

ther impact on the housing market. Why couldn't this be prevented by vigorous use of the agency purchase authority?

Mr. ROBERTSON. There might be situations where we could do that. We have power under the legislation we are discussing right now, which I think was a big factor in eliminating the outflow from the S. & L.'s and the mutual savings banks in 1966. We do have that power. We can adjust the ceiling rates. We also can function under the authorization to purchase the securities of agencies. I think we have to be very careful. Disintermediation itself is not a dirty word in my opinion. You have to have some disintermediation at times. I am not as fearful of this as some people are. I just don't want too much of it. And I don't want it to be all out of the financial institutions that finance the housing markets, either. We can, by adjusting the ceilings, keep it fairly evenly distributed except for the extent to which the market forces on the outside pull funds away from all types of financial institutions. This would be bad. And this would mean that we would have to adjust our ceilings. And of course there are limits to the extent you can raise the ceilings on the S. & L.'s because of the nature of the assets which they have and the fixed interest rates on them.

Senator PROXMIRE. Interest rate could go much higher. This isn't an effective tool. Banks can go higher but S. & L.'s can't. Is that correct?

Mr. ROBERTSON. You are right. S. & L.'s are limited practically in the extent to which they can increase their rates and therefore we have to hold down the rates on banks.

Senator PROXMIRE. There is a lot of feeling that the discount rate was not raised enough. Nevertheless the interest rates will have to go higher?

Mr. ROBERTSON. That is right.

Senator PROXMIRE. This is going to mean a real blow to the S. & L.'s and to the housing industry.

Mr. ROBERTSON. This is what we have to avoid. But you can't avoid some impact on the housing industry.

Senator PROXMIRE. And the purchase authority becomes much more important than the rate authority?

Mr. ROBERTSON. It may very well. This depends entirely on how the situation works out. I don't expect that situation to arise. I don't think we are in the kind of a jam that many people think we are. I think we are in the position with the authorities, the tools we have, to prevent the kind of disastrous disintermediation that took place in 1966.

Senator PROXMIRE. You recognize, I take it, that the Federal Reserve Board is a creature of the Congress?

Mr. ROBERTSON. Very much so.

Senator PROXMIRE. And that it pursues the policies—rather, the Congress can re-create it, abolish it, and so forth?

Mr. ROBERTSON. Absolutely.

Senator PROXMIRE. What would Congress have to do to indicate that it wishes the Board to change its policy and give greater support to the housing market? Would you recommend a change in the law or would committee report language and subsequent legislative history be sufficient to have an impact on the Board?