

Mr. MITCHELL. Yes.

Representative REUSS. And without capitulating to Milton Friedman, it seems to me that the Fed could, as to the discount rate, tie it pretty precisely to such a conglomerate of money market instrument rates as you wish, and say so in advance in the regulation.

Mr. MITCHELL. Yes.

Representative REUSS. And provide for a band, when reserves are scarce, let the discount rate as you suggest be a little on the lower side in terms of its relationship to the money market rate, and then provide that upon occasion, the Fed may vary from this automaticity, but that when it does it will say so.

Mr. MITCHELL. Yes.

Representative REUSS. And give its reasons. I think if you did that you would achieve an excellent purging of that announcement effect.

Mr. MITCHELL. Yes, I agree.

Representative REUSS. Thank you, Mr. Chairman.

Chairman PROXMIRE. Earlier this year the Banking and Currency Committee of the Senate voted by an 8-to-4 margin, as you know, to provide that under certain circumstances the judgment and initiative being entirely within the Federal Reserve Board, the Federal Reserve Board would buy the obligations of the Home Loan Bank Board. This is what Congressman Reuss is referring to.

We had a terrible fight on the floor on this, because the Federal Reserve went all out against us. I have never seen Chairman Martin so exercised. This to him seemed to be the end of the world. He felt that this would certainly be the end of the Federal Reserve, and I never could understand why he was so concerned.

In the first place, we limited it to \$2 billion.

In the second place, we left it entirely to the initiative of the Federal Reserve as to whether or not they should step in, the situation being sufficient to warrant their coming to the assistance of the housing industry.

As I say, there was a substantial vote in committee. Because of the opposition of the Federal Reserve, we lost on the floor by one vote. But there is this sentiment in the Congress for considering ways and means in which our monetary system can be so adjusted that it doesn't do what it has done to the housing industry.

I just can't understand the Fed's opposition, and I would appreciate an answer from you, Governor Mitchell. I have great respect for you.

Why is it that there is such opposition to an authority that relies on the judgment of the Federal Reserve itself, the only guideline being when in its judgment the housing industry seemed to require it, because no other funds were available, and limiting it to, say, \$2 billion, why is there such opposition to this?

Mr. MITCHELL. Well, I don't think I should undertake to answer that. I might comment on it. I recall one monetary scholar who suggested that a central bank could have a portfolio of grandfather clocks if they wanted to and still operate monetary policy. You can think of a portfolio of assets which includes almost everything, and you can say that you could really run monetary policy with something like this. Of course, you know that some of it has to be sold, as well as bought; and grandfather clocks may be easier to buy than to sell.