Senator PROXMIRE. How about this question: Why has the Federal Reserve Board elected to buy agency issues through short-term repurchase agreements rather than direct purchases?

Mr. ROBERTSON. No. 1, what we hope to do through our operations in Government agencies——

Senator PROXMIRE. I am talking about housing, FNMA and so forth?

Mr. ROBERTSON. Yes. We would hope that through our operations we can help establish viable markets in these agency issues. We have engaged, as you know, since 1966, as you stated—and you correctly summarized the view of the Board—we have used repurchase agreements to acquire agency issues. I think this has been helpful. I think outright purchases now and then might also be helpful in eliminating the gap between the rates on agency issues and the rates on Treasury obligations. But we also have to worry very much about going into these markets—which are relatively small markets—in a manner which will affect the price. If you affect the price in one way you can affect it the other way and you can diminish the desire of outsiders to come into that market. So that by buying directly in a manner which would really eliminate the gap in those interest rates, we could very well diminish viability of that market, keep people out of the market, and this would do much more harm than good.

As a result, we have been very reluctant up to this point to go into those markets on an outright purchase-and-sale basis, because you never can sell very well, you are always on the purchase side of these, really, if you are going to be helpful rather than harmful. But we have been reluctant to do that, not with the view that we never would go into it, but that we ought to be very careful that we don't do more harm than good in those particular markets.

We still have the matter under consideration. It was the subject of a study just yesterday by members of the Board, some of the members of the Board, some of the presidents of the Federal Reserve banks, and by representatives of the Treasury, including Mr. Deming. The matter is under consideration, has been under consideration, will continue to be under consideration, but we want to be very cautious in the actions we take in this direction.

Senator PROXMIRE. Suppose we gave you the authority to make purchases direct. Would that solve the marketing problem?

Mr. ROBERTSON. I don't think we should possibly get into that area, Senator. I think we ought to be using our power to purchase and sell securities for the purpose only of implementing monetary policy and on a very broad basis, not selected.

Senator PROXMIRE. Do you think the Federal Reserve Board has any responsibility for allocating the impact of a restrictive monetary policy among different sectors of the economy—and most specifically, the housing sector? You think you have to follow the monetary policy that in general will help stimulate the economy but not recognize a deficiency in the housing compared to an overexuberance in business?

Mr. ROBERTSON. I think that is right. I don't think the problem should be ignored. I think the Congress should deal with that on a selective basis rather than use a general instrument like monetary policy.

Senator PROXMIRE. How would the Reserve Board counter another round of "disintermediation" similar to 1966? The records show that savings and loan associations were hardest hit with a disastrous fur-