

monetary policy. If the Board were to buy Federal agency obligations in sizable amounts in order to reduce interest rates on mortgages, it would have to offset these purchases by sales of Federal securities. Thus, the return on Government bonds would rise while the rate on mortgages would fall.

The argument is reminiscent of Operation Twist carried out in the early 1960's, wherein the Board attempted to influence the structure of interest rates by purchasing long-term Federal bonds while selling short-term Treasury issues. This had the effect of lowering long-term interest rates and thus accelerating investment spending at a time when the economy was weak. At the same time, short-term rates were raised, thus bolstering our balance-of-payments position, particularly with respect to short-term capital outflows.

Operation Twist was apparently carried out by the Board only with extreme reluctance and after much controversy. I believe that it is fair to say the Board has consistently preferred the bills-only doctrine which holds that open market operations should be carried out only in the short-term sector of the Federal securities market. The Board claims that the bills-only doctrine insures the overall neutrality of monetary policy on specific sectors of the economy.

The basic policy issue, it seems to me, can be stated as follows: Should the Board assume some responsibility for allocating the impact of a restrictive monetary policy upon different sectors of the economy? For a variety of reasons, the Board has been unwilling to assume this responsibility. Its basic posture is that it affects monetary policy only in the aggregate and that the impact of this policy should be allocated to different sectors by natural market forces. To interfere with these market forces would, according to this argument, distort the allocation of capital.

The Board also claims it has purchased nearly a billion dollars of Federal agency obligations since October of 1966. Although this is technically true, it has also sold nearly the same amount within the same month of purchase under short-term repurchase agreements. On balance it has only purchased \$147 million in Federal agency certificates and only half of those have been housing related. The impact of this on the mortgage market is infinitesimal.

Today the subcommittee looks forward to exploring with the Federal Reserve Board, the Treasury, and the Home Loan Bank Board the general situation in the mortgage market and what action may be necessary to insure that the severe impact of a tight money policy on the housing sector is not repeated.

We are delighted to have with us three outstanding, distinguished, and extraordinarily able Federal officials this morning. I would like to ask Governor Robertson, the Vice Chairman of the Board of Governors of the Federal Reserve System to proceed with his statement. I would like all of you gentlemen to make your statement initially in any way you want and then we will question you when you complete your statement.