

Representative REUSS. In recommending that the $4\frac{1}{4}$ percent ceiling on Federal securities of over 7 years maturity be either abandoned or markedly limited, you have in mind, of course, the fact that today the Treasury can't market a long-term security at $4\frac{1}{4}$ percent, by a long shot, and it is your view that for reasons of monetary management it would be well to lengthen the debt.

Now, if the Congress did that, if it did repeal the almost half-century-old limitation, and the Treasury moved to use this new authority, this would put pressure on the long end of the credit market, the home mortgage, and the State and local borrowing end, which is now exhibiting the most distress, would it not?

Mr. McCracken. That, of course, is the dilemma. Any substantial amount of long-term financing presumably would create additional pressure. At the same time the scenario, it seems to me, requires that we take actions to try to cool the inflation and the inflation-mindedness which pervades the economy—because this is part of our high interest rate problem.

Representative REUSS. To cool it though without bringing additional agonies to home building, small business, and State and local government borrowing, I would hope.

Mr. McCracken. Yes.

Representative REUSS. What would you think of a congressional reaction to this proposal to remove the $4\frac{1}{4}$ percent ceiling, like the one we dreamed up 10 years ago when the last Republican administration asked for its removal? How about asking the Federal Reserve to cushion the impact of this by taking into its portfolio at least reasonable amounts of these new long-term Treasury securities so that the impact on the housing end of the spectrum is not disastrous?

In this connection, before you answer, it was interesting for me to note, as I looked at the Federal Reserve portfolio last night, that though for years this committee was urging the Fed to lengthen its \$52 billion portfolio, and for years they told us that the world would come to an end if they did, nevertheless, in this last year whereas at the start of 1968 they had practically zero of long terms 5 years and up, now they hold more than \$10 billion in the 5- to 10-year range. If they could do that without suffering the bends, it seems to me that they could accommodate future Treasury incursions into the long-term market.

What would you think about my proposition?

Mr. McCracken. This would help the strains in the market in which these long-term issues might be offered. At the same time it would correspondingly reduce the effect of offering these securities on the liquidity of the economy outside the Federal Reserve and the Treasury.

Representative REUSS. I thought, though, that your concern for having a greater mix of long terms was so that the Treasury didn't have to go to the money market every 5 minutes and thus require the Fed to temporarily forget its true function and go into the market supporting business.

Mr. McCracken. Yes—

Representative REUSS. If that is so, some Fed help on the long terms isn't going to interfere with that desired end?

Mr. McCracken. It is both. It is important that the Federal Reserve not have this problem of continuous refinancing to the same extent as now. Also presumably, if we could lengthen the average maturity of