

national balance of payments might dictate and so forth, we may end up with a policy of restraining inflation that we might have another serious problem for housing, at least it will not grow at the rate that all of us want it to. So that this is a very real practical problem now?

Mr. MITCHELL. Yes, it is.

Chairman PROXMIRE. For the future?

Mr. MITCHELL. That is right.

Well, I think that under these conditions large-scale purchases of agency issues by the System would probably pull funds out of savings and loan associations, in this kind of a market you are talking about because funds would be attracted to other market instruments that would have higher rates of yield, including Government securities, and whatever the Federal Reserve was trying to get into the housing industry by disgorging Treasury issues and buying housing issues would result in the S. & L.'s and mutual savings banks losing savings funds. And investors who have a choice would be less interested in housing mortgages and more interested in market instruments.

Now you have seen this—

Chairman PROXMIRE. We can do our best, at least we can do something by way of legislation to see that S. & L.'s stay in housing.

Mr. MITCHELL. You could do this, but investors do not have to stay with S. & L.'s.

Chairman PROXMIRE. They do not have to.

Mr. MITCHELL. They do not have to go through an intermediary.

Chairman PROXMIRE. There is some friction in this area. Is there not a tendency—

Mr. MITCHELL. Oh, yes.

Chairman PROXMIRE (continuing). At least for some groups to tend to go into housing?

Mr. MITCHELL. That is right.

Chairman PROXMIRE. It seems to me at least on the short run that it might be wise for Congress and the Federal Reserve to adopt policies that would do our best to make funds available here.

Mr. MITCHELL. Well, I agree with you that we do not want—

Chairman PROXMIRE. We ought to at least try it.

Mr. MITCHELL. Housing at any rate is having a lot of trouble.

Chairman PROXMIRE. If we do not try it, we do not know of course.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. Is that right?

The Federal Reserve Board has never done this?

Mr. MITCHELL. No.

We have used repurchase agreements. Dealers have used these agency issues for—

Chairman PROXMIRE. You see, you could have made the same argument on Operation TWIST that you cannot keep short-run Government obligation interest rates high and long term low.

Mr. MITCHELL. It worked for a while.

Chairman PROXMIRE. It worked for a while?

Mr. MITCHELL. That is right.

Chairman PROXMIRE. In the same way, it seems to me you might be able to have some influence at least in reducing the rates on housing obligations.