to take into account alternative effects upon sectors. Ours is a pluralistic society and properly so. In a pluralistic society it makes no sense to set up institutions with a monistic function and then have to set up new superagencies to coordinate them * * *"[2]

Let me state my proposal to you plainly. I urge action by the committee and a commitment from the Board of Governors of the Federal Reserve System to supporting housing credit in times of severe money tightness: 1966 and perhaps late 1968, support which may run contrary to policy toward tightness in general. Chairman John Horne, of the Federal Home Loan Bank Board, has already indicated that such "offsetting" policy may be necessary for housing credit in times of extreme monetary stress. I further propose that this commitment be implemented through the purchase and sale of Federal home loan bank consolidated obligations in the open market. Such a commitment is inevitable because it is the only acceptable means to provide the resources for the Federal Home Loan Bank Board to carry out its full responsibilities in housing credit. Let us have it now. Announcement of such a commitment would in one move sweep away the scare talk regarding possible FHLB System illiquidity and of the potential illiquidity of the whole savings and loan industry. Relative to the Federal Reserve's other money and capital market responsibilities, the amounts of agency securities which might be purchased or sold in marginal amounts to affect the market would probably not be large: dealer positions in all agency securities during the past "credit crunch" peaked at $560 million in January 1967, compared to like positions in governments of $4.86 billion.

The Federal Home Loan Bank System is the primary agency charged with the housing credit task. Now it must go to the market, often during low-availability, high cost periods. Three of its issues today have coupon rates of 6 percent. Unsupported, the agency market has limitations on the resources there available. Let me paraphrase the FHLB annual report covering 1966, page 50.

"* * * The requirement that withdrawal advances be repaid out of net savings receipts was necessary to preserve the liquidity pool of the Bank System. Particularly in a period of heavy savings losses, it was essential that members whose losses were recovered should repay their withdrawal advances to the extent of their net savings inflow. Only in this way did it seem possible to generate a sufficient flow of funds to the several Federal home loan banks to meet successive waves of withdrawals * * * [It was] desirable that withdrawal advances be repaid out of savings to avoid the unintended conversion of withdrawal advances to expansion advances. While this policy clearly meant that institutions having withdrawal advances outstanding could not use net savings inflow to make mortgage loans, it did avoid the depletion of the resources of the Bank System."[3]

Federal Reserve support of the agency market in times of very tight money is needed also because of the linkage between rates on new agency securities sold, and the statutory requirement on FHLB that it pass on the average rate to savings and loan associations, thus discouraging borrowing at the "advances window." The following Federal Home Loan Bank Board testimony (in "Housing Credit") is in point:

"* * * the Federal home loan banks last year [1966] increased their outstanding loans to savings and loan associations by $938 million. As a result, the bank system provided the funds for almost one-fifth of last year's increases in association mortgage loan portfolios (net of loans in process), the largest percentage in any period in history. However, net mortgage lending by associations dropped by over $4 billion last year, when compared with 1965, even including that permitted by Federal home loan bank advances. The bank system was precluded from providing more of an offset to this decline in mortgage lending because existing statutory authority requires it to raise funds by selling securities in money and

[2] Samuelson, before a symposium on money, interest rates, and economic activity, Washington, D.C., Apr. 6, 1967.
[3] Federal Home Loan Bank Board annual report for 1966, p. 50.