly and not be churning all over the place, and that holders of Federal securities have a good secondary market to which they can go. It seems that this is essentially the area—

Representative CURTIS. Then you have a much more limited concept of an orderly market than I do. And I would simply conclude by saying that the Federal Government certainly thinks it has got some responsibility under the terms of providing an orderly market to have a concern for the interest rates that the Treasury seeks to put on its debt certificates.

Mr. SCHULTZE. This relates essentially to the maintenance of steady market conditions during the narrow period when the underwriters are distributing securities. But the maintenance of an orderly market should not be confused with the preaccord policy of supporting Treasury bonds at a fixed rate. That is what I am trying to get at. I fully agree with you that the accord of 1951 was based on that problem, the opposition between maintaining a steady, unchanging rate for Federal securities on the one hand, and the flexible use of monetary policy on the other. They were in conflict, you are quite right, and the accord was aimed at resolving that conflict. What I am saying is that the maintenance of orderly markets can still be done without having to go back to pegging the Treasury rate at any fixed level. And it has been done.

Representative CURTIS. My time has long expired. But I am glad to develop this a bit.

I would make another observation. The term "market," particularly when you are talking about securities, includes, of course, the interest rates. That is part of it. And the Treasury estimates what interest rate they can sell at in relation to maturities, and then the Federal comes back with its estimate. So, I think that I am well within reason when I say that the Federal Reserve's responsibility to try to preserve an orderly market must await the interest rate that the Federal Government seeks to get. Then it comes back, why do we have a low interest rate, why do we have these high interest rates, mainly in Government