

flexibility of open market transactions and * * * make these securities somewhat more attractive to investors" (S. Rept. 1601, 89th Cong., second sess.)—are long range, and would be better served by eliminating uncertainty as to how long the authority may be exercised.

The Board proposes also that two minor related amendments be added to S. 3133. The first would amend the eighth paragraph of section 13 of the Federal Reserve Act to permit advances to member banks to be secured by any obligation eligible for rediscount or for purchase by Federal Reserve banks. This would broaden such lending authority to include as eligible collateral all of the direct obligations of Federal agencies, as well as obligations fully guaranteed as to principal and interest by such agencies. Since the Federal Reserve banks are authorized by Public Law 89-597 to purchase all such Federal agency obligations, we can see no reason why similar authority should not be granted as to their use as collateral for advances by Reserve banks to member banks.

The second amendment we propose would broaden in similar fashion the types of collateral authorized for Federal Reserve bank loans to individuals, partnerships, and corporations under the last paragraph of section 13 of the Federal Reserve Act. The collateral for such advances now may consist only of the direct obligations of the United States, and we propose to include also the obligations of Federal agencies. This provision of the act is seldom used, but it could provide important protection to the business community under highly unusual or emergency conditions in financial markets. In June 1966, for example, we had made arrangements for the possible extension of credit to mutual savings banks, savings and loan associations, and other depository-type institutions under this authority, though none proved to be necessary. Addition of Federal agency issues would give wider latitude in such contingency planning, and we can see no reason why the types of assets made eligible for collateral should not, in this instance also, parallel the Reserve banks' purchase authority.

I have suggested reasons for making permanent the rate ceiling and open market authority in Public Law 89-597. The Board believes also that the authority in that statute to raise reserve requirements on time deposits should be made permanent if it is to be effectively exercised. Statutory expiration dates confront the Board with the prospect that if they should raise reserve requirements on time deposits about 6 percent, the action might be automatically reversed, thereby reducing reserve requirements, at a time when such a reduction would have undesirable consequences.

Let me turn now to S. 2923, which authorizes the Federal Reserve System to purchase up to \$5 billion of U.S. obligations directly from the Treasury. As your committee has heard before in the course of numerous extensions of this authority over the past 26 years, the authority has been used sparingly but affords the Treasury a useful measure of leeway in managing its cash balances and borrowing operations. Although one may question whether any purpose is served by the 2-year limitation on this authority, presumably it has become so much a part of our traditions that there is little prospect that it will be abandoned. Moreover, a 2-year extension has passed the House and I recognize that your committee may be reluctant to adopt a different version. Therefore, even though a forceful case could be made for