

otherwise could not achieve if the commercial banks from which they borrow were unable to obtain accommodation in order to protect their reserve positions.

Chairman PROXMIRE. Yes, but what actually happened in 1966? What happened was that we had a continuous expansion of business. We had inventories going up even into the fourth quarter of 1966 at a very unhealthy rate, a big accumulation, a tremendous expansion of business investment in plants and equipment, and housing just went into a depression. We had housing start dropping to an annual rate of 800,000 a year from an average annual rate of $1\frac{1}{2}$ million.

Mr. ROBERTSON. That is correct.

Chairman PROXMIRE. Under these circumstances, it seems to me if you follow a policy of permitting the banks to borrow, they will take care of their big customers first. It is natural, it is predictable. Of course, they do. I would if I were running a bank.

Mr. ROBERTSON. There is no question, Senator, that the housing industry is peculiarly vulnerable to monetary policy. During my tenure at the Federal Reserve Bank of St. Louis, and for some years after, I made a career of arguing the point of the inequitable impact of increases in rates in general on the housing industry. The reason, of course, is that because of the rise in discounts on federally underwritten mortgages, and subsequently of "acquisition" and other fees on so-called conventionals, borrowers are forced to pay at the outset in the form of increased downpayment, or else builders are forced to add to the price of houses, what is in effect the discounted present value of a portion of their total interest costs on a long-term mortgage. I would be the last person to argue that we should not do something about this particular problem.

I feel, though, that we have in the Federal Home Loan Bank System an institution that is presumably equipped to deal with the problem. It is true that the Federal Home Loan Bank System is bound to what I consider a clumsy and extremely difficult method of raising funds, because it has to go to the marketplace through the issue of so-called Federal Home Loan Bank debentures to raise funds.

Chairman PROXMIRE. And as rates go higher it is harder for the Home Loan Bank Board to go to the marketplace.

Mr. ROBERTSON. That is correct, and I think it is a tenable position that the Federal home loan banks themselves should have access to Federal Reserve bank discount windows. The inequitable pressures on mortgage rates can be mitigated through some such device.

Chairman PROXMIRE. There is a proposal we made on the floor here, the Senate Banking Committee approved it, my amendment, and on the floor it was defeated by a single vote because the Federal Reserve felt this would be the end of the world.

Mr. ROBERTSON. Yes.

Chairman PROXMIRE. The Federal Reserve would have been asked to buy home loan bank obligations when the Board deemed it necessary to help the housing industries, and we limited the amount to \$2 billion because at one point Chairman Martin charged it would be \$10 to \$15 billion, but if the Federal Reserve in the view of Mr. Martin, at least, and one or two other members of the Board should engage in buying Federal Home Loan Board obligations, their feeling was they would no longer be able to function as they did before and the pres-