

Mr. ROBERTSON. I think the only way to do this, Senator, is to change the law to specifically direct the Board to do this or that. I think that this would be an unwise move.

Senator PROXMIRE. It would be an effective move but an unwise move?

Mr. ROBERTSON. That is exactly so. I think the legislative history wouldn't be sufficient because the views of the Board, and they think they are carrying out the best judgment which they possess, are very much in the opposite direction, that you should not use monetary policy in a selective way to take care of agriculture, housing, or any other specific area. The feeling is that if you do that you ruin the effectiveness of monetary policy as a whole, and this we think would be bad.

Senator PROXMIRE. That is apparent in looking at the record. What criteria does the Board now follow in deciding whether or not to utilize its agency issue purchase authority? In looking over your record for the past 17 months, the few agency purchases you made bear little if any relationship to mortgage interest rates, savings inflows into savings and loan associations, or general monetary policy. Precisely what is the Board seeking to affect when it does buy agency issues?

Mr. ROBERTSON. What we are trying to do at the moment is to help the markets in agency issues in the same way in which we help the market for direct Government securities when we enter into repurchase agreements on them. We take agency securities temporarily off of the hands of the dealers who enter into the repurchase agreements with us. We are recommending now, that you amend this bill in order to make it possible for member banks to borrow from Federal Reserve banks on the security of these agency issues. I think this is needed. We also suggest that you amend the legislation to enable individuals, partnerships, and corporations in emergency situations to pledge these agency issues to the Federal Reserve as collateral. This in part arises out of the need which we recognize to come to the assistance of S. & L.'s, for example. In 1966 we had made arrangements and established mechanisms whereby we would come to the assistance of S. & L.'s, mutual savings banks, et cetera, if needed. But under the law now we have to require collateral in the form of U.S. Government securities. We are suggesting that you change this legislation so that agency issues too could be pledged for that same purpose. All of these tie in to an overall view that we ought to do everything we can do to enhance these markets, reduce the gap in the interest rate on these agency issues as compared with other Government issues, but not to go in and try to peg the rate in any one of these areas for fear that we will destroy the market in that area and create more problems than we solve.

Senator PROXMIRE. Secretary Deming, how has the Board and the Treasury used the \$5 billion direct purchase authority for Treasury securities?

Mr. DEMING. We have used it, Mr. Chairman, very sparingly. There are three purposes to this legislation. It lets us operate with a somewhat lower cash balance at particular times when our revenues are seasonally low; it gives us an escape valve so that we don't have to make a borrowing at that particular point in time when we are anticipating revenues in the very near future. Most of the time it doesn't have to be used but it is there if we need it. We have used it, as I said,